Annual report
Bluestep Bank AB (publ)
2018

Bluestep.

Content

The year in brief

Robust growth, especially in Norway

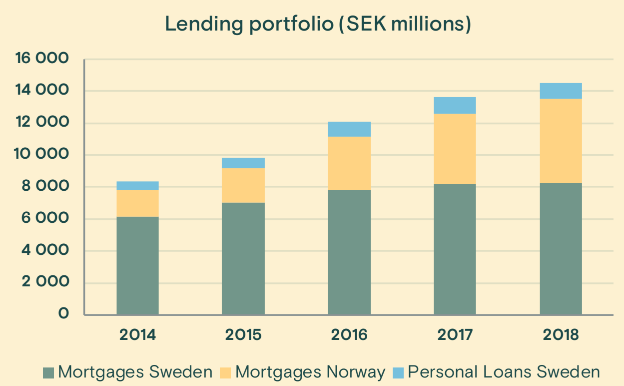
- The Norwegian mortgage portfolio increased by 21%
- The Swedish mortgage portfolio increased by 1%
- The private mortgage portfolio decreased by 6%

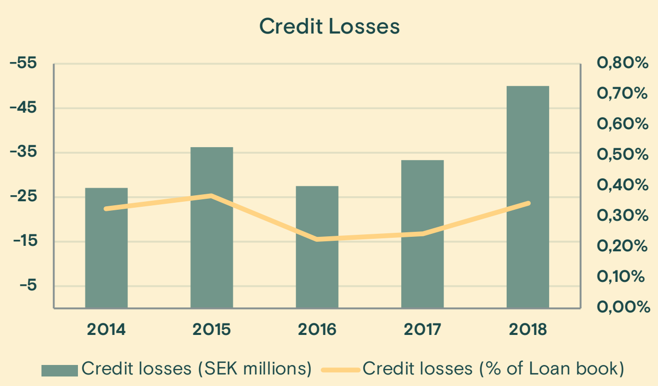
Profitability with a strong capital position

- The Group´s net interest income increased with 13% to SEK 718m
- Gross revenue was 8% of total the loan portfolio
- Credit losses were 0.35% of total loan portfolio
- Return on equity was 13%
- Common Equity Tier 1 capital ratio was 17.5%
- Liquidity coverage ratio (LCR) was 324%

Significant events during the year

- During the period the external credit facility for BlueStep Finans Funding No 1 AB was increased from SEK 1,000m to SEK 2,000m. BlueStep Finans Funding No 1 AB utilized an additional SEK 1,550m of the credit facility during the period, and at year-end it was fully utilised. In connection with the increased utilisation of the credit facility, BlueStep Finans Funding No 1 AB acquired mortgages from the Bank with a total value of SEK 2,052m during the period.
- During the period, extraordinary write-downs of intangible assets amounted to SEK 21.8m for the Group, whereof SEK 21.3m for the Bank. The write-downs were attributable to the decommission of IT-related systems which are no longer in use.
- During the period BlueStep Holding AB received a conditional shareholder's contribution amounting to SEK 200m, which was then passed on to the Bank.
- In March BlueStep Servicing AB took over the administration of personal loans from an external party.
- In September, Bluestep Holding AB merged, by way of absorption, with the parent company Butterfly Bidco AB and acquired all assets previously held by Butterfly Bidco AB.
- In October Öyvind Thomassen resigned as CEO of the Bank and Rolf Stub was appointed acting CEO.
- In November the Bank established a Medium Term Note programme, after receiving the approval from the Swedish Financial Supervisory Authority, and in December SEK 200m in senior unsecured bonds were issued and subsequently listed on Nasdaq Stockholm.
- As part of the early redemption of bonds issued by BlueStep Mortgage Securities No 2 Designated Activity Company ("Step 2"), the Bank's acquisition of Step 2's entire mortgage portfolio was approved by the Swedish Financial Supervisory Authority in November. The acquisition amounted to over 25% of the Bank's own funds.
- In December the Bank applied to the Swedish Financial Supervisory Authority for a licence to issue covered bonds.





This is Bluestep

Bluestep is a complement to traditional banks in the mortgage-loan market. Since the start in 2005, Bluestep has helped thousands of clients in Sweden and Norway.

Bluestep´s mission is to help potential clients in their strive towards afford acquiring their own housing and to help those who are declined to utilize the existing value in their property in order to improve their financial situation. Bluestep recognises hard-working people with income and actual capacity to take loans, the very same clients are often ignored or rejected by traditional banks, but not by Bluestep. Every single day, we assess each loan-applicants individual ability and potential to take a loan. We are dedicated to assign all resources necessary to understand clients on a deeper level in order to make personal assessments of their financial situations. Bluestep provides a valuable alternative for clients that are rejected by their traditional bank, which is something we are very proud of.

We have the ability to help individuals previously rejected by traditional banks because we invest substantially more in manual resources to understand our clients and their overall financial situation, which we have been doing successfully for 14 years. Bluestep´s operations are based on humane meetings and dialogues with our clients. We listen, and we help. We do not operate as a traditional bank, applications are handled by humans with a personal touch, not automatically run with outputs that shows a green or a red light. We assess the risk and put a price on it. In that way, we provide clients with the option of owning their home, and/or refinance expensive loans and credits. Our mission is to put our clients back on the right path towards financial stability so that they have the alternative to yet again engage with their traditional bank.

The year in numbers

Mortgage lending		Personal loans		Retail deposits	
20 782 Total number of customers[1]	**13 528** Total lending portfolio (SEK M)[4]	**10 281** Total number of customers[2]	**994** Total lending portfolio (SEK M)[5]	**67 275** Total number of accounts[3]	**10 417** Total deposits portfolio (SEK M)[4]
Purpose[6]		**Purpose[6]**		**Product**	
29% Of the mortgage customers are taking a mortgage to buy a new home	**71%** Of the mortgage customers use their property as collateral to refinance loans and credit cards	**64%** Loan for consolidate other loans and credits	**36%** Loan for other purposes	**78%** Of our customers have chosen variable savings accounts.	**22%** Of our customers have chosen a fixed interest account (from 3 months to 7 years)
Average loan size[7]		**Average loan size[8]**		**Average deposit size**	
847 950 Sweden (SEK M)	**1 543 352** Norway (NOK M)	**104 470** Sweden (SEK M)		**105 724** Sweden (SEK M)	**488 990** Norway (NOK M)

[1] Number of individuals with mortgages from Bluestep in Sweden and Norway (one loan may include several individuals)

[2] Number of individuals with consumer loans from Bluestep in Sweden (one loan may include several individuals)

[3] Number of active savings accounts in Sweden and Norway

[4] Total portfolio in Sweden and Norway, including provisions and adjustments in accordance with IFRS

[5] Total portfolio in Sweden, including provisions and adjustments in accordance with IFRS

[6] Customers were asked about the purpose of the loans during the loan application process

[7] Lending portfolio by object

[8] Lending portfolio by loan

CEO report

This is Bluestep and the change we want to achive

Rolf Stub
CEO

2018 was a year where it was high focus on investments and development. The loan portfolio growth was lower than seen in previous years and grew by 6.5% to SEK 14.5bn. Operating profit ended at SEK 212m, a decrease from 2017 of 15.5%, much driven by investments related to business and system developments that will bring growth, increased income and revenue in the coming years.

The macro economic situation in 2018 has been relatively strong in both Sweden and Norway. There was a moderate development in house prices in both countries, interest rates have continued to be at low levels, and household loan growth for both mortgage and unsecured loans has been strong in both countries. Although there currently are no larger dark clouds on the economic horizon in Sweden and Norway, the broader economic development with an expectation of increased interest rates, concerns over high property prices and reduced economic growth, might lead to a somewhat more challenging environment going forward. Internationally there are also situations that might indicate or threaten the current relatively benign economic environment, which if materialized, is likely to impact the situation in Scandinavia as well. This said, Bluestep is well positioned for the future through its strong balance sheet and experience in operating in as well good as more challenging economic environments.

- In 2017 Bluestep initiated a process of change, where development of the business was the main aim. This has also continued in 2018 and of the many projects that were launched and/or completed during the year there were initiatives related to both regulatory changes, business efficiency drivers, and business development through new product launches. Worth mentioning are:
- GDPR compliance in May 2018 – a project covering all aspects of the bank and with a clear priority
- In Q1 2018, part of the loan administration that earlier had been outsourced was included in the internal loan administration
- Continuation of the front-end operational process system started in 2017, including significant efficiencies through automation and digital solutions
- Work on a new and more cusotmized website was started to better attract and convert new customers, as well as to measure web activities and customer behaviour
- A full rebranding project was initiated to clarify Bluestep's position in the market, and at the same time give a platform for a wider product offering
- A mortgage product offering in the lower risk segment serving a larger group of customers was launched in both Sweden and Norway
- A second-charge mortgage product was launched in Norway to serve customers with different needs and situations than Bluestep's traditional mortgage loan customers, and to be an alternative to more expensive unsecured loans

In addition to the above projects, we did also start looking at potential funding opportunities for further diversification. This is to reduce funding dependencies and risk, reduce cost, and to give Bluestep an even stronger competitive position going forward. As a first step we established a Medium Term Note program. In December we issued the first bonds under this program. We have also started looking at additional secured funding opportunities to improve our financing situation further.

In October there was a change of CEO and I took over the position. A change like this can often take some of the focus away from the direction the business is heading, but we have, and will going forward, continue to develop and strengthen the business. We have a strategic plan to follow, and the first priority is to focus on the core business and make sure our operations work so we can give the best service possible to our customers. In addition, we work on improving and preparing for the future. Bluestep will not stand still.

With all the development done in 2018, Bluestep will look different going into 2019. The new products launched in 2018 will broaden the offer, giving us an opportunity to better serve our customers. New products are already planned for launch during the first part of 2019. The same will be the outcome of many of the efficiency and IT system projects, where the aim is to improve our core processes to become even more streamlined and customer friendly. The expected outcome of the funding project initiated during 2018 will also give us opportunities to further broaden our product offering, utilizing our knowledge, systems and financial capability in a more scalable way.

The fact that there are many people that do not qualify for loans with the traditional banks has been the driver of Bluestep's growth and success for 14 years. We strongly believe that over the coming years there will be an increased number of people that will be under-served in the banking market. Our aim has always been, and will also be in the future, to help this large group of people that are, for various reasons, rejected by the traditional banks. In connection with the rebranding that was initiated in 2018, we have set our visionary goal to become the clear #1 choice in the Nordic region when it comes to loans to people who for various reasons cannot get a loan from their traditional bank. With over 250 dedicated, knowledgeable and service oriented people, who know that our purpose is to develop and strive to help more customers. And by combining the new developments in technology and systems with the imbedded knowledge of our customer's needs and situations, being solution oriented, and keeping open minds in our customer dialogs, I am convinced that Bluestep will reach our vision. By doing so, we will fulfil our objective which is to continue to bring financial peace of mind to more people.

A few words with

Per-Arne Blomquist, Bluestep Bank Chairman

What got you to accept the Chairman's position?

— To me, it was important that this is a company that is involved with extremely important products and issues. We operate in a niche, helping to provide mortgages to people who for various reasons don't receive help from traditional banks, and there's a great need for this service. Bluestep plays an important role today, while it's also a company that is preparing itself for the future with a clear vision of where it's going. It's a privilege to be part of this journey.

People who work here definitely believe in the company. They are extremely proud to be working at Bluestep and they feel they're doing something good, and that what Bluestep offers really makes a difference and plays a vital role. At the same time, there is a misunderstanding outside the company about the type of products we develop and offer. We must get everyone out there to understand what it is we're doing at Bluestep and let the pride inside the company show on the outside as well.

If you look back at 2018, what do you feel has been the main job of the Board of Directors?

— Quite simply, you could say that a Board's job is to ensure that the right CEO is in place and to set a strategy and make sure it's being followed. These are also the core issues that we worked on during the past year.

Looking ahead, according to you, what is to be expected of the set strategy for 2019?

— The first is that we can be more efficient — we still use a lot of manual procedures within the company. We're discussing digitalisation, both in relation to our customers and internal processes. Using digitalisation to grow the business and make it more efficient without compromising the quality of our customer relationships.

We also need to strengthen our brand, as I mentioned earlier. It's incredibly important to reach out and get a broader group of people to understand what we do. To be relevant to more people. Another challenge is to use the mortgage as a basis to expand our range of products and services. And finally: to improve our funding. All these areas of improvement have their challenges, but they are all achievable and this is extremely important when implementing change.

Bluestep is a market leader in its category today. What challenges does it face to maintain that position?

— The challenge is always the same: we can never allow ourselves to be content! Change is the only constant we have. And we always need to assess what we've done and see if it can be done even better. At the same time, we must take a positive approach to this so that we can keep improving all the time. The changes don't always need to be major; it may be a process of continual change in small steps that still add to the whole when you put them together. I think this is crucial, so that you don't have huge Big Bang expectations all the time. Lots of small improvement steps will have a greater impact in the long term.

Per-Arne Blomquist
Chairman

A few words with

Maja Lindhe, Process Owner & Ann-Christin Bergsjö, IT Project Manager

Hello Maja and Ann-Christin, what is Bluestep doing to improve the customer experience? Can we begin with you, Maja?

— That's a good question. The customer experience is becoming an ever more important competitive factor, and it's important to constantly work to improve it. At Bluestep we are in close contact with our customers during the mortgage process, and we always try to do our best for the customer.

In 2018 we focused a great deal on developing our loan processing methods, specifically to improve the customer experience and reduce the time from application to notification and payment. Not only through major changes, but by taking a structured approach to making continual small improvements to what we do every day. We are establishing structures for continuous improvements throughout the operation to make them a natural part of our work. We're reviewing our processes and sharing positive examples of good approaches with one another to continually improve the customer experience. We then use this information to create best practices, which will continue to be constantly improved to identify the best work methods and share them with one another.

Would you like to provide some examples of such improvements?

— Sure. We've simplified the processing and cut the wait time for our customers, for example. These improvements came about by involving the employees who work most closely with customers and analysing processes and work methods. Now a customer who has signed and submitted their credit documents to us receives their loan payment three days earlier, and more improvements to further cut wait times are on the way. Furthermore, we have improved our telecom-solutions which has made it easier for customers to reach the right person meanwhile reducing the amount of time the client spends in telephone queues. These improvements have resulted in positive reactions from our clients when taking customer-experience surveys. Additionally, through more digitalization, we have made the loan-application process more efficient and thereby reducing the number of printed out copies.

And from a systems perspective? Perhaps you want to answer that question Ann-Christin?

— Sure can. Bluestep is implementing several major digitalisation initiatives, which are intended to improve both the customer experience and internal efficiency. This also inherently leads to a better customer experience, since we can help our customers faster and with higher quality.

— One of the larger initiatives started in 2018, which we are now completing in 2019, is a brand new website to be launched the 19th of March. It will be based on customers' needs and situations, rather than on a product perspective, and we're sure that it will provide customers with better support in the loan application process. Even when the launching of the website is already completed, it will be frequently developed and contribute to an even better customer experience.

What else can we expect in 2019, Ann-Christin?

— The digitalization of the entire mortgage process is continuing, and it will continue full speed ahead in 2019 as well. With the changes we've made in 2018, we've managed to reduce the mortgage loan process by two entire weeks in Norway. We are just getting started, upcoming digitalization of the mortgage loan process will mean automation of more administrative tasks currently managed by our case workers. Moreover, this enables our staff to focus even more on customer requirement and further improve customer relationships. Our customers will receive a notification whether their loan has been approved faster, meanwhile reducing the amount of time between approval and payout. 2019 is going to be an exciting year for Bluestep and our clients with lots of customer experience improvements!

Ann-Christin Bergsjö
Project Manager IT

Maja Lindhe
Process Owner

Administration report

The Board of Directors and the CEO of Bluestep Bank AB (publ), corporate identification number 556717-5129 with its registered office in Stockholm, hereby submit the annual report and the consolidated financial statements for the financial year from 2018-01-01--2018-12-31. The consolidated financial statements comprise the wholly-owned subsidiaries Bluestep Finans Funding No 1 AB, corporate registration number 556791-6928, with its registered office in Stockholm, Bluestep Mortgage Securities No 2 Designated Activity Company, corporate registration number 522186, with its registered office in Dublin, Bluestep Mortgage Securities No 3 Designated Activity Company corporate registration number 550839, with its registered office in Dublin, Bluestep Mortgage Securities No 4 Designated Activity Company corporate registration number 596111, with its registered office in Dublin, Bluestep Servicing AB, corporate registration number 556955-3927, with its registered office in Stockholm.

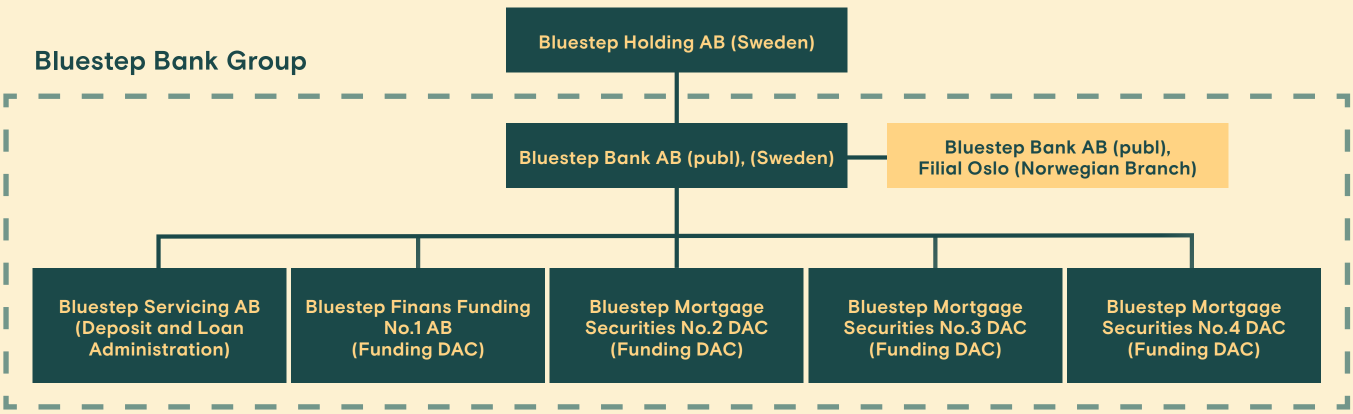
Organisation and operations

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

Ownership and definitions

Bluestep Holding AB has been owned by EQT VII since November 2017. The ownership structure and definitions used are detailed below:

- Bluestep Holding AB ("BHAB")
  - Owns 100% of Bluestep Bank AB
- Bluestep Bank AB (publ) ("the Bank", also known as "the Parent Company")
  -Parent Company of the Bluestep Bank Group ("the Group")
- Bluestep Bank AB, Oslo branch office ("the Branch Office")
  - Norwegian branch office for the Norwegian deposit and loan operation
- Bluestep Finans Funding No 1 AB ("BFF1")
  - Warehouse funding facility company and Funding DAC. Ownership 100%
- Bluestep Mortgage Securities No 2 Designated Activity Company ("Step 2")
  - Funding DAC. Ownership 100%
- Bluestep Mortgage Securities No 3 Designated Activity Company ("Step 3")
  - Funding DAC. Ownership 100%
- Bluestep Mortgage Securities No 4 Designated Activity Company ("Step 4")
  -Funding DAC. Ownership 100%
- Bluestep Servicing AB ("BSAB")
  - Deposit and loan administration 100% owned by the Bank



Bluestep operates in Sweden and Norway, with the Norwegian operation managed via the Branch Office. The Group is Sweden's and Norway's largest mortgage lender in its sector, and its core business is to engage in lending activities. The business is financed by deposits from the public, equity, a credit facility, issuance of securities backed by underlying assets (via the wholly owned subsidiaries Step 2, Step 3 and Step 4) and senior unsecured bonds. Bluestep focuses on understanding and helping customers who experience difficulties in being approved for a loan by their traditional bank.

All financial information is provided for the Group unless stated otherwise, while regulatory information refers to the legal entity Bluestep Bank AB (publ) or the consolidated situation that Bluestep reports to the Swedish Financial Supervisory Authority. The consolidated situation at 2018-12-31 consists of BHAB, the Bank, the Branch Office, BSAB, BFF1, Step 2, Step 3 and Step 4.

Financial overview

Profit for 2018 compared with 2017

The Group's profit for the year before tax amounted to SEK 162m (SEK 192m). The reduction from the previous year is primarily attributable to a larger cost base due to higher investment costs in IT, disposal of older IT systems and increased investments in business and product development. Consolidated operating profit before tax amounted to SEK 212m (SEK 251m). The Branch Office's operating profit before tax amounted to SEK 81m (SEK 83m).

Net interest income

The Group's net interest income increased by 13% compared with the preceding year, to SEK 718m (SEK 634m). The increase is attributable to a higher volume of loans to the public combined with a higher percentage increase in interest income than in interest expenses.

Operating income

SEK Millions	2018	2017	Change %
Net interest income	718.2	633.7	13%
Commission income	–	0.2	–
Net result of financial transactions	14.2	27.0	-47%
Other operating income	13.6	14.5	-6%
Total operating income	**746.0**	**675.3**	**10%**

Operating expenses

The average number of employees in the Group during the year amounted to 243 (227), of which 58 (49) were employed by the Branch Office. This increase is attributable to the Group's continued growth and more employees in the Systems/IT area, which also contributed to a SEK 27m increase in employee benefit expenses.

Administrative costs increased by SEK 41m which is a higher percentage increase (-22%) than on the income side. This is primarily due to more investments in business and product development, which are expected to help generate more income over the next few years.

Depreciation and impairment increased by SEK 25m, which corresponds to an increase of 109% from the previous year. The increase is attributable to higher investments in the Systems/IT area and amortisation (disposal) of intangible fixed assets.

Operating expenses

SEK Millions	2018	2017	Change %
Staff costs	-226.2	-197.0	-15%
Administration costs	-209.7	-171.2	-22%
Depreciation and impairments	-47.6	-22.8	-109%
Total operating expenses	**-483.6**	**-391.0**	**-24%**

Credit losses

Total credit losses remain low at 0.35 percent of the total loan portfolio. The increase is mainly explained by the transition into IFRS 9, but also by higher reserves for expected credit losses.

Credit losses

SEK Millions	2018	2017	Change %
Actual losses	-50.2	-33.5	-50%
Total bad debt charge in relation to average loan book[1]	-0.36%	-0.26%	-37%

[1] *As of 2018 accrued interest is presented together with lending to the public, see "Changed presentation of accrued interest"*

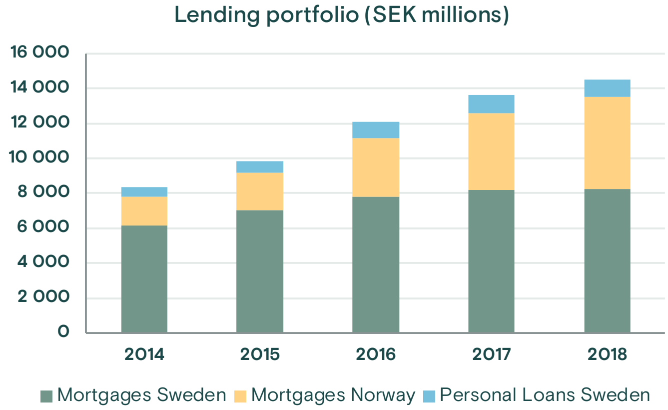
Balance sheet

The Group's balance sheet total increased by SEK 896m to SEK 17,496m (SEK 16,600m), driven by a larger loan portfolio.

Lending[1]

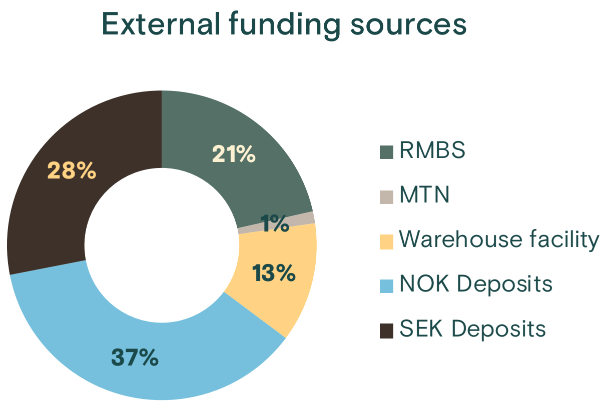
New lending for the year amounted to SEK 4,663m (SEK 4,997m), resulting in a portfolio growth of SEK 912m and a total portfolio of SEK 14,522m (SEK 13,610m). At year-end the loan portfolio for the Sweden amounted to SEK 8,240m (SEK 8,188m). The loan portfolio in the Branch Office amounted to SEK 5,290m (SEK 4,368m) at year-end. The balance of the personal loan portfolio at year-end amounted to SEK 992m (SEK 1,054m).

[1] As of 2018 accrued interest is presented together with lending to the public, see "Changed presentation of accrued interest"



Funding

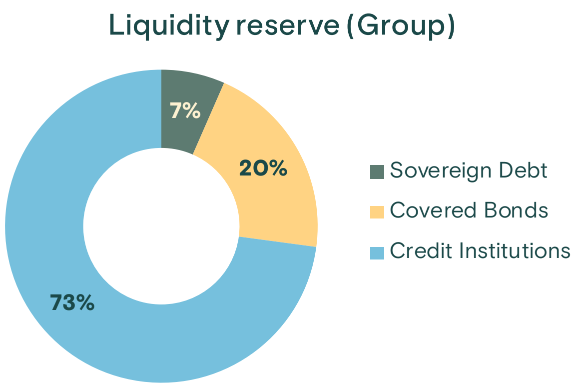
The allocation of the Bank's sources of financing changed during the year, for reasons including a larger proportion of deposits from Norway. At year-end the deposit balance amounted to SEK 10,417m (SEK 10,419m) of which the Branch Office's deposit balance amounted to SEK 5,884m (SEK 5,599m). The extended credit facility and a first issuance of unsecured bonds contributed to further diversification of funding during the year.



Liquidity

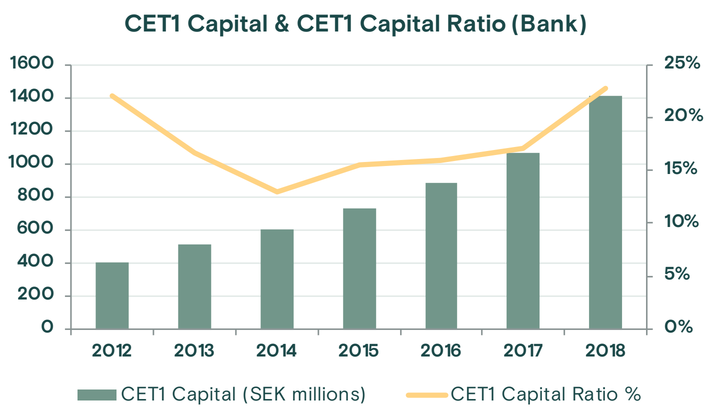
At year-end the liquidity reserve of the consolidated situation amounted to SEK 2,556m (SEK 2,580m) of which SEK 1,863m (SEK 1,935m) was invested with credit institutions, SEK 525m (SEK 492m) was invested in covered bonds issued by Swedish and Norwegian credit institutions, SEK 167m (SEK 151m) was invested in bonds issued by the Swedish and Norwegian government and SEK 1m (SEK 1m) was invested in bonds issued by other European governments. The Bank's liquidity reserve amounted to SEK 1 959m (SEK 2 035m).

The Liquidity Coverage Ratio ("LCR") for all currencies amounted to 324% (268%) for the consolidated situation at year-end. The net stable funding ratio ("NSFR") amounted to 111% (132%) at year-end.



Capital base and capital adequacy

At year-end, Common Equity Tier 1 ("CET1") capital amounted to SEK 1,303m (SEK 1,064m) for the consolidated situation, which corresponded to a CET1 capital ratio of 17.5% (15.0%). CET1 capital amounted to SEK 1,413m (SEK 1,064m) for the Bank, which corresponded to a CET1 capital ratio of 22.8% (17.1%). The total capital adequacy requirements for Pillar I amounted to SEK 597m (SEK 567m) for the consolidated situation, and SEK 496m (SEK 499m) for the Bank. During the year, SEK 200m of CET1 capital was raised. For additional and more detailed information concerning capital resources at year-end, see Note 29.



Risk Management

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

(i) the Board of Directors performs the overall supervision of risk and capital management;

(ii) the Bank operates a three lines of defense management model;

(iii) risk strategy and risk tolerance are defined based on strategic plans to combine risk, capital and performance targets;

(iv) all major risks are managed via risk management processes, consisting of credit risk, market risk, operational risk and liquidity risk;

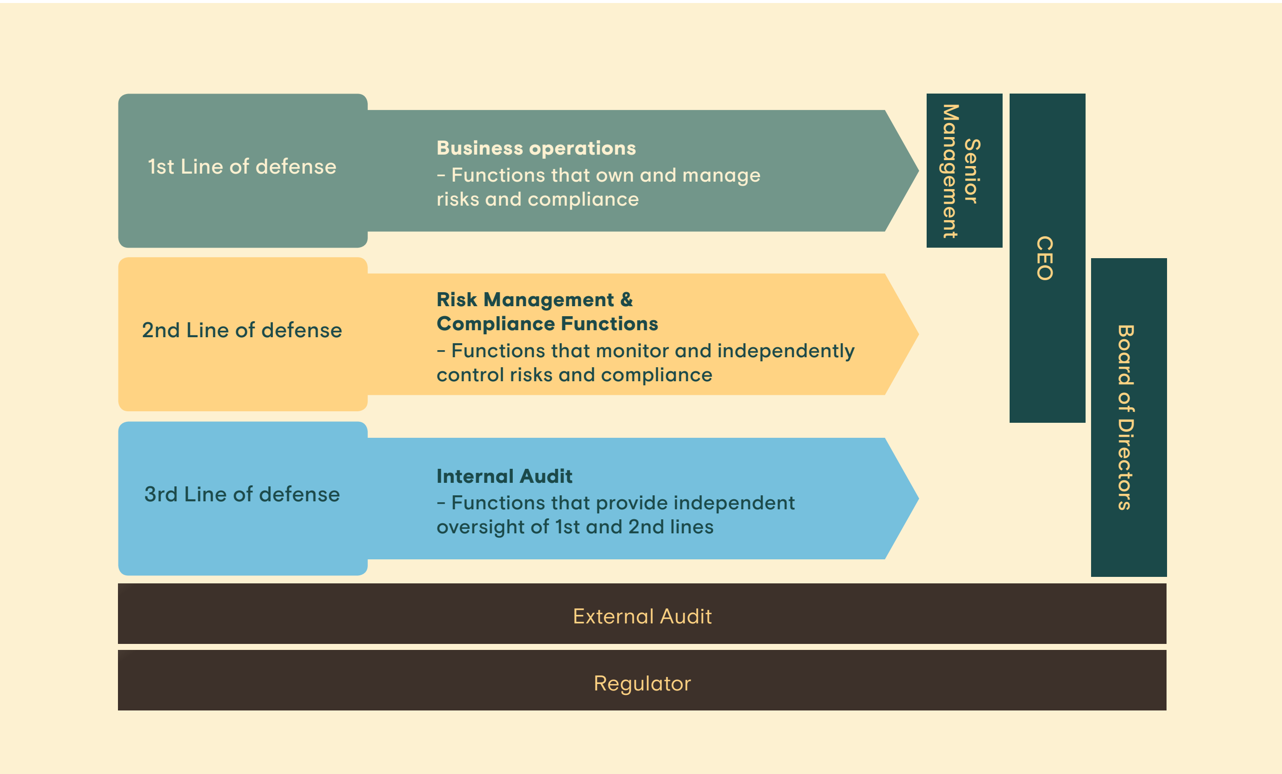
(v) modelling and measurement approaches for quantifying risk and capital requirements are implemented in all the major risk classes, while other risks such as business risk, strategic risk and reputational risk are assessed and quantified during the internal capital and liquidity adequacy assessment process ("ICLAAP"); and,

(vi) effective processes and policies are established in order to implement the identified risk management processes and constitute a critical component of the Bank's risk management capability.

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

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

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



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

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

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

Capital management

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

Capital requirements and capital adequacy

The statutory minimum capital requirement means that the Bank's total capital base must amount to at least 8 percent of the risk-weighted exposure for Pillar I risks, such as credit risk, operational risk, credit valuation adjustment risk ("CVA") and market risk. In addition, the statutory capital requirements encompass the estimated capital requirements for the additional Pillar II risks within the Bank's business identified in the ICLAAP, as well as for the combined buffer requirements. The Bank maintains this minimum capital level of 8 percent of the risk-weighted exposure amount and has sufficient capital to always meet the capital requirements of the Pillar II framework. The Bank is furthermore required to hold capital buffers in the form of CET1 capital, namely the capital conservation buffer and countercyclical capital buffer, which the Bank also continually adheres to. Moreover, the Bank holds an extra amount of capital to reduce the risk of breaching the regulatory requirements due to unexpected revenue volatility. This is an internal target or internal buffer, and thus not a regulatory requirement. Consequently, the Board of Directors has established a long-term CET1 ratio of 16% and a minimum CET1 ratio of 15%.

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

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

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

Method

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

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

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

Liquidity management

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

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

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

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

The Bank has established a strategy that diversifies both the source and duration of its financing through; deposits from the public, transactions of securities and issuance of unsecured bonds.

For further information on liquidity risk, see Note 2.

Significant regulatory updates

The Bank will apply the new accounting standard IFRS 9 Financial instruments from January 1, 2018. IFRS 9 replaces IAS 39 Financial instruments: Recognition and Measurement and includes new requirements for classification and measurement, impairment and hedge accounting. The Bank's assessment is that the implementation of the new standard will decrease equity by SEK 13.9m after tax. For further information regarding IFRS 9, please see Note 1 Accounting policies.

In accordance with ÅRL chapter 8§, and chapter 11§, the Bank determined to establish the statutory sustainability report and the corporate governance report separately from the annual report. The corporate governance report and the sustainability report is not included in the administration report, instead, it is accounted for in pages 83-88 in this document.

Five-year overview

Key figures | the Group	2018	2017	2016	2015	2014
Net Profit after Tax (SEK m)	162.0	191.9	163.2	115.6	113.0
Gross Income[4] / ANR	7.5%	7.4%	7.4%	7.8%	7.8%
Cost of Funds / Funding balance[4]	-2.2%	-2.2%	-2.1%	-2.5%	-2.3%
Operating Income / ANR[3]	5.3%	5.3%	5.4%	5.3%	5.3%
Net Income Pre BDC / ANR[3]	1.9%	2.2%	2.2%	2.0%	1.5%
Net Income Post BDC / ANR[3]	1.5%	2.0%	2.0%	1.7%	1.9%
Return on Equity[14]	12.6%	18.9%	19.4%	16.8%	20.1%
Return on Assets[4]	1.2%	1.6%	1.6%	1.4%	1.5%
Liquidity Reserve (SEK m)	2,555.9	3,029.7	2,076.7	1,803.3	1,699.5
- whereof unutilized credit facility for BFF1	-	450.0	400.0	-	375.0
Deposits from the public (SEK m)	10,416.6	10,418.6	9,504.4	7,186.8	7,201.0
External Funding (SEK m)	5,432.6	4,831.3	3,404.0	3,675.6	1,971.7
Lending portfolio (SEK m)[3]	14,521.7	13,609.7	12,366.0	9,918.0	8,344.0
Credit losses net (SEK m)[2]	-50.2	-33.5	-27.6	-36.4	-27.2
Leverage Ratio	7.5%	6.4%	6.5%	6.3%	6.1%
Average number of employees	243	227	187	176	153

[1] *During 2018, shareholder contributions amounted to SEK 200m which has caused a negative effect on the return on equity*

[2] *Confirmed credit losses, recoveries and net provisions*

[3] *As of 2018 accrued interest is presented together with lending to the public, see "Changed presentation of accrued interest"*

[4] *For definitions of alternate KPI´s, see page 82.*

Proposal for the appropriation of profits	
The following profits are available for appropriation at the annual general meeting	
Non-restricted equity from previous years	1,199,162,396
Result of the year	157,765,388
	1,356,927,784
The Board propose that	
the following be carried forward	1,356,927,784
	1,356,927,784
	1,356,927,784

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

Income Statement

		Group		Parent	
SEK Millions	**Note**	**2018**	**2017**	**2018**	**2017**
Operating income					
Interest income calculated using the effective interest method		1,064.5	948.0	937.6	902.7
Other interesst income		6.5	9.4	70.8	62.1
Interest expense calculated using the effective interest method		-213.9	-185.8	-459.0	-481.5
Other interest expenses		-138.8	-138.0	-34.5	-34.1
Net interest income	4	**718.2**	**633.7**	**514.8**	**449.1**
Group contributions		-	-	85.4	12.4
Commission income	5	-	0.2	-	0.2
Net result of financial transactions	6	14.2	27.0	-4.8	17.9
Other operating income	7	13.6	14.5	10.7	10.5
Total operating income		**746.0**	**675.3**	**606.1**	**490.1**
Operating expense					
General administration expenses	8,9,10	-435.9	-368.2	-308.4	-198.0
Depreciation on fixed assets	11,12	-47.6	-22.8	-41.9	-18.6
Total expenses		**-483.6**	**-391.0**	**-350.3**	**-216.6**
Result pre credit losses		**262.4**	**284.3**	**255.8**	**273.5**
Credit losses, net	13	-50.2	-33.5	-47.8	-31.9
Operating profit/loss		**212.2**	**250.8**	**208.0**	**241.6**
Tax	14	-50.2	-59.0	-50.2	-57.7
NET PROFIT/LOSS FOR THE YEAR		**162.0**	**191.9**	**157.8**	**183.9**
Statement of Comprehensive Income					
Net income		**162.0**	**191.9**	**157.8**	**183.9**
Items that may be reclassified to the income statement					
Exchange differences, foreign operations		-0.3	-4.7	-0.3	-4.7
Whereof tax effect		0.1	1.0	0.1	1.0
COMPREHENSIVE PROFIT/LOSS		**161.7**	**187.1**	**157.4**	**179.2**

Balance Sheet

SEK Millions	Note	Group 2018	Group 2017	Parent 2018	Parent 2017
Assets					
Lending to credit institutions	15	1,862.8	1,935.5	1,261.9	1,386.4
Lending to the public	16	14,521.7	13,609.7	11,976.9	12,495.9
Derivatives	17	213.4	169.1	36.4	34.9
Bonds and other interest-bearing securities	18	693.1	644.2	693.1	644.2
Shares and participations in associated companies	19	-	-	4.7	4.7
Intangible assets	11	58.0	61.3	43.5	45.6
Tangible assets	12	8.3	9.3	7.3	7.8
Other assets	20	108.8	146.8	815.4	753.5
Prepaid expenses and accrued income	21	27.3	24.2	25.5	22.7
Tax assets		3.0	-	-	-
Total assets		**17,496.4**	**16,600.2**	**14,864.8**	**15,395.8**
Liabilities					
Liabilities to credit institutions	22	1,998.9	547.8	2,631.8	3,673.2
Issued bonds	23	3,433.7	4,283.4	200.0	-
Deposits from the public	24	10,416.6	10,418.6	10,416.6	10,418.6
Derivatives	17	38.1	56.0	25.5	35.4
Tax liabilities	14	-	29.1	0.3	30.0
Other liabilities	26	72.2	55.4	82.1	58.0
Accrued expenses and prepaid income	25	79.8	100.4	51.5	70.5
Total liabilities		**16,039.3**	**15,490.8**	**13,407.8**	**14,285.8**
Equity					
Restricted equity					
Share capital		100.0	100.0	100.0	100.0
Total restricted equity		**-**	**-**	**100.0**	**100.0**
Non restricted equity					
Retained earnings		1,195.2	822.3	1,199.2	826.1
Result for this year		162.0	187.1	157.8	183.9
Total non restricted equity		**-**	**-**	**1,356.9**	**1,010.0**
Total equity		**1,457.2**	**1,109.4**	**1,456.9**	**1,110.0**
Total equity and liabilities		**17,496.4**	**16,600.2**	**14,864.8**	**15,395.8**

Changed presentation accrued interest

Group SEK Millions		Reported value 31 dec 2018	Changed presentation of accrued interest	Value without changed presentation of accrued interest
Assets				
Lending to the public	16	14,521.7	27.6	14,494.1
Other assets	20	108.8	-27.6	136.4
Total assets		**14,630.5**	**-**	**14,630.5**

From the annual report of 2018, the Bank present contractual accrued interest for lending to the public as a part av the presented value for the asset in the balance sheet. Contractual accrued interest for lending that previously was classified as other assets is now presented under lending to the public. The table above shows the effect on affected balance rows as of 31 december 2018 if the changed presentation of accrud interest not had been implemented.

Parent SEK Millions		Reported value 31 dec 2018	Changed presentation of accrued interest	Value without changed presentation of accrued interest
Assets				
Lending to the public	16	11,976.9	25.1	11,951.8
Other assets	20	815.4	-25.1	840.5
Total assets		**12,792.3**	**-**	**12,792.3**

From the annual report of 2018, the Bank present contractual accrued interest for lending to the public as a part av the presented value for the asset in the balance sheet in order to harmonize the liabilities. Contractual accrued interest for lending that previously was classified as other assets is now presented under lending to the public. The table above shows the effect on affected balance rows as of 31 december 2018 if the changed presentation of accrud interest not had been implemented.

Change in equity

Group SEK Millions	Share capital	Retained earnings*	Total equity
	Shareholders' equity		
Opening balance 2017-01-01	**100.0**	**822.3**	**922.3**
Result for the year reported via income statement		191.9	191.9
Exchange differences, foreign operations		-4.7	-4.7
Ending balance 2017-12-31	**100.0**	**1,009.4**	**1,109.4**
Opening balance 2018-01-01	**100.0**	**1,009.4**	**1,109.4**
Shareholder contributions**		200.0	200.0
Result for the year reported via income statement		162.0	162.0
Effect of transition to IFRS 9		-17.2	-17.2
Tax effect due to transition to IFRS 9		3.3	3.3
Exchange differences, foreign operations		-0.3	-0.3
Ending balance 2018-12-31	**100.0**	**1,357.2**	**1,457.2**

** Total shareholder contributions SEK 563,7m (363,7m)*

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

	Shareholders' equity		
	Restricted	Non restricted	
Parent SEK Millions	**Share capital**	**Retained earnings***	**Total equity**
Opening balance 2017-01-01	100.0	830.9	930.9
Result for the year reported via income statement		183.9	183.9
Exchange differences, foreign operations		-4.7	-4.7
Ending balance 2017-12-31	**100.0**	**1,010.0**	**1,110.0**
Opening balance 2018-01-01	**100.0**	**1,010.0**	**1,110.0**
Shareholder contributions**		200.0	200.0
Effect of transition to IFRS 9		-13.5	-13.5
Tax effect due to transition to IFRS 9		3.0	3.0
Result for the year reported via income statement		157.8	157.8
Exchange differences, foreign operations		-0.3	-0.3
Ending balance 2018-12-31	**100.0**	**1,356.9**	**1,456.9**

** Total shareholder contributions SEK 563,7m (363,7m)*

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

The share equity consists of 2 common stock of the same kind with quotient value of SEK 50m. All shares have equal voting power.

Cash Flow Statement

SEK Millions	Note	Group 2018	Group 2017	Parent 2018	Parent 2017
Operating activities					
Pre tax income		212.2	250.8	208.0	241.6
		212.2	**250.8**	**208.0**	**241.6**
Adjustments for items not included in cash flow					
Depreciation	11,12	47.6	22.8	41.9	18.6
Unrealised changes in value	6	5.4	-53.8	24.4	-44.7
Credit losses excluding recoveries	13	95.9	70.3	93.5	68.7
Total – Items not included in cash flow		**148.9**	**39.3**	**159.8**	**42.6**
Taxes paid		-76.1	-61.2	-76.9	-57.2
Cash flow from current operations before changes to operating capital		**285.1**	**228.9**	**290.9**	**227.0**
Cash flow from changes to operating capital					
Increase (-)/decrease (+) of lending to the public		-1,025.1	-1,611.4	411.9	-2,419.1
Increase (-)/decrease (+) of change in receivables		-12.4	-33.9	-66.2	787.6
Increase (+)/decrease (-) of deposits from the public		-1.9	914.2	-1.9	914.2
Increase (+)/decrease (-) of change in short term liabilities		-21.7	-43.1	-4.9	-58.4
Cash flow from operating activities		**-776.1**	**-545.4**	**629.8**	**-548.8**
Investing activities					
Investments in intangible assets	11	-41.0	-26.8	-37.0	-17.6
Acquisition of fixed assets	12	-2.3	-1.2	-2.3	-0.5
Increase (-)/decrease (+) of financial assets	18,19	-54.3	250.8	-73.3	245.7
Cash flow from investing activities		**-97.6**	**222.8**	**-112.5**	**227.6**
Financing activities					
Liabilities to credit institutions	22	1,451.1	-52.2	-841.4	1233.0
Issued bonds	23	-849.7	1,479.4	-	-
Shareholders' contribution		200.0	-	200.0	-
Subordinated liabilities		-	-	-	-
Group contribution		-	-	-	-
Cash flow from financing activities		**801.3**	**1,427.3**	**-641.4**	**1,233.0**
NET CASH FLOW FOR THIS YEAR		**-72.3**	**1,104.7**	**-124.1**	**911.8**
Liquid funds at beginning of year		**1,935.5**	**835.4**	1,386.4	479.3
Currency difference i liquidity		**-0.3**	**-4.7**	**-0.3**	**-4.7**
LIQUID FUNDS END OF YEAR		**1,862.8**	**1,935.5**	**1,261.9**	**1,386.4**
Cash flow includes interest receipts of		**1,076.0**	**962.3**	**1 011,7**	**970.3**
Cash flow includes interest payments of		**-372.6**	**-339.1**	**-513,5**	**-531.0**

Disclosures

Content

Note 1. Accounting policies

General information

The Annual Report was approved for publication by the Board of Directors on April 23, 2019. The income statement and balance sheet will be presented at the Annual General Meeting for adoption on April 23, 2019. The Bank is a wholly owned subsidiary of Bluestep Holding AB, which is also the ultimate Parent Company. The Bank's business is described in the Administration Report.

Compliance with standards and laws

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

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

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

Changes in accounting policies due to new or amended IFRS

New or revised standards and interpretations adopted by the EU with effect from January 1, 2018 which have had material effect on the Bank's financial statements concerns IFRS 9.

IFRS 9

The Group introduced IFRS 9 Financial Instruments on 1 January 2018. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement. The biggest changes compared with IAS 39 concern classification and valuation, impairment.

For classification purposes, the Bank has evaluated the business model for non-derivative financial assets or equity instruments. The evaluation was done at the portfolio level. The Bank has determined that in the business model contractual cash flows are collected for all financial assets except the liquidity portfolio, which is evaluated and followed on a fair value basis. The contractual cash flows consist solely of principal and interest for all non-derivative financial assets.

With the aid of prospective information, the Bank assesses expected credit losses (ECL) for all financial instruments within the category at amortised cost, along with the expected balance from loan commitments. The Group recognises any losses on these financial instruments at each reporting date. The assessment of ECL should reflect:

- An unbiased and probability-weighted amount, which is determined by evaluating a range of possible outcomes.
- The time value of the money
- Reasonable and verifiable information, which is available without undue cost or effort at the end of the reporting period for past events, current conditions and forecasts of future financial conditions

The rules for classification, measurement and impairment were applied retrospectively. As permitted by IFRS 9, the Bank has not restated comparative periods, and all information for comparative periods is therefore presented in accordance with the accounting policies for 2017 described in the 2017 Annual Report.

Other accounting policies and calculation methods used in the preparation of the Bank's financial statements are essentially unchanged since the previous year.

IFRS 15 Revenue from contracts with customers

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

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

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

IFRS 16 Leasing

IFRS 16 was issued in January 2016 and replaces IAS 17 Leases. The standard was approved by the EU in November 2017 for application to the financial year beginning on 1 January 2019. The new standard significantly changes the way lessees are to account for leases. The implementation of IFRS 16 Leases means that the concepts of finance and operating leases are no longer used for lessees. A new concept known as the right-of-use asset will be used for assets, and a lease liability will be recognised under liabilities. In accordance with applicable regulations, the Bank has only made exceptions for leases that expire within 12 months and are considered non-material, i.e. the estimated lease expense is less than SEK 50,000. In brief, IFRS 16 is based on the approach that the lessee is entitled to use an asset for a specific period and is obligated to pay for this right (the source of the right-of-use asset concept).

The following leases are included in the Bank's IFRS 16 implementation: leases for premises, company cars, office equipment and other items that are leased. Due to the limited scope of these items and their limited financial impact, the Bank has studied the issue and concluded that a thorough accounting of the key figures affected is not necessary. The Bank has decided to use the simplified approach for the relevant transition period rather than the retrospective approach for the same reason. This means that the calculation of right-of-use assets is based exclusively on ongoing leases beginning on 31 December 2018. The effects on assets, liabilities and operating profit are summarised in the table to the bottom right:

Since the Bank uses the simplified approach according to RFR 2, operating profit, depreciation, amortisation and interest expenses for the transition period are unaffected.

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

Estimations and critical assessments

When preparing the financial statements in compliance with IFRS, management must rely on estimations and assessments that affect the reported amounts of assets, liabilities and disclosures of any assets and contingent liabilities at the reporting date, as well as reported income and expenses during the reporting period.

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

Assessments

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

Estimates

Loans to the public are based on the loan's expected lifetime, average return and expected credit losses. Past performance is continuously reviewed and expected market conditions evaluated to ensure that the estimates are updated. No significant changes were made to the estimations and critical assessments compared with 31 December 2017, apart from estimates of credit reserves in accordance with the expected credit loss model for IFRS 9, which was introduced beginning on 1 January 2018. Important assessments made by Group management and important sources of uncertainty in estimates when applying IFRS with a significant effect on the financial statements are described in more detail in the note on risk management.

Assessments and estimates for asset-backed bonds are based on expected lifetime and average return, which are in turn based on historical performance, expected cash flows and interest rates.

Effect on opening balance sheet 1 January 2019	Previously recognised 31 December 2018	Recalculation IFRS 16	After recalculation 1 January 2019
Total assets	17,496.4	20.5	17,516.9
Total equity	1,457.2	–	1,457.2
Total liabilities	16,039.3	20.5	16,059.8
Total equity and liabilities	**17,496.4**	**20.5**	**17,516.9**

The Group has issued bonds secured by Swedish mortgages (so-called securitisation) several times in recent years. Mortgages have been sold from the Bank and BFF1 to wholly-owned subsidiaries, which have then issued bonds that external parties invested in. The Bank has made the assessment that the assets that were sold to the subsidiaries do not fulfil the criteria to be derecognised. Since the credit risk has not left the Bank, and the risk has therefore not passed to the subsidiary, the assets are still recognised in the Bank and not in each subsidiary. For more information, see the Securitisation section.

Foreign currency

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

Interest income and interest expense

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

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

Interest income and interest expenses presented in the income statement consist of:

- Interest on financial assets and liabilities valued at amortized cost according to the effective interest method, including interest on bad debts
- Interest from financial assets classified as valued at fair value through other comprehensive income
- Interest from financial assets and liabilities measured at fair value through profit or loss

Commission income and expense

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

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

Net gains/losses on financial transactions

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

Financial instruments

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

Financial assets are recognised in the balance sheet on the business day that contracts were concluded for acquisitions, apart from contracts classified as measured at amortised cost, which are recognised on the settlement date. Liabilities are recognised when the counterparty has performed, and a contractual obligation exists even though an invoice has not yet been received. A financial asset is derecognised from the balance sheet when the contractual rights to the asset are realised, extinguished or the Bank loses control over them. A financial liability is derecognised from the balance sheet when the contractual obligation has been fulfilled or in some other manner extinguished.

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

- Financial assets and liabilities at fair value through profit or loss
- Financial assets and liabilities recognised at amortised cost

Comparative numbers for 2017 have been reported in accordance with IAS 39. This means that the financial instruments were categorized according to:

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

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

Financial assets measured at fair value through profit or loss

This category consists of financial assets held in a business model that does not involve collecting contractual cash flows or partially collecting contractual cash flows and partially collecting cash flows from sales. In addition to sales of financial assets, the Bank also assesses the business model based on how the portfolio of financial assets is evaluated in terms of return and risk. Financial assets whose contractual cash flows do not consist solely of principal, interest and fees are also classified in this category. The Bank's assets in this sub-group consist of: (i) derivative instruments with positive market value not included in an effective hedging relationship (see the section on hedge accounting); (ii) derivatives that constitute effective hedging instruments; and (iii) bonds and other interest-bearing securities held for liquidity risk management.

Assets in this category are initially recognised at fair value, while attributable transaction costs are recognised immediately in profit or loss. Changes in fair value and realised profit/loss for these assets are recognised directly in profit or loss under Net gains/losses on financial transactions, while accrued interest and interest received are recognised as interest income.

Fair value is the price at the measurement date that would be received by selling an asset or payable on the transfer of a debt through an orderly transaction between market participants. The fair value of financial instruments measured at fair value and traded on an active market, such as Swedish covered bonds, is based on quoted prices. For financial instruments not traded in an active market, fair value is determined based on generally accepted measurement techniques, which are in turn based on observable market quotations to the greatest extent possible.

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

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

Level 3: Valuation model where essential data is based on nonobservable data.

Derivatives

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

Hedge accounting

The Bank uses derivatives to hedge interest rate risks in the business. The derivatives are measured at fair value in the balance sheet and otherwise managed according to each hedging relationship. At initial hedge accounting, the Bank documents the economic correlation between the hedged item and the hedging instrument, that is, that there is a well-founded expectation that the hedging instrument is highly effective in counteracting the hedged risk's impact on the hedged item, and that it must be possible to measure and evaluate this effectiveness reliably. Ineffectiveness is recognised in profit or loss. If the conditions for hedge accounting are no longer fulfilled, the derivatives are recognised at fair value through profit or loss according to the basic rules.

Fair value hedging

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

Bonds and other interest-bearing securities

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

Financial assets recognised at amortised cost

This category consists of financial assets held in a business model to collect contractual cash flows. The contractual cash flows consist solely of principal, interest and fees. In the statement of financial position, these are represented by the balance sheet items Loans to credit institutions, Loans to the public and Other assets, depending on their nature. These assets are recognised at amortised cost. Loan receivables are initially recognised at cost, which consist of the loan amount paid less fees received and additional costs that form an integral part of the return. The interest rate that produces the loan's cost when calculating the present value of future payments is considered the effective interest rate. Amortised cost is obtained by discounting the remaining future payments by the effective interest rate amount. Receivables other than loan receivables, which are not interest-bearing, have a short-expected maturity, so they are recognised at a nominal amount without discounting. Expected credit losses are recognised in operating expenses.

Lending to the public

Loans to the public consists of loans to individuals secured with property as collateral and loans to individuals without collateral. Impairment losses and reversals of impairment losses are recognised as net credit losses. See further about impairment losses in the following paragraph.

Expected credit losses and impairment of financial assets recognised at amortised cost

IFRS 9 introduces an impairment model that measures expected credit losses in which a reserve corresponding to expected credit losses is recognised for financial assets that are measured at amortised cost. In the model, expected credit losses are measured based on the estimated risk at the time of calculation, whether a significant increase in credit risk has occurred since initial recognition and assessed macroeconomic developments, even if no actual loss event has occurred. Expected credit losses are calculated based on both internal and external information. The information consists of past events, current circumstances and reasonable verifiable forecasts of future economic conditions that can affect expected future cash flows. Consequently, credit impairment provisions are more sensitive to changes in future macroeconomic outlooks and are therefore more volatile compared to IAS 39. The expected credit losses must consider both asset-specific and macroeconomic factors and reflect the Bank's expectations regarding these factors. The purpose of the new model is to ensure that accounting reflects the Bank's expectations of the factors that affect the impairment provisions at an earlier stage compared to IAS 39. See the risk management note for a more detailed description of impairment calculation.

Issued securities

Issued securities refer to bonds issued by the Group and are valued at amortized cost.

Financial assets and liabilities recognised at amortised cost

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

Financial liabilities measured at fair value through profit or loss

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

Shareholders' contributions and Group contributions

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

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

Shareholders' contributions received are recognised in equity.

Intangible assets

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

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

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

Impairment testing is performed at least once a year, or if there is an indication of a permanent decrease in value.

Tangible assets

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

Leases

In 2018 all leases are recognised as operating leases, which means that the lease fee is allocated on a straight-line basis over the lease term.

Pensions

Pensions are recognised as defined contribution plans and are expensed on an ongoing basis during the year. There are no pension provisions since the Bank has fulfilled its obligations in connection with its premium payments.

Taxes

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

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

Deferred taxes refer to tax on differences between recognised and taxable value. Deferred tax liability is recognised for all taxable temporary differences. Deferred tax assets represent a reduction of future tax attributable to temporary tax-deductible differences, tax loss carry forwards or other future tax deductibles. Deferred tax assets are tested at the end of each accounting year and recognised to the extent that they are likely to be utilised at each reporting date. At the balance sheet date, fixed tax rates are used in the calculations. The tax rate in Sweden changes from 22% to 21.4% for 2019.

Cash flow statement

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

Cash and cash equivalents

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

Securitisation

When a financial asset is transferred, the Bank must evaluate the extent to which it retains the risks and benefits associated with ownership of the financial asset. If the Bank retains essentially all the risks and benefits associated with ownership of the financial asset, the Bank continues to recognise the financial asset in the statement of financial position. The Bank carried out securitisation transactions recognised accordingly in 2013, 2015, and 2017. In these transactions loan receivables from the Bank and BFF1 were sold to wholly-owned subsidiaries, Step 2, Step 3 and Step 4 (known as special purpose vehicles or SPV). Since the loan receivables sold from the Bank do not meet the requirements for elimination from the statement of financial position, primarily because the credit risk has not been entirely transferred, these receivables are recognised in the Bank.

Note 2. Risk management

Risk profile and strategy

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

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

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

1. Pillar I, minimum capital requirements: deals with maintenance of regulatory capital calculated for the major components of risk that a bank faces: credit risk, operational risk, CVA risk and market risk. The methodology applicable to calculate the capital requirements is stated in the the Regulation (EU) 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (CRR).

2. Pillar II, supervisory review: provides a framework for dealing with the underestimations of those risks assessed under Pillar I and, additionally, interest rate risk of the loan book, systemic risk, pension risk, concentration risk, strategic risk, reputational risk, liquidity risk and legal risk. The process for ICLAAP is a result of Pillar II of the Basel II accords. The ICLAAP includes a number of stress scenarios which test the Bank's exposure to, and the impact of identified risks.

3. Pillar III, market discipline: aims to complement the minimum capital requirements and supervisory review process by developing a set of disclosure requirements which will allow the market participants to gauge the capital adequacy of an institution.

Based on the Pillar I and II assessment process, the Bank has identified the following primary risk categories and the measurement, controls and mitigants for these risks are presented below. To proactively manage the risks to which the Bank is exposed, analyses of the credit portfolio are continuously carried out to see how this may be affected by future macroeconomic changes. These analyses are used, among other things, as a basis for control of lending and for changes in internal regulations.

Credit risk

Definition

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

Mitigation

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

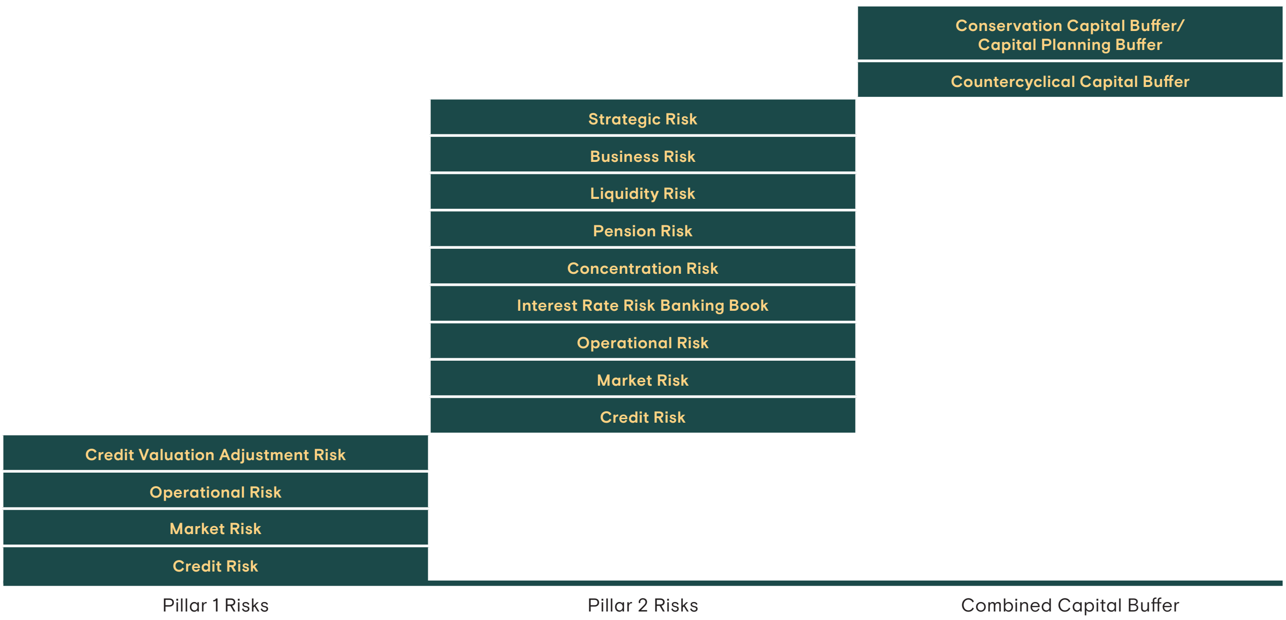


Figure shows an overview of key identified risks and capital requirements. For further information on capital adequacy and Pillar I and II, see note 29.

Credit risk is mainly managed through the Bank's credit instructions in which the Bank's risk appetite is defined. Active credit risk management is also achieved through prudent customer selection by the Bank's credit departments, which is part of the first line of defence function within the business. This means that they are responsible for the credit decision process and for adhering to the credit policies and instructions established by the Board.

The risk classification system is a crucial part of the credit process, encompassing work and decision processes for granting and monitoring credit and quantification of credit risk. Granting credit requires that there are good grounds to expect the borrower to fulfil their commitment to the Bank. Sound, long-term robust and risk-balanced lending requires placing the credit transaction in relation to external factors that could affect it. This means that the Bank's and others' knowledge of expected local, regional and global change and development that is important to the credit transaction and its risk are considered. Individual credit exposures are systematically analysed by continually monitoring individual commitments. Active credit risk management is also achieved through the collection departments by being responsible for the non-performing loans, i.e. where customers have ceased to service their debt obligations and in so breached their contractual terms and attempt to implore customers to return to orderly payments or take other actions to mitigate the risk of loss.

Estimating credit exposure for risk management purposes is complex and requires the use of models, since the exposure varies according to changes in market conditions, expected cash flows and the passage of time. Assessing the credit risk for a portfolio of assets entails additional estimates of the probability of default, the associated losses and standard correlations between counterparties. The Bank measures credit risk by using probability of default (PD), exposure at default (EAD) and loss given default (LGD). This method is used to calculate expected credit losses (ECL) under IFRS 9.

After the date of the initial credit assessment, the borrower's payment behaviour is continually monitored to create a behaviour score. All other information about the borrower that affects their ability to pay, such as previous behaviour patterns, are also incorporated into this behaviour score. This score is used to estimate the PD.

Measurements of credit reserves and expected credit losses (ECL)

Reserves are calculated using quantitative models based on inputs, assumptions and methods. The following items may have a particularly heavy impact on the level of reserves:

- determination of a significant increase in credit risk;
- consideration of prospective macroeconomic scenarios; and
- measurement of both expected credit losses within the next 12 months and expected credit losses during the entire term.

The most important inputs for valuing expected credit losses are:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD); and
- expected maturity

These calculations are derived from internally developed statistical models, which consider both historical data and probability-weighted prospective scenarios.

Components, assumptions and estimation techniques

The **ECL** is calculated at either a 12 month or lifetime level, depending on whether there is a significant increase in credit risk since the first credit assessment of the contract in question, or if the loan is in default. The ECL is calculated by calculating the PD, EAD and LGD for every future month for each contract. These three components are multiplied together and adjusted by the probability of survival, i.e. the likelihood that the contract has not gone into default or been terminated prematurely. Each monthly amount produced through these calculations is discounted back to the reporting date and totalled. The discount rate used in the calculation is the effective interest rate of the loan at disbursement.

PD: 12 months and the PD for the remaining term are equivalent to the probability of default in the next 12 months and the entire remaining term of the financial asset, respectively.

The lifetime PD is generated by looking at the maturity profile of each risk segment. This maturity profile looks at where in time a default takes place, from the first assessment date throughout the entire contract term for each loan. The profile is based on historic data and is expected to be the same for each segment chosen. To estimate the 12-month PD, a logistical regression model customised for the product is used.

Both values are based on the circumstances on the reporting date and future financial conditions that affect credit risk. The PD models are based on homogeneous sub-segments of the total credit portfolio, such as country, business area or product group. They are used to derive the 12-month PD and the PD for the remaining term.

Historical default data are used to create term structures for the PD on the reporting date, which are subsequently adjusted to derive the prospective PD. A deterioration in an economic outlook based on forecast macroeconomic variables for each scenario or an increase in the probability that the worst-case scenario will occur result in a higher PD. This increases both the number of loans transferred from Stage 1 to Stage 2 and the estimated credit reserves.

EAD represents estimated credit exposure on a future default date considering altered expectations in credit exposure on the reporting date. The Bank's method for modelling EAD reflects current contract terms for the repayment of pricipal and interest, the maturity date and expected repayments beyond contractual payments. The remaining exposure is estimated based on these variables on a monthly basis until the loan is considered repaid.

The **LGD** corresponds to the estimated credit losses expected in case of default, considering the expected value of future recoveries, realisation of collateral, when the recoveries are expected to occur and the time value of the money. When calculating the LGD, the collateral type, borrower type and contract information are minimum requirements. The LGD calculations are based on historic information concerning loss data in homogeneous sub-segments of the total credit portfolio, such as country, security type and product. Prospective macroeconomic factors are reflected in the LGD calculations through their impact on the loan-to-value ratio. A deterioration in an economic outlook based on macroeconomic factors for each scenario, or an increase in the probability that the worst-case scenario will occur, results in a higher LGD as well as the estimated credit reserves and vice versa. More information on collateral can be found in the collateral note

Remaining maturity

For contracts at Stage 2 or Stage 3, the Bank estimates the expected credit losses while considering the risk of default for the **remaining maturity**. The expected maturity is generally limited to the maximum contract period during which the Bank is exposed to credit risk, even if a longer period accords with business practice. All contract terms are considered when the expected maturity is determined, including repayment, extension and transfer alternatives that are binding for the Bank.

Significant increase in credit risk (SICR)

IFRS 9 uses a three-stage model to calculate impairment. This model is based on changes in credit risk since initial recognition. The impairment model contains three stages based on changes in the credit quality of the financial assets. In the three-stage model, the assets are divided into three categories depending on how the credit risk has changed since the asset was first entered on the balance sheet. Stage 1 includes assets that have not had a significant increase in credit risk. Stage 2 includes assets that have had a significant increase in credit risk, and Stage 3 includes defaulted assets. The credit loss provisioning for the assets is determined by their category. Provisions for expected credit losses in the next 12 months are made in Stage 1, while provisions are made for expected credit losses during the entire remaining maturity of the assets in Stages 2 and 3.

- A loan that is not in default at the time of the credit assessment is classified as Stage 1, and the borrower's creditworthiness is continually assessed by the Bank.
- If a significant increase in credit risk since initial recognition can be determined, the loan is transferred to Stage 2, but it is not yet classified as in default.
- If the loan goes into default it is consequently transferred to Stage 3.
- For loans at Stage 1, the ECL is only calculated for the next 12 months of the contract. For loans at Stages 2 or 3, the corresponding calculation is performed for the remaining duration of the loan.

One consistent concept for assessing ECL is that prospective information must be used.

Change in credit risk since first assessment session

Stage 1	Stage 2	Stage 3
First credit assessment session	Significant increase in credit risk since first credit assessment session	Uncertain claim
12 month expected credit losses	Expected credit losses during the contract period	Expected credit losses during the contract period

To assess whether there is a significant increase in risk that necessitates a transfer to Stage 2, the Bank uses the change to the loan's lifetime PD, i.e. the expected credit risk for the entire lifetime of the contract. One criterion for a significant increase in risk is a relative percentage change to the lifetime PD that exceeds a given threshold.

In addition to this criterion, the Bank also uses an absolute change to the PD that means if the lifetime PD increases by a certain percentage, which varies according to product category, it is referred to Stage 2.

The Bank deems the credit risk of a loan to have increased significantly when one or more of the following criteria have been met:

Quantitative criteria:
The remainder of the loan's lifetime PD has increased at the reporting date, compared with the corresponding part during initial recognition, to an extent that the increase exceeds the threshold defined for the Bank.

These thresholds are considered separately for the Bank's various portfolios by reviewing the trends of the lifetime PD before loans go into default. The lifetime PD trends for loans that do not go into default are also reviewed to discern “natural” PD movements that should thus not be considered as a SICR. See *Determination of significant increase in credit risk*.

The assessment of SICR contains prospective information and is performed at the portfolio level on a quarterly basis for all loan products provided by the Bank. This assessment is performed continually and periodically at the counterparty and contract levels. The criteria used to identify SICR are monitored and examined for suitability on a regular basis by an independent department.

Backstop

In addition to the significant PD changes described above, the Bank also uses a backstop, which means that a loan that is 30 to 90 days in default is referred to Stage 2 even if there is no significant increase in PD.

Determination of significant increase in credit risk (SICR)

The Bank uses both quantitative and qualitative indicators to assess whether there is a significant increase in credit risk. The quantitative values consist of comparing whether the remainder of the loan’s lifetime PD has increased at the reporting date, compared with the corresponding part during initial recognition, to an extent that the increase exceeds the thresholds below.

Mortgage loan Sweden
Credit loss provision impact of

PD interval at first accounting date	Treshold value impairment of PD	Unchanged absolute LT PD (1.9%) and reduced limit for PD-impairment with 40%	Increase of absolute LT PD (1.9%) with 33% and increased limit for PD-impairment with 60%	Credit loss reserve 31 December 2018	Gross amount 31 December 2018	Share of portfolio % 31 December 2018
<=0.4%	500%	0.0%	0.0%	0.1	1,756.3	21.3%
0.4%-0.8%	500%	0.0%	0.0%	0.8	3,239.8	39.2%
0.8%-3.2%	500%	19.0%	-0.1%	1.3	2,271.3	27.5%
3.2%-6.4%	500%	68.5%	-1.4%	1.2	414.7	5.0%
6.4%-12.8%	500%	13.0%	-9.0%	1.9	216.9	2.6%
12.8%-	500%	1.8%	-0.2%	7.8	269.2	3.3%
Loan in stage 3				**6.5**	**89.7**	**1.1%**
Total		**7.4%**	**-1.0%**	**19.6**	**8,257.9**	**100.0%**

Mortgage loan Norway
Credit loss provision impact of

PD interval at first accounting date	Treshold value impairment of PD	Reduced limit for PD-impairment with 40%	Increased limit for PD-impairment with 50%	Credit loss reserve 31 December 2018	Gross amount 31 December 2018	Share of portfolio % 31 December 2018
<=0.4%	400%	0.0%	0.0%	0.0	310.8	6.0%
0.4%-0.8%	400%	0.2%	0.0%	0.0	858.8	16.0%
0.8%-3.2%	400%	4.2%	0.0%	0.4	2,973.9	56.0%
3.2%-6.4%	400%	112.7%	0.0%	0.2	375.0	7.0%
6.4%-12.8%	400%	131.1%	-28.5%	0.4	270.5	5.0%
12.8%-	400%	25.3%	-0.8%	2.2	373.0	7.0%
Loan in stage 3				2.0	139.9	2.6%
Total		**23.9%**	**-2.4%**	**5.1**	**5,301.9**	**100.0%**

Other operation
Credit loss provision impact of

PD interval at first accounting date	Treshold value impairment of PD	Unchanged absolute LT PD (21%) and reduced limit for PD-impairment with 25%	Increase of absolute LT PD (21%) with 25% and increased limit for PD-impairment with 25%	Credit loss reserve 31 December 2018	Gross amount 31 December 2018	Share of portfolio % 31 December 2018
<=0.4%	61%	0.0%	0.0%	0.0	8.5	0.8%
0.4%-0.8%	61%	0.0%	0.0%	0.0	18.2	1.8%
0.8%-3.2%	61%	0.0%	0.0%	2.3	477.2	46.8%
3.2%-6.4%	61%	0.0%	0.0%	2.7	216.0	21.2%
6.4%-12.8%	61%	2.3%	-4.3%	4.3	209.5	20.5%
12.8%-	61%	0.9%	-2.1%	14.1	83.1	8.1%
Loan in stage 3				3.0	7.8	0.8%
Total		**0.9%**	**-1.8%**	**26.4**	**1,020.2**	**100.0%**

Definition of default

The Bank defines a loan as in default (credit impaired) when it meets one or more of the following criteria.

Quantitative criterion

- The borrower is over 90 days late in paying one or more of their contractual payments.
- A loan is considered no longer in default (is cured) when it no longer meets the above-mentioned criterion for default. This period has been determined by analysing the probability that a loan will return to normal status after having been classified as in default.

Prospective information

Prospective information is used in both the determination of SICR and the calculation of ECL. The Bank has analysed historical data to identify the correlation between macroeconomic variables, credit risk and expected credit losses for each portfolio.

Prospective information is included in both the determination of a significant increase in credit risk and the calculation of expected credit losses. Based on its analyses of historical data, the Bank has identified and considered macroeconomic factors that affect credit risk and credit losses for the various portfolios. These factors are based on country and product type. In general, the factors with the highest correlation are GDP growth, unemployment and interest rates, where the Bank has identified the strongest correlation between the Bank's portfolio and the market rate (STIBOR 3-month) The Bank continually monitors the macroeconomic trends of each country. This includes defining prospective macroeconomic scenarios for various portfolio segments and translating them into macroeconomic forecasts. The outcome scenario (base scenario) is based on assumptions that correspond to the Bank's planning scenario and is used to create alternative scenarios that consider both a more positive and a more negative outlook.

In general, a deterioration in an economic outlook based on forecast macroeconomic factors for each scenario, or an increase in the probability that the worst-case scenario might occur, mean an increase in both the number of loans moved from Stage 1 to Stage 2 and the estimated credit reserves. On the other hand, an improvement in outlook, based on forecast macroeconomic factors, or an increase in the probability that the best-case scenario might occur, has the opposite effect. It is not possible to reasonably isolate the effects of changes in the various macroeconomic factors for a scenario due to the relationship between the factors and the internal relationship between the level of pessimism inherent in a scenario and its likelihood of occurring.

In addition to the base scenario, the Bank also generates other potential scenarios combined with the probability of each. The number of scenarios generated is determined by ensuring that all non-linear relationships are covered.

The number of scenarios and their weights are evaluated at each reporting date. At 1 January 2018 and 31 December 2018, the Bank determined that three scenarios covered all non-linear relationships. The weights of each scenario are determined internally through statistical analysis and expert-based credit assessment.

SICR is determined by using the lifetime PD for each scenario and weighting them together with their respective probabilities, as well as qualitative indicators and a backstop. The combination of these components determines whether the contract should be assessed as Stage 1 or Stage 2, and whether 12-month or lifetime ECL should be used. After this evaluation, the Bank measures ECL as either a weighted 12-month amount (Stage 1) or a weighted lifetime amount (Stages 2 and 3). These probability-weighted scenarios are calculated by running each scenario through the established ECL model and multiplying it by the appropriate scenario weights.

As with every economic forecast, these are expected values and the probabilities of each scenario are subject to a high degree of inherent uncertainty, and therefore the actual outcome may differ significantly from the Bank's forecasts. However, the Bank considers these forecasts to be the best estimate based on potential outcomes, and the Bank has analysed the non-linear relationships for each portfolio to determine that its chosen scenarios represent all possible scenarios.

Consideration of macroeconomic assumptions

The most significant assumptions used to calculate ECL at 31 December 2018 are shown in the table below. The base, optimistic and negative scenarios are used for all the portfolios.

31 December 2018	Weight	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
SE_INT_Opt	0.25	-0.50	-0.75	-0.75	-0.38	-0.07	0.26	0.57	0.79	0.72	0.53
SE_INT_Base	0.50	-0.50	-0.43	0.02	1.03	1.57	2.10	2.62	2.97	3.00	3.00
SE_INT_Neg	0.25	-0.50	0.38	1.18	2.47	3.23	3.93	4.65	5.13	5.32	5.44
SE_HPI_Opt	0.25	1.025	1.014	1.015	1.015	1.015	1.015	1.015	1.015	1.015	1.015
SE_HPI_Base	0.5	1.058	1.063	1.065	1.065	1.066	1.066	1.066	1.066	1.066	1.066
SE_HPI_Neg	0.25	1.092	1.112	1.115	1.116	1.116	1.116	1.116	1.116	1.116	1.116
NO_HPI_Opt	0.25	1.109	1.109	1.109	1.109	1.109	1.109	1.109	1.109	1.109	1.109
NO_HPI_Base	0.5	1.066	1.066	1.066	1.066	1.066	1.066	1.066	1.066	1.066	1.066
NO_HPI_Neg	0.25	1.023	1.023	1.023	1.023	1.023	1.023	1.023	1.023	1.023	1.023

The most significant assumptions used to calculate ECL at 1 January 2018 are shown in the table below. The base, optimistic and negative scenarios are used for all the portfolios.

1 January 2018	Weight	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
SE_INT_Opt	0.25	-0.50	-0.75	-0.75	-0.38	-0.07	0.26	0.57	0.79	0.72	0.53
SE_INT_Base	0.50	-0.50	-0.43	0.02	1.03	1.57	2.10	2.62	2.97	3.00	3.00
SE_INT_Neg	0.25	-0.50	0.38	1.18	2.47	3.23	3.93	4.65	5.13	5.32	5.44
SE_HPI_Opt	0.25	1.025	1.014	1.015	1.015	1.015	1.015	1.015	1.015	1.015	1.015
SE_HPI_Base	0.5	1.058	1.063	1.065	1.065	1.066	1.066	1.066	1.066	1.066	1.066
SE_HPI_Neg	0.25	1.092	1.112	1.115	1.116	1.116	1.116	1.116	1.116	1.116	1.116
NO_HPI_Opt	0.25	1.109	1.109	1.109	1.109	1.109	1.109	1.109	1.109	1.109	1.109
NO_HPI_Base	0.5	1.066	1.066	1.066	1.066	1.066	1.066	1.066	1.066	1.066	1.066
NO_HPI_Neg	0.25	1.023	1.023	1.023	1.023	1.023	1.023	1.023	1.023	1.023	1.023

Other prospective factors that are not part of the above scenarios, such as regulatory, legal or political changes, have also been considered, but have not been deemed to have any material impact and therefore no adjustments were made based on these factors. This evaluation is performed continually at each reporting date.

The credit reserves shown below would have arisen as at 31 December 2018 with a negative or positive scenario, whereas if the probability that they might occur is considered reasonable they would be considered 100% probable.

Group

Business area	Scenarios	Provisions attributable to the scenario	Change against reported allocation
Mortgage loan	Optimistic	23.9	3.1%
	Negative	25.5	-3.5%
Sweden	Optimistic	18.9	3.9%
	Negative	20.5	-4.4%
Norway	Optimistic	5.1	0.0%
	Negative	5.1	0.0%
Other operation	Optimistic	25.6	2.9%
	Negative	27.0	-2.5%
Total	Optimistic	49.5	3.0%
	Negative	52.6	-3.0%

Parent

Business area	Scenarios	Provisions attributable to the scenario	Change against reported allocation
Mortgage loan	Optimistic	18.3	3.0%
	Negative	19.5	-3.3%
Sweden	Optimistic	13.2	4.1%
	Negative	14.4	-4.6%
Norway	Optimistic	5.1	0.0%
	Negative	5.1	0.0%
Other operation	Optimistic	25.6	2.9%
	Negative	27.0	-2.5%
Total	Optimistic	43.9	3.0%
	Negative	46.5	-2.9%

Maximum credit risk exposure

The following table presents the Bank as well as the Consolidated situation's maximum credit risk exposure by geographical area.

Maximum Credit Risk Exposure	Consolidated situation				Parent			
	Sweden		Norway		Sweden		Norway	
	2018-12-31	2017-12-31	2018-12-31	2017-12-31	2018-12-31	2017-12-31	2018-12-31	2017-12-31
Governments or central banks								
- Credit Quality Step 1	181.2	171.4	74.4	50.3	176.8	168.8	74.4	50.3
Total Governments or central banks	**181.2**	**171.4**	**74.4**	**50.3**	**176.8**	**168.8**	**74.4**	**50.3**
Lending to credit institutions								
- Credit Quality Step 1	1,310.0	1,268.8	496.0	631.5	708.1	709.1	496.0	631.5
- Credit Quality Step 2	-	-	-	-	-	-	-	-
- No rating	-	-	0.4	3.6	-	-	0.4	3.6
Total lending to credit institutions	**1,310.0**	**1,268.8**	**496.4**	**635.1**	**708.1**	**709.1**	**496.4**	**635.1**
Corporates								
- No rating	-	-	-	-	710.0	612.5	-	-
Total corporates	**-**	**-**	**-**	**-**	**710.0**	**612.5**	**-**	**-**
Lending to the general public								
- Unsecured loans	1,003.3	1,061.9	-	-	1,003.3	1,061.9	-	-
- Loans secured by residential property	8,223.1	8,179.7	5,289.6	4,383.5	5,684.0	7,072.3	5,289.6	4,383.5
Total lending to the general public	**9,226.4**	**9,241.6**	**5,289.6**	**4,383.5**	**6,687.3**	**8,134.2**	**5,289.6**	**4,383.5**
Bonds and other interest-bearing securities								
- Credit Quality Step 1	254.0	226.5	272.7	268.0	254.0	226.5	272.7	268.0
- Credit Quality Step 2	-	-	-	-	-	-	-	-
Total bonds and other interest-bearing securities	**254.0**	**226.5**	**272.7**	**268.0**	**254.0**	**226.5**	**272.7**	**268.0**
Derivatives								
- Credit Quality Step 2	282.7	258.2	8.1	2.1	105.7	124.1	8.1	2.1
- Credit Quality Step 2	-	-	-	-	-	-	-	-
- No rating	-	-	-	-	-	-	-	-
Total derivatives	**282.7**	**258.2**	**8.1**	**2.1**	**105.7**	**124.1**	**8.1**	**2.1**
Other assets								
- No rating	33.4	31.9	6.2	7.0	31.9	29.0	6.2	7.0
Total other assets	**33.4**	**31.9**	**6.2**	**7.0**	**31.9**	**29.0**	**6.2**	**7.0**
Total	**11,287.6**	**11,198.4**	**6,147.5**	**5,346.0**	**8,673.8**	**10,004.1**	**6,147.5**	**5,346.0**

Credit rating agencies

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

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

	Consolidated situation				Parent			
Credit risk	Sweden		Norway		Sweden		Norway	
Receivables from private individuals	2018-12-31	2017-12-31	2018-12-31	2017-12-31	2018-12-31	2017-12-31	2018-12-31	2017-12-31
Performing	8,812.0	8,955.5	4,963.5	4,145.7	6,402.4	7,890.7	4,963.5	4,145.7
Due 30-60 days	256.8	146.5	128.7	93.6	189.3	127.0	128.7	93.6
Due 60-90 days	61.0	44.5	58.3	36.7	40.1	37.9	58.3	36.7
Due over 90 days	96.6	95.1	139.1	107.5	55.4	78.7	139.1	107.5
Total	**9,226.4**	**9,241.6**	**5,289.6**	**4,383.5**	**6,687.3**	**8,134.2**	**5,289.6**	**4,383.5**
Provisions	**46.0**	**24.5**	**5.1**	**4.1**	**40.1**	**23.9**	**5.1**	**4.1**

	Consolidated situation				Parent			
	Sweden		Norway		Sweden		Norway	
Other financial assets	2018-12-31	2017-12-31	2018-12-31	2017-12-31	2018-12-31	2017-12-31	2018-12-31	2017-12-31
Performing	**2,061.2**	**1,956.8**	**857.8**	**962.5**	**1,986.5**	**1,869.9**	**857.8**	**962.5**
- Credit Quality Step 1	2,027.9	1,924.9	851.3	951.9	1,244.6	1,228.5	851.3	951.9
- Credit Quality Step 2	-	-	-	-	-	-	-	-
- No rating	33.4	31.9	6.6	10.6	741.9	641.4	6.6	10.6
Non performing	-	-	-	-	-	-	-	-
Total	**2,061.2**	**1,956.8**	**857.8**	**962.5**	**1,986.5**	**1,869.9**	**857.8**	**962.5**
Provisions	-	-	-	-	-	-	-	-

Operational risk

Definition

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

Mitigation

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

As part of the Bank's framework, at least annually, all departments perform self-assessment exercises of its operations to identify risks that would otherwise have been overlooked. The Bank maps all identified operational risks according to the likelihood of occurrence and the impact of such an event. The Bank mitigates significant risks through implementing specific processes and/or controls, which keeps the risks at an acceptable level. This approach also increases the knowledge and awareness among staff and helps to disseminate a conservative view of operational risks within the Company.

The Bank has developed a reporting tool that allows staff to report and forward incidents to concerned functions for further analysis. The Risk Management function continually monitors reported incidents and follows up jointly with concerned staff and its direct managers to ensure proper actions are taken and to prevent them reoccurring. The Risk Management function reports incidents to both the RiCO and the Board of Directors monthly.

IT related risks specifically are mitigated through the development of reliable IT-systems with built-in controls, reconciliations, backup procedures and business continuity through contingency plans, continuity plans and disaster recovery plans in the event of a material disruption. The Bank frequently performs tests of continuity management plans. The Bank also has a well-organised approach to protect information. This effort is supported by ongoing review of processes and approaches, which is intended to improve and complement the Bank's systems related to information security.

NPAP provides the Bank with an established process for approving new or altered products, procedures or systems. In this approach, risks are analysed and evaluated in relation to their commercial potential based on established guidelines.

The Bank furthermore takes a proactive approach to prevent and strength its ability to manage serious events such as IT interruptions as mentioned above. Continuity plans are in place that describe how the Bank will operate in the event of serious disruptions. The plans are tested annually to ensure that they are well adapted to the Bank's operations.

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

Credit valuation adjustment risk (CVA)

Definition

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

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

Market risk

Definition

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

Mitigation

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

Sensitivity analysis with an instantaneous change in currency of 10%

The table below shows the Bank's net position in foreign currencies as of the balance sheet date.

SEK Thousands	Total position 2018-12-31	Value change -10%	Value change +10%
EUR position	1,183	-118	118
GBP position	188	-19	19
NOK position	156,413	-15,641	15,641
Impact on earnings	**157,784**	**-15,778**	**15,778**

A change in relevant exchange rates in relation to the Swedish krona of -10% would at the balance sheet date result in an instantaneous net negative impact on earnings, prior deduction of tax, amounting to SEK 15.8m (SEK 10.4m). A change in relevant exchange rates in relation to the Swedish krona of +10% would at the balance sheet date result in an instantaneous net positive impact on earnings of SEK 15.8m (SEK 10.4m).

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

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

	Group situation 2018-12-31			
Amounts that have not been offset in the balance sheet	**Gross value**	**Netting in the Balance sheet**	**ISDA Agreement**	**Net amount Balance sheet**
Derivative	213.4	–	–	213.4
Sum financial assets	**213.4**	**–**	**–**	**213.4**
Derivative	38.1	–	–	38.1
Sum financial liabilities	**38.1**	**–**	**–**	**38.1**

Interest rate risk from the banking book

Definition

Interest rate risk is the risk to earnings or market values of a loan portfolio due to uncertain future interest rates. In particular, the Bank may suffer losses or reduced profits as interest rates fluctuate over time and as both its asset and liability base comprise a mixture of fixed and floating interest rate items of various maturities and resetting periods. The Bank is therefore exposed to the risk of losses arising from adverse movements in market interest rates and its lending and deposits offered.

Mitigation

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

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

The Bank calculates interest risk exposures based on the Swedish FSA's guidance on methods to assess individual risk types under Pillar II. The tables below show the exposure at a positive/negative change in market interest rates of 200 bps.

SEK Thousands	**Change**	**Absolute risk**	**Risk, % of capital base**
Increased interest rates	+200bp	26.5	1.94%
Decreased interest rates	-200bp	1.8	0.13%

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

SEK Thousands	**Change**	**Absolute risk**	**Risk, % of net interest income**
Increased interest rates	+200bp	-18.0	-4.03%
Decreased interest rates	-200bp	-15.0	-3.36%

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

Concentration risk

Definition

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

Mitigation

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

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

Liquidity risk

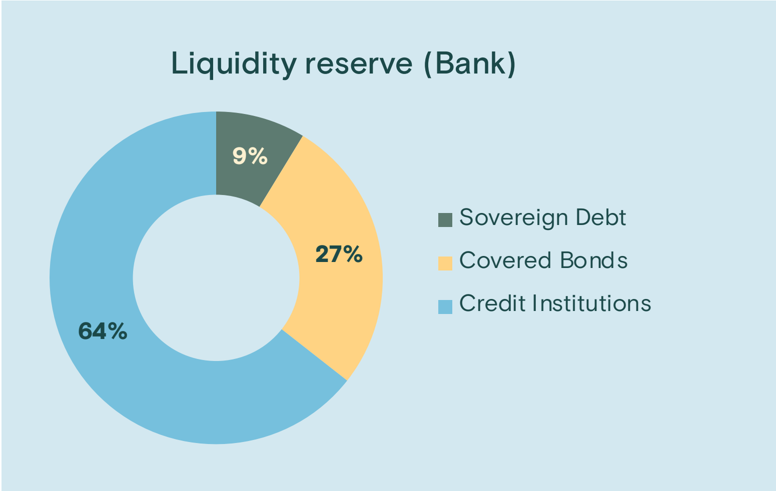
Definition

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

Mitigation

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

The Bank is mainly exposed to liquidity risk related to retail deposits and refinancing of issued securities (RMBS and senior unsecured bonds). Diversification of funding reduces the liquidity risk. Ongoing interest payments and repayments related to RMBS-financing are well matched with corresponding flows attributable to the underlying mortgage assets, which also reduces the liquidity risk. As the Bank diversifies its funding sources, deposit product features and pricing are designed to maximize their cost/risk efficiency. The Bank has retail deposits from the public in Sweden and Norway, consisting of 22% of fixed rate accounts (over three months' maturity) and 78% of variable deposit accounts, which are covered by the respective country's deposit guarantee scheme, which further reduces liquidity risk. Only minor interest amounts (accrued- and capitalized interests) can exceed amounts guaranteed by the deposit guarantee schemes. The Bank offers different deposit products depending on the needs of the Bank and market prices, incorporating this risk into its decision making.



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

	Consolidated situation		Parent	
	2018-12-31	2017-12-31	2018-12-31	2017-12-31
Liquidity Reserve				
Cash and balances with central banks	57.4	42.2	57.4	42.2
Deposits in other banks	1,806.4	1,903.9	1,204.5	1,344.2
Securities issued or guaranteed by sovereigns, central banks or multinational development banks	170.7	154.3	170.7	154.3
Covered bonds issued by other institutions	526.7	494.5	526.7	494.5
Total	**2,561.3**	**2,594.9**	**1,959.4**	**2,035.2**

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

	Consolidated situation	
	2018-12-31	**2017-12-31**
Liquidity Coverage Ratio (LCR) %	**324**	**268**
Liquid Assets Level 1	457.5	470.7
Liquid Assets Level 2	215.7	107.8
High-Quality Liquid Assets	**673.2**	**578.6**
Customer deposits	831.4	762.1
Other outflows	0.6	101.9
Cash Outflows	**832.0**	**864.0**
Inflows from retail customers, lending activities	200.7	189.4
Other inflows	1,521.0	1,773.8
Cash Inflows (max. 75% of Cash Outflows)	**624.0**	**648.0**
Net Stable Funding Ratio (NSFR) %	**111**	**132**
Available Stable Funding	14.9	16.7
Required Stable Funding	13.4	12.6

Other risks

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

Note 3. Operating segments

Income statement 2018	Group				
	Mortgages Sweden	Mortgages Norway	Other operations	Eliminations, reclassifications	Total
Interest income	608.8	411.5	112.7	-62.0	1,071.0
Interest expense	-242.0	-133.9	-14.2	37.4	-352.7
Net interest income	**366.8**	**277.5**	**98.5**	**-24.7**	**718.2**
Total operating income	**395.0**	**279.7**	**98.5**	**-27.3**	**746.0**
Total expenses	**-258.8**	**-195.7**	**-56.3**	**27.3**	**-483.6**
Result pre credit losses	**136.2**	**84.0**	**42.2**	**0.0**	**262.4**
Credit losses, net	-12.3	-3.4	-34.5	-	-50.2
Operating profit/loss	**123.9**	**80.6**	**7.7**	**0.0**	**212.2**
Allocated tax*	-27.2	-22.1	-1.0	-	-50.2
NET PROFIT/LOSS FOR THE YEAR	**96.7**	**58.5**	**6.7**	**0.0**	**162.0**

Income statement 2017	Group				
	Mortgages Sweden	Mortgages Norway	Other operations	Eliminations, reclassifications	Total
Interest income	581.3	324.9	115.5	-64.3	957.4
Interest expense	-233.8	-118.1	-12.7	40.8	-323.8
Net interest income	**347.5**	**206.9**	**102.8**	**-23.5**	**633.7**
Total operating income	**380.7**	**216.6**	**102.8**	**-24.8**	**675.3**
Total expenses	**-232.3**	**-129.7**	**-53.8**	**24.8**	**-391.0**
Result pre credit losses	**148.4**	**87.0**	**49.0**	**0**	**284.3**
Credit losses, net	-2.8	-3.8	-26.9	-	-33.5
Operating profit/loss	**145.6**	**83.2**	**22.1**	**0**	**250.8**
Allocated tax*	-31.1	-22.8	-5.0	-	-59.0
NET PROFIT/LOSS FOR THE YEAR	**114.4**	**60.4**	**17.1**	**0**	**191.9**

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

Balance sheet 2018-12-31	Group				
	Mortgages Sweden	Mortgages Norway	Other operations	Eliminations, reclassifications	Total
Lending to credit institutions	1,366.4	496.4	-	-	1,862.8
Lending to the public	8,238.2	5,289.6	993.9	-	14,521.7
Deposits from the public	4,532.6	5,884.1	-	-	10,416.6

Balance sheet 2017-12-31	Group				
	Mortgages Sweden	Mortgages Norway	Other operations	Eliminations, reclassifications	Total
Lending to credit institutions	1,300.4	635.1	-	-	1,935.5
Lending to the public	8,187.7	4,367.8	1,054.3	-	13,609.7
Deposits from the public	4,819.9	5,598.6	-	-	10,418.6

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

The chief decision maker in the organisation is the CEO. The COO Sweden, COO Norway and the Head of Personal Loans report to the CEO. The COO Sweden's responsibilities include mortgages in Sweden, which is one operating segment. The Head of Personal Loans' responsibilities include personal loans in Sweden, which is included under Other operations. The COO Norway's responsibilities include mortgages in Norway, which is one operating segment.

Each COO governs their operations based on clearly stated objectives regarding their development of new lending, loan portfolio, income and expenses, and their respective KPI's. Furthermore, the operations strive towards improved quality and cost-effectiveness by increasing process efficiency.

The mortgage business is the main operation and is divided into Mortgages Sweden and Mortgages Norway. All companies within the group managing mortgages in Sweden (the Company, BFF1, Step 2, Step 3, Step 4) and providing support functions (BSAB) are included in Mortgages Sweden. Mortgages Norway are operated through the Branch. Other operations include personal loans, which are managed within the Bank in Sweden.

There are 174 (169) full-time employees in Mortgages Sweden, 58 (49) in Mortgages Norway, and 11 (9) in Other operations.

Note 4. Net interest income

	Group		Parent	
	2018	**2017**	**2018**	**2017**
Interest income				
Lending to credit institutions	4.6	0.2	4.6	3.4
Lending to the public	1,059.8	947.9	933.0	899.3
Derivates	-	-	-	-
Covered bonds	6.5	9.4	50.6	50.2
Intercompany loans	0.0	-	20.2	11.8
Other	-	-0.0	-	-0.0
Total interest income	**1,071.0**	**957.4**	**1,008.4**	**964.7**
Of which:				
Interest income from financial items calculated using the effective interest method	1,064.5	948.0	937.6	902.7
Interest expense				
Liabilities to credit institutions	-18.6	-1.4	-3.5	-
Deposits from the public	-165.0	-156.2	-436.8	-465.3
Derivates	-96.9	-89.5	-34.4	-34.1
Bonds	-41.9	-48.4	-0.1	-
Other	-30.3	-28.1	-18.7	-16.3
Total interest expense	**-352.7**	**-323.8**	**-493.5**	**-515.6**
Of which:				
Interest expense from financial items calculated using the effective interest method	-213.9	-185.8	-459.0	-481.5
Total net interest income	**718.2**	**633.7**	**514.8**	**449.1**

Note 5. Commission income

	Group		Parent	
	2018	**2017**	**2018**	**2017**
Other commission income	–	0.2	–	0.2
Total	**–**	**0.2**	**–**	**0.2**
Of which:				
Interest income from financial items not measured at fair value through profit or loss	–	0.2	–	0.2

Commission income for 2017 refer to income from the former Group company BlueStep Capital Holdings Limited.

Note 6. Net result of financial transactions

	Group		Parent	
	2018	**2017**	**2018**	**2017**
Covered bonds – unrealised changes	-3.7	-4.9	-3.7	-4.9
Mortgage book derivates – unrealised changes	-6.7	50.4	-14.6	50.6
-realised change i value	19.6	-26.8	19.6	-26.8
Exchange rate changes: loans and receivables and other debts and related derivatives – unrealised changes	9.8	9.2	-1.2	-0.1
Exchange rate changes other receivables and liabilities – unrealised changes	-2.8	-0.4	-2.8	-0.3
Hedge accounting – fair value hedged item*	-7.5	10.8	-7.5	10.8
Hedge accounting – fair value hedge instrument*	5.5	-11.4	5.5	-11.4
Total	**14.2**	**27.0**	**-4.8**	**17.9**

**Refers to the outcome of hedge accounting of fair value for portfolio hedging of interest rate risk.*

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

Note 7. Other operating income

	Group		Parent	
	2018	**2017**	**2018**	**2017**
Billing fees	10.2	9.0	9.1	8.8
Valuation fees	1.5	1.7	1.5	1.7
Other operating income	1.9	3.8	0.0	0.0
Total	**13.6**	**14.5**	**10.7**	**10.5**

Note 8. General administration expenses

	Group		Parent	
	2018	2017	2018	2017
Personnel costs				
Salaries and emoluments	-146.4	-123.4	-136.4	-114.8
Variable performance benefit	-4.0	-13.8	-4.0	-13.2
Social security charges	-43.3	-39.1	-39.7	-35.8
Pension expenses	-16.0	-6.7	-15.4	-6.0
Other personnel costs	-13.9	-14.0	-13.3	-12.9
Total	**-223.7**	**-197.0**	**-208.9**	**-182.8**
Other administration expenses				
Administration expenses deposits from the public	-0.5	-1.0	-9.4	-10.1
Administration expenses lending to the public	-12.6	-16.6	-30.0	-26.2
Professional fees	-32.9	-13.9	-29.9	-11.1
Other administration expenses	-166.2	-139.8	-30.2	32.2
Total	**-212.2**	**-171.2**	**-99.5**	**-15.2**
Total General administration expenses	**-435.9**	**-368.2**	**-308.4**	**-198.0**

Note 9. Auditors remuneration and expenses

	Group		Parent	
SEK Thousands	2018	2017	2018	2017
Ernst & Young AB				
Audit assignment	2,179	-	1,375	-
Audit activities in addition to audit assignment	38	-	38	-
Deloitte				
Audit assignment	-	2,406	-	1,316
Audit activities in addition to audit assignment	654	1,142	601	989
Total	**2,870**	**3,548**	**2,014**	**2,304**

Audit assignments refer to the auditor's compensation for the statutory audit. The work includes the audit of the annual report and accounting, the administration of the board and the managing director and fees for audit advice provided in connection with the audit assignment. Everything else is auditing in addition to the audit assignment, tax counseling or other assignments.

Note 10. Salaries and remuneration

The Board

The Board's fees are determined by the Bank's annual general meeting. At the end of the year the Board consisted of eight members.

For participation in the Board's work in the Bank, as well as the Board's ARCCO Committee, from the Annual General Meeting on April 28, 2018 up to and including the Annual General Meeting on April 23, 2019 the Board has replaced two of the members with a total of SEK 0,677m. No remuneration has been paid for the remaining board members.

Senior officials

Compensation to the CEO and other individuals identified as Remuneration Code Staff is proposed by the Bank's Remuneration committee and determined by the Board. Compensation to other senior officials is determined by the CEO, and in some cases in consultation with members of the Board. Compensation to the CEO and senior officials consists of a basic salary, variable pay in the form of bonus and pension contributions. The CEO had no bonus in 2018.
The period of notice for the CEO is twelve months. Agreements on severance pay with the CEO or any other Senior Executives are determined by individual contracts. Information on compensation according to the Financial Supervisory Authority's regulations and general guidelines on compensation policies (FFFS 2011:1) is published on the Bank's website.

Pension commitments

In the Swedish operations, a defined contribution plan is applied for all employees, according to which 4.5% of the employee's gross salary is set aside on a monthly basis and 30% on income over 7.5 income base amounts (in accordance with the BTB plan). In the branch, 5% of gross salary is set aside on a monthly basis and 8% on income between 7.1–12 income base amounts.

Salaries and remuneration – Members of the Board and CEO SEK Thousands 2017	**Salary**	**Bonus***	**Pension**	**Total**
CEO and Board alternate – Öyvind Thomassen	4,264	–	1,055	5,319
Chariman of the Board – John Neil Maltby (resigned November 2017)	910	–	–	910
Board member – Carl Sundvik (relates to 2016 & 2017)	838	–	–	838
Board member – Tina Steinsvik Sund (between May and November 2017)	450	–	–	450
Board member – Viveka Ekberg (between May and November 2017)	488	–	–	488
Board member – David Torpey (resigned November 2017)	3,941	–	100	4,041
Board member – Rolf Stub (resigned May 2017)	5,248	1,470	157	6,875
Board member – Peter Gertman (resigned May 2017)	2,173	628	88	2,889
Board member – Toby Franklin	350	–	–	350
Board member – Adam Frahm (resigned November 2017)	–	–	–	–
Board member – Patrik Johnson (resigned November 2017)	–	–	–	–
Chariman of the Board – Harry Klagsbrun	–	–	–	–
Board member – Göran Bronner	–	–	–	–
Board member – Andreas Pettersson Rohman	–	–	–	–
Board member – Albert Gustafsson	–	–	–	–
Senior management team excluding CEO – 8 people	9,160	1,702	839	11,702
Total costs related to salaries and renumerations 2017	**27,822**	**3,801**	**2,238**	**33,860**

Salaries and remuneration – Members of the Board and CEO SEK Thousands 2018	Salary	Bonus*	Pension	Total
CEO and Board alternate – Öyvind Thomassen (resigned October 2018)	4,365	–	1,134	5,499
CEO – Rolf Stub (assigned CEO October 2018)	5,788	–	117	5,905
Board member – Toby Franklin	479	–	–	479
Chariman of the Board – Göran Bronner	197	–	–	197
Chariman of the Board – Harry Klagsbrun	–	–	–	–
Board member – Andreas Pettersson Rohman	–	–	–	–
Board member – Albert Gustafsson	–	–	–	–
Board member – Lars Wollung**	–	–	–	–
Board member – Per-Arne Blomquist**	–	–	–	–
Board member – Sofia Arhall Bergendorff**	–	–	–	–
Senior management team excluding CEO – 8 people	9,060	–	1,978	11,038
Total costs related to salaries and renumerations 2018	**19,889**	**–**	**3,229**	**23,118**

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

*** Assigned 2018, no remuneration 2018*

Salaries and remuneration – Other employees	Group		Parent	
SEK Thousands	**2018**	**2017**	**2018**	**2017**
Salaries and remuneration	130,541	116,387	120,516	107,227
Pension costs	12,808	5,353	12,212	4,613
Total salaries, remuneration, social security contributions, and pensions	**143,349**	**121,740**	**132,728**	**111,840**

	Parent	
Distribution by gender in board and management	**2018**	**2017**
The Board		
Women	1	–
Men	7	6
Management team including CEO		
Women	3	2
Men	6	7

	Group		Parent	
Average number of employees	**2018**	**2017**	**2018**	**2017**
Sweden				
Women	90	89	81	82
Men	95	89	81	75
Norway				
Women	26	22	26	22
Men	32	27	32	27
Total	**243**	**227**	**220**	**206**

Note 11. Intangible assets

	Group		Parent	
	2018-12-31	2017-12-31	2018-12-31	2017-12-31
Acquisition value brought forward	**140.9**	**114.6**	**120.2**	**103.1**
Investments for the year	41.1	25.8	37.1	16.6
Reclassification	–	0.5	–	0.5
Acquisition value carried forward	**182.0**	**140.9**	**157.3**	**120.2**
Depreciation brought forward	**-79.5**	**-60.7**	**-74.6**	**-59.2**
Reclassification	–	-0.1	–	-0.1
Depreciation for the year	-22.7	-18.8	-17.9	-15.3
Impairments	-21.8	-	-21.3	-
Depreciation carried forward	**-124.1**	**-79.5**	**-113.8**	**-74.6**
Residual value at the end of the accounting period	**58.0**	**61.3**	**43.5**	**45.6**

FX revaluation of foreign operations result in an exchange rate difference amounting to SEK 0.2m as of the balance sheet date. The exchange rate difference is the difference between the year's depreciation on the balance sheet and depreciation in the income statement.

Note 12. Tangible assets

	Group		Parent	
	2018-12-31	2017-12-31	2018-12-31	2017-12-31
Acquisition value brought forward	**21.3**	**20.3**	**19.0**	**18.6**
Investments for the year	2.3	1.5	2.3	0.8
Reclassification	–	-0.5	–	-0.5
Acquisition value carried forward	**23.6**	**21.3**	**21.3**	**19.0**
Depreciation brought forward	**-12.0**	**-8.7**	**-11.1**	**-8.5**
Reclassification	–	0.1	–	0.1
Depreciation for the year	-3.3	-3.4	-2.8	-2.7
Depreciation carried forward	**-15.3**	**-12.0**	**-14.0**	**-11.1**
Residual value at the end of the accounting period	**8.3**	**9.3**	**7.3**	**7.8**

FX revaluation of foreign operations result in an exchange rate difference amounting to SEK 0.0m as at balance sheet date. The exchange rate difference is the difference between the year's depreciation on the balance sheet and depreciation in the income statement.

Note 13. Credit losses

The Group implemented IFRS 9 on January 1, 2018 when the new standard came into force and replaced IAS 39. For effects of the transaition to IFRS 9, see Note 32. Provisions in accordance with IFRS 9 are calculated using quantitative models base on inputs and assumptions made by management. The following points can have major impact on the level of reservations:

- determining a significant increase in credit risk
- valuation of both expected credit impairment due to default in the next 12 months and expected credit impairment during the remaining term of the asset

	Group		Parent	
Credit impairments	**2018**	**2017**	**2018**	**2017**
Credit impairment provisions	**-5.3**	**-5.2**	**-3.1**	**-3.6**
of which Stage 1	-0.6	-	-1.9	-
of which Stage 2	-4.3	-	-1.7	-
of which Stage 3	-0.5	-	0.5	-
Credit impairments for off balance sheet exposures	**-**	**-**	**-**	**-**
Write-offs				
Actual losses during the period	-90.5	-65.1	-90.4	-65.1
Total	**-90.5**	**-65.1**	**-90.4**	**-65.1**
Recoveries	**45.7**	**36.8**	**45.7**	**36.8**
Credit losses, net	**-50.2**	**-33.5**	**-47.8**	**-31.9**

Credit impairment as of 2018-12-31 are calculated in accordance with IFRS 9, while credit impairment as of 2017-12-31 are calculated in accordance with IAS 39. Therefore, comparative figures are not specified per step. No net provisions or confirmed credit losses are collective as of 2017-12-31, all are individual.

Group level net losses during the year amounted to SEK -50.2m (SEK -33.5m) of which actual losses amounted to SEK -90.5m (SEK -65.1m). Recoveries related to previous losses as well as sale of loans to third parties amounted to SEK 45.7m (SEK 36.8m). The net change in provisions amounted to SEK -5.3m (SEK -5.2m) due to impaired performance of the loan book.

Note 14. Tax on net result

The tax rate for 2018 in Sweden is 22% (22%). The tax rate for 2018 in Norway is 25% (25%).

	Group		Parent	
	2018	**2017**	**2018**	**2017**
Current tax	-50.2	-59.0	-50.2	-57.7
Total tax cost	**-50.2**	**-59.0**	**-50.2**	**-57.7**

	Group		Parent	
	2018	**2017**	**2018**	**2017**
Net profit before tax	212.2	250.8	208.0	241.6
Tax based on current tax rate	-46.7	-55.2	-45.8	-53.1
Tax effect due to foreign operations	-1.9	-3.5	-2.8	-4.3
Tax effect of:				
Non taxable income	-	0.0	-	0.0
Non deductible items	-1.7	-0.3	-1.6	-0.3
Total tax cost	**-50.2**	**-59.0**	**-50.2**	**-57.7**

Note 15. Lending to credit institutions

	Group		Parent	
	2018-12-31	**2017-12-31**	**2018-12-31**	**2017-12-31**
Swedish banks	1,862.7	1,935.4	1,261.9	1,386.3
Foreign banks	0.1	0.1	0.1	0.1
Total	**1,862.8**	**1,935.5**	**1,261.9**	**1,386.4**

Note 16. Lending to the public

The table below presents a breakdown of loans at amortized cost and its write-downs with successive allocation per asset class. Bluestep Bank has no tangible or original credit losses (POCI) at the end of the year.

Group	Stage 1	Stage 2	Stage 3	Total
Reported value gross 1 January 2018	**12,675.1**	**774.1**	**218.4**	**13,667.6**
New financal assets	3,749.0	136.5	15.6	3,901.2
Change in PD/LGD/EAD	-212.7	-7.0	-4.4	-224.2
Change due to expertise	18.6	-11.0	-7.6	-0.0
Transfers between stages	**-398.5**	**229.3**	**141.8**	**-27.4**
-Transfer from stage 1 to 2	-507.9	500.7	0	-7.2
-Transfer from stage 1 to 3	-103.3	0	102.2	-1.1
-Transfer from stage 2 to 1	204.6	-210.2	0	-5.7
-Transfer from stage 2 to 3	0	-81.5	75.0	-6.4
-Transfer from stage 3 to 1	8.1	0	-14.2	-6.1
-Transfer from stage 3 to 2	0	20.3	-21.2	-0.9
Exchange rate change	111.3	6.7	3.2	121.2
Removed financial assets	-2,515.8	-213.0	-129.6	-2,858.4
Provisions 31 December 2018	**13,426.9**	**915.7**	**237.4**	**14,580.0**

Parent	Stage 1	Stage 2	Stage 3	Total
Reported value gross 1 January 2018	**11,614.9**	**718.9**	**218.4**	**12,552.2**
New financal assets	2,855.2	103.0	14.6	2,972.8
Change in PD/LGD/EAD	-170.7	-5.9	-4.4	-181.0
Change due to expertise	12.3	-4.7	-7.6	-0.0
Transfers between stages	**-346.2**	**182.3**	**138.9**	**-24.9**
-Transfer from stage 1 to 2	-419.8	414.2	0	-5.6
-Transfer from stage 1 to 3	-98.2	0	97.3	-1.0
-Transfer from stage 2 to 1	166.0	-171.3	0	-5.3
-Transfer from stage 2 to 3	0	-75.5	69.2	-6.2
-Transfer from stage 3 to 1	5.8	0	-11.9	-6.1
-Transfer from stage 3 to 2	0	14.9	-15.7	-0.8
Exchange rate change	111.3	6.7	3.2	121.2
Removed financial assets	-3,016.9	-256.5	-137.4	-3,410.9
Provisions 31 December 2018	**11,059.9**	**743.8**	**225.6**	**12,029.4**

Mortgage loan Sweden	Stage 1	Stage 2	Stage 3	Total
Reported value gross 1 January 2018	**7,679.6**	**446.1**	**83.4**	**8,209.0**
New financal assets	1,664.8	58.0	5.1	1,727.8
Change in PD/LGD/EAD	-95.8	-3.7	-1.2	-100.7
Change due to expertise	18.6	-11.0	-7.6	-0.0
Transfers between stages	**-218.1**	**150.2**	**59.1**	**-8.8**
-Transfer from stage 1 to 2	-306.3	302.7	0	-3.6
-Transfer from stage 1 to 3	-39.8	0	39.2	-0.6
-Transfer from stage 2 to 1	125.7	-127.8	0	-2.1
-Transfer from stage 2 to 3	0	-40.4	38.5	-1.9
-Transfer from stage 3 to 1	2.3	0	-2.3	-0.1
-Transfer from stage 3 to 2	0	15.7	-16.3	-0.5
Exchange rate change	0	0	0	0
Removed financial assets	-1,438.8	-81.6	-49.0	-1,569.5
Provisions 31 December 2018	7,610.3	557.9	89.7	8,257.9

Mortgage loan Norway	Stage 1	Stage 2	Stage 3	Total
Reported value gross 1 January 2018	**3,995.5**	**267.1**	**127.6**	**4,390.2**
New financal assets	1,717.6	60.2	9.0	1,786.8
Change in PD/LGD/EAD	-46.6	-2.2	-3.2	-52.0
Change due to expertise	0	0	0	0
Transfers between stages	**-150.0**	**58.6**	**76.6**	**-14.8**
-Transfer from stage 1 to 2	-164.6	163.0	0	-1.5
-Transfer from stage 1 to 3	-58.4	0	58.0	-0.4
-Transfer from stage 2 to 1	67.2	-69.1	0	-1.9
-Transfer from stage 2 to 3	0	-39.8	35.3	-4.5
-Transfer from stage 3 to 1	5.7	0	-11.8	-6.1
-Transfer from stage 3 to 2	0	4.5	-4.8	-0.3
Exchange rate change	111.3	6.7	3.2	121.2
Removed financial assets	-760.7	-95.7	-73.2	-929.6
Provisions 31 December 2018	**4,867.1**	**294.9**	**139.9**	**5,301.9**

Other operations Sweden	Stage 1	Stage 2	Stage 3	Total
Reported value gross 1 January 2018	**1,000.0**	**60.9**	**7.5**	**1,068.4**
New financal assets	366.7	18.3	1.6	386.5
Change in PD/LGD/EAD	-70.3	-1.1	0	-71.4
Change due to expertise	0	0	0	0
Transfers between stages	**-30.4**	**20.5**	**6.0**	**-3.9**
-Transfer from stage 1 to 2	-37.1	35.0	0	-2.1
-Transfer from stage 1 to 3	-5.1	0	5.0	-0.1
-Transfer from stage 2 to 1	11.6	-13.3	0	-1.6
-Transfer from stage 2 to 3	0	-1.3	1.2	-0.0
-Transfer from stage 3 to 1	0.0	0	-0.1	-0.0
-Transfer from stage 3 to 2	0	0.1	-0.1	-0.0
Exchange rate change	0	0	0	0
Removed financial assets	-316.3	-35.8	-7.3	-359.4
Provisions 31 December 2018	**949.6**	**62.9**	**7.8**	**1,020.2**

Lending to public (IFRS 9) - Change of reserve for expected credit losses

Group	Stage 1	Stage 2	Stage 3	Total
Reported value gross 1 January 2018	**12,675.1**	**774.1**	**218.4**	**13,667.6**
Reported value gross 31 December 2018	13,426.9	915.7	237.4	14,580.0
Provisions 1 January 2018	**13.3**	**21.4**	**10.9**	**45.7**
New financal assets	5.3	5.8	1.1	12.1
Change in PD/LGD/EAD	0.3	-0.1	-0.3	-0.2
Change due to expertise	-0.3	-0.5	-0.3	-1.1
Transfers between stages	**-0.6**	**9.4**	**7.4**	**16.2**
-Transfer from stage 1 to 2	-1.0	14.1	-	13.2
-Transfer from stage 1 to 3	-0.1	-	5.2	5.1
-Transfer from stage 2 to 1	0.4	-3.7	-	-3.3
-Transfer from stage 2 to 3	-	-1.4	3.6	2.3
-Transfer from stage 3 to 1	0.0	-	-0.4	-0.4
-Transfer from stage 3 to 2	-	0.3	-1.0	-0.7
Exchange rate change	0.0	0.0	0.0	0.1
Removed financial assets	-4.0	-10.2	-7.5	-21.7
Provisions 31 December 2018	**13.9**	**25.7**	**11.4**	**51.0**
In-depth balance 1 January 2018	**12,661.8**	**752.7**	**207.5**	**13,622.0**
Closing balance 31 December 2018	**13,413.0**	**889.9**	**226.0**	**14,529.0**
Adjustment hedge accounting				**-7.5**
Closing balance 31 December 2018 inclusive hedging accounting	**13,413.0**	**889.9**	**226.0**	**14,521.7**

Parent	Stage 1	Stage 2	Stage 3	Total
Reported value gross 1 January 2018	**11,614.9**	**718.9**	**218.4**	**12,552.2**
Reported value gross 31 December 2018	**11,059.9**	**743.8**	**225.6**	**12,029.4**
Provisions 1 January 2018	**12.7**	**20.5**	**10.9**	**44.1**
New financal assets	4.7	4.8	1.0	10.5
Change in PD/LGD/EAD	0.2	0.0	-0.3	-0.1
Change due to expertise	-0.2	-0.3	-0.3	-0.8
Transfers between stages	**-0.6**	**8.0**	**7.1**	**14.5**
-Transfer from stage 1 to 2	-0.9	12.3	-	11.4
-Transfer from stage 1 to 3	-0.1	-	4.8	4.7
-Transfer from stage 2 to 1	0.4	-3.3	-	-2.9
-Transfer from stage 2 to 3	-	-1.2	3.2	1.9
-Transfer from stage 3 to 1	0.0	-	-0.2	-0.2
-Transfer from stage 3 to 2	-	0.2	-0.7	-0.5
Exchange rate change	0.0	0.0	0.0	0.1
Removed financial assets	-4.3	-10.9	-8.0	-23.2
Provisions 31 December 2018	**12.6**	**22.2**	**10.4**	**45.2**
In-depth balance 1 January 2018	**11,602.2**	**698.4**	**207.5**	**12,508.1**
Closing balance 31 December 2018	**11,047.3**	**721.7**	**215.2**	**11,984.2**
Adjustment hedge accounting				**-7.5**
Closing balance 31 December 2018 inclusive hedging accounting	**11,047.3**	**721.7**	**215.2**	**11,976.9**

Mortgage loan Sweden	Stage 1	Stage 2	Stage 3	Total
Reported value gross 1 January 2018	**7,679.6**	**446.1**	**83.4**	**8,209.0**
Reported value gross 31 December 2018	**7,610.3**	**557.9**	**89.7**	**8,257.9**
Provisions 1 January 2018	**3.0**	**6.8**	**6.2**	**16.0**
New financal assets	1.2	1.9	0.4	3.4
Change in PD/LGD/EAD	0.2	-0.1	-0.2	-0.2
Change due to expertise	-0.3	-0.5	-0.3	-1.1
Transfers between stages	**-0.2**	**3.0**	**4.0**	**6.8**
-Transfer from stage 1 to 2	-0.3	4.8	0	4.5
-Transfer from stage 1 to 3	-0.0	0	2.5	2.5
-Transfer from stage 2 to 1	0.1	-1.3	0	-1.2
-Transfer from stage 2 to 3	0	-0.8	2.6	1.8
-Transfer from stage 3 to 1	0.0	0	-0.2	-0.2
-Transfer from stage 3 to 2	0	0.3	-0.9	-0.6
Exchange rate change	0	0	0	0
Removed financial assets	-0.6	-1.1	-3.6	-5.3
Provisions 31 December 2018	**3.2**	**9.9**	**6.5**	**19.6**
In-depth balance 1 January 2018	**7,676.6**	**439.3**	**77.1**	**8,193.0**
Closing balance 31 December 2018	**7,607.1**	**547.9**	**83.3**	**8,238.3**
Adjustment hedge accounting				**-0.3**
Closing balance 31 December 2018 inclusive hedging accounting	**7,607.1**	**547.9**	**83.3**	**8,238.2**

Mortgage loan Norway	Stage 1	Stage 2	Stage 3	Total
Reported value gross 1 January 2018	**3,995.5**	**267.1**	**127.6**	**4,390.2**
Reported value gross 31 December 2018	**4,867.1**	**294.9**	**139.9**	**5,301.9**
Provisions 1 January 2018	**0.8**	**1.9**	**1.8**	**4.5**
New financal assets	0.4	0.4	0.1	1.0
Change in PD/LGD/EAD	-0.0	-0.1	-0.1	-0.2
Change due to expertise	0	0	0	0
Transfers between stages	**-0.1**	**0.6**	**1.1**	**1.6**
-Transfer from stage 1 to 2	-0.1	1.2	0	1.2
-Transfer from stage 1 to 3	-0.0	0	0.8	0.8
-Transfer from stage 2 to 1	0.0	-0.3	0	-0.3
-Transfer from stage 2 to 3	0	-0.3	0.5	0.1
-Transfer from stage 3 to 1	0.0	0	-0.2	-0.2
-Transfer from stage 3 to 2	0	0.0	-0.1	-0.0
Exchange rate change	0.0	0.0	0.0	0.1
Removed financial assets	-0.2	-0.7	-1.1	-2.0
Provisions 31 December 2018	**0.9**	**2.2**	**2.0**	**5.1**
In-depth balance 1 January 2018	**3,994.7**	**265.2**	**125.7**	**4,385.6**
Closing balance 31 December 2018	**4,866.2**	**292.7**	**138.0**	**5,296.8**
Adjustment hedge accounting				**-7.2**
Closing balance 31 December 2018 inclusive hedging accounting	**4,866.2**	**292.7**	**138.0**	**5,289.6**

Other operations Sweden	Stage 1	Stage 2	Stage 3	Total
Reported value gross 1 January 2018	**1,000.0**	**60.9**	**7.5**	**1,068.4**
Reported value gross 31 December 2018	**949.6**	**62.9**	**7.8**	**1,020.2**
Provisions 1 January 2018	**9.5**	**12.7**	**2.9**	**25.0**
New financal assets	3.7	3.5	0.6	7.7
Change in PD/LGD/EAD	0.2	0.0	0	0.2
Change due to expertise	0	0	0	0
Transfers between stages	**-0.3**	**5.8**	**2.3**	**7.8**
-Transfer from stage 1 to 2	-0.6	8.1	0	7.5
-Transfer from stage 1 to 3	-0.1	0	1.9	1.8
-Transfer from stage 2 to 1	0.3	-2.1	0	-1.8
-Transfer from stage 2 to 3	0	-0.2	0.5	0.3
-Transfer from stage 3 to 1	0.0	0	-0.0	-0.0
-Transfer from stage 3 to 2	0	0.0	-0.0	-0.0
Exchange rate change	0	0	0	0
Removed financial assets	-3.2	-8.3	-2.8	-14.3
Provisions 31 December 2018	**9.8**	**13.6**	**3.0**	**26.4**
In-depth balance 1 January 2018	**990.5**	**48.2**	**4.6**	**1,043.4**
Closing balance 31 December 2018	**939.8**	**49.3**	**4.8**	**993.9**

Credit losses per 2018-12-31 are calculated in accordance with IFRS 9 while credit losses per 2017-12-31 are calculated in accordance with IAS 39. Therefore, the comparison figures for lending to public is not specified.

Note 17. Derivatives

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

	Group					
	2018-12-31			2017-12-31		
Assets	Notional amount	Purchase value	Recognised value	Notional amount	Purchase value	Recognised value
Swedish financial institutes	4,635.0	–	8.3	3,475.0	–	5.8
Foreign financial institutes	9,856.6	–	205.1	7,072.6	–	163.3
Total	14,491.6	–	213.4	10,547.6	–	169.1

	Parent					
	2018-12-31			2017-12-31		
Assets	Notional amount	Purchase value	Recognised value	Notional amount	Purchase value	Recognised value
Swedish financial institutes	4,635.0	–	8.3	3,475.0	–	5.8
Foreign financial institutes	4,576.0	–	28.1	3,153.8	–	29.1
Total	9,211.0	–	36.4	6,628.8	–	34.9

	Group					
	2018-12-31			2017-12-31		
Liabilities	Notional amount	Purchase value	Recognised value	Notional amount	Purchase value	Recognised value
Swedish financial institutes	2,601.0	–	9.7	6,134.0	–	25.9
Foreign financial institutes	5,641.3	–	28.4	8,449.5	–	30.1
Total	8,242.3	–	38.1	14,583.5	–	56.0

	Parent					
	2018-12-31			2017-12-31		
Liabilities	**Notional amount**	**Purchase value**	**Recognised value**	**Notional amount**	**Purchase value**	**Recognised value**
Swedish financial institutes	2,601.0	–	9.7	6,134.0	–	25.9
Foreign financial institutes	2,815.2	–	15.9	3,202.0	–	9.6
Total	**5,416.3**	**–**	**25.5**	**9,336.0**	**–**	**35.4**

Note 18. Bonds and other interest-bearing securities

	Group and Parent			
	2018-12-31		2017-12-31	
	Purchase value	Recoqnised value	Purchase value	Recoqnised value
Swedish issuers				
Bonds issued by the Swedish government	111.9	100.0	111.9	104.3
Covered bonds (listed) issued by Swedish credit institutions	253.6	253.8	223.7	225.5
Foreign issuers				
Bonds issued by the German government	1.0	1.1	1.0	1.1
Bonds issued by the Norwegian government	72.9	67.0	50.2	46.9
Covered bonds (listed) issued by Norwegian credit institutions	272.5	271.1	272.5	266.4
Total	**711.9**	**693.1**	**659.3**	**644.2**

Note 19. Shares in associated companies

Company name	Number of shares	Share %	Recognised value 2018	Recognised value 2017
Bluestep Finans Funding No 1 AB	100,000	100%	4.6	4.6
Bluestep Mortgage Securities No 2 DAC*	1	100%	0.0	0.0
Bluestep Mortgage Securities No 3 DAC*	1	100%	0.0	0.0
Bluestep Mortgage Securities No 4 DAC*	1	100%	0.0	0.0
Bluestep Servicing AB	50,000	100%	0.1	0.1
Total			**4.7**	**4.7**

Company name	Reg. No.	Domicile	Equity	Net profit 2018	Net profit 2017
Bluestep Finans Funding No 1 AB	556791-6928	Stockholm	1.7	-0.0	-0.8
Bluestep Mortgage Securities No 2 DAC*	522186	Dublin	-	-1.4	2.0
Bluestep Mortgage Securities No 3 DAC*	550839	Dublin	-	-2.7	8.7
Bluestep Mortgage Securities No 4 DAC*	596111	Dublin	-	8.4	-5.8
Bluestep Servicing AB	556955-3927	Stockholm	16.4	0.0	4.0

** Designated Activity Company*

Note 20. Other assets

	Group		Parent	
	2018-12-31	**2017-12-31**	**2018-12-31**	**2017-12-31**
Accounts receivable[1]	16.6	37.6	13.3	32.0
Intercompany receivables	-	0.0	710.0	612.5
Securities financial instruments	68.8	82.5	68.8	82.5
Tax receivables	23.1	23.1	23.1	22.7
Long term deposits	0.0	1.0	0.0	1.0
Other assets	0.2	2.6	0.2	2.9
Total	**108.8**	**146.8**	**815.4**	**753.5**

[1] As of 2018 accrued interest is presented together with lending to the public, see "Changed presentation of accrued interest"

Note 21. Prepaid expenses and accrued income

	Group		Parent	
	2018-12-31	**2017-12-31**	**2018-12-31**	**2017-12-31**
Prepaid expenses	2.3	2.5	1.9	2.2
Accrued interest	13.0	13.3	13.0	13.3
Other prepaid expenses and accrued income	12.0	8.4	10.6	7.2
Total	**27.3**	**24.2**	**25.5**	**22.7**

Note 22. Liabilities to credit institutions

	Group		Parent	
	2018-12-31	**2017-12-31**	**2018-12-31**	**2017-12-31**
Foreign banks*	1,998.9	547.8	–	–
Bluestep Mortgage Securities No 2, No 3 and No 4	–	–	2,631.8	3,673.2
Total	**1,998.9**	**547.8**	**2,631.8**	**3,673.2**

**Consists of a committed credit line in Bluestep Finans Funding No 1 AB*

Note 23. Issued bonds

	Group		Parent	
Bonds	**2018-12-31**	**2017-12-31**	**2018-12-31**	**2017-12-31**
Carrying balance	4,283.4	2,804.0	–	–
Issued bonds during year	–	2,549.9	–	–
Repayments on bonds	-1,091.5	-1,138.2	–	–
Change due to currency fluctiation	41.8	67.7	–	–
Total	**3,233.7**	**4,283.4**	**–**	**–**

	Group		Parent	
Unsecure bonds	**2018-12-31**	**2017-12-31**	**2018-12-31**	**2017-12-31**
Carrying balance	–	–	–	–
Issued bonds during year	200.0	–	200.0	–
Repayments on bonds	–	–	–	–
Change due to currency fluctiation	–	–	–	–
Total	**200.0**	**–**	**200.0**	**–**

The Group has issued securities with collateral in Swedish mortgage loans (so-called securitization) on several occasions in recent years. The most recent RMBS-transaction was conducted in 2017. In December 2018, the Bank issued SEK 200m of senior unsecured bonds.

	Group		Parent	
	2018-12-31	**2017-12-31**	**2018-12-31**	**2017-12-31**
Deposits from the public	10,416.6	10,418.6	10,416.6	10,418.6
Total	**10,416.6**	**10,418.6**	**10,416.6**	**10,418.6**

Note 25. Accrued expenses and prepaid income

	Group		Parent	
	2018-12-31	2017-12-31	2018-12-31	2017-12-31
Accrued salaries and remunerations	24.7	33.9	22.8	32.4
Accrued social costs	5.5	7.2	4.9	6.8
Accrued interest	39.7	45.6	14.8	19.5
Other accrued expenses and prepaid income	9.9	13.7	9.0	11.8
Total	**79.8**	**100.4**	**51.5**	**70.5**

Note 26. Other liabilities

	Group		Parent	
	2018-12-31	2017-12-31	2018-12-31	2017-12-31
Trade creditors	23.6	15.7	22.3	13.9
Intercompany liabilities	12.4	12.4	24.4	17.8
Social costs	13.9	12.0	13.2	11.4
Other liabilities	22.3	4.0	22.2	3.7
Advance payment from customers	–	11.3	–	11.3
Total	**72.2**	**55.4**	**82.1**	**58.0**

Other liabilities include a group contribution from the Bank to BHAB, amounting to SEK 12.4m.

Note 27. Assets and liabilities duration information

	Group					
	Non discounted contractual cash flows					
Remaining duration 2018-12-31	**Payable on demand**	**< 3 mth**	**3 mth - 1 yr**	**1 - 5 yr**	**>5 yr**	**Total**
Assets						
Lending to credit institutions	1,862.8	–	–	–	–	1,862.8
Lending to the public	–	204.6	388.1	612.3	14,601.4	15,806.5
Derivatives	0.3	58.3	–	–	–	58.6
Interest bearing securities	–	3.7	83.2	1,432.4	–	1,519.3
Total	**1,863.1**	**266.6**	**471.3**	**2,044.7**	**14,601.4**	**19,247.1**
Liabilities						
Liabilities to credit institutions	–	3.7	1,555.6	444.4	–	2,003.7
Issued bonds	–	1,101.9	–	3,670.5	–	4,772.4
Deposits from the public	7,880.6	905.6	938.9	500.0	32.8	10,257.9
Derivatives	0.2	46.1	11.7	34.0	–	92.0
Total	**7,880.9**	**2,057.2**	**2,506.1**	**4,648.9**	**32.8**	**17,125.9**

	Group					
	Non discounted contractual cash flows					
Remaining duration 2017-12-31	**Payable on demand**	**< 3 mth**	**3 mth - 1 yr**	**1 - 5 yr**	**>5 yr**	**Total**
Assets						
Lending to credit institutions	1,954.2	–	–	–	–	1,954.2
Lending to the public	0.0	197.2	402.4	676.6	13,792.9	15,069.1
Derivatives	0.1	54.3	564.5	12.5	–	631.4
Interest bearing securities	–	3.3	92.7	1,868.3	–	1,964.3
Total	**1,954.3**	**254.8**	**1,059.6**	**2,557.4**	**13,792.9**	**19,619.0**
Liabilities						
Liabilities to credit institutions	–	0.9	6.4	550.0	–	557.3
Issued bonds	–	21.4	214.4	6,586.7	–	6,822.5
Deposits from the public	7,224.5	1,073.5	1,407.7	642.9	38.8	10,387.4
Derivatives	0.0	43.5	500.7	14.1	0.1	558.5
Total	**7,224.5**	**1,139.2**	**2,129.2**	**7,793.8**	**38.9**	**18,325.6**

	Parent					
	Non discounted contractual cash flows					
Remaining duration 2018-12-31	**Payable on demand**	**< 3 mth**	**3 mth - 1 yr**	**1 - 5 yr**	**>5 yr**	**Total**
Assets						
Lending to credit institutions	1,862.8	-	-	-	-	1,862.8
Lending to the public	-	173.1	317.3	536.2	12,773.2	13,799.8
Derivatives	0.3	9.4	-	-	-	9.6
Interest bearing securities	-	3.7	83.2	1,432.4	-	1,519.3
Total	**1,863.1**	**186.2**	**400.5**	**1,968.6**	**12,773.2**	**17,191.5**
Liabilities						
Liabilities to credit institutions	-	3.7	-	-	-	3.7
Deposits from the public	7,880.6	905.6	938.9	500.0	32.8	10,257.9
Derivatives	0.2	41.4	11.7	34.0	-	87.3
Total	**7,880.9**	**950.7**	**950.6**	**533.9**	**32.8**	**10,348.9**

	Parent					
	Non discounted contractual cash flows					
Remaining duration 2017-12-31	**Payable on demand**	**< 3 mth**	**3 mth - 1 yr**	**1 - 5 yr**	**>5 yr**	**Total**
Assets						
Lending to credit institutions	1,471.9	-	-	-	-	1,471.9
Lending to the public	-	187.3	402.3	675.7	12,375.4	13,640.6
Derivatives	0.1	0.6	-	-	-	0.7
Interest bearing securities	-	3.3	92.7	1,868.3	-	1,964.3
Total	**1,472.0**	**191.2**	**494.9**	**2,544.0**	**12,375.4**	**17,077.5**
Liabilities						
Liabilities to credit institutions	-	0.9	6.4	-	-	7.3
Deposits from the public	7,224.5	1,073.5	1,407.7	642.9	38.8	10,387.4
Derivatives	0.0	15.3	129.7	14.1	0.1	159.3
Total	**7,224.5**	**1,089.7**	**1,543.7**	**657.1**	**38.9**	**10,553.9**

Note 28. Financial assets and liabilities

Financial assets at fair value

The methods for determining the value of all financial assets and liabilities within the Group adhere to a hierarchy. This hierarchy reflects observable prices or other information used in the valuation-methods. A judgment is made each quarter to determine if the valuations refer to noted prices representing actual and regularly occurring transactions or not. Transfers between different levels in the hierarchy may occur when there are indications that the market conditions, e.g. liquidity, have changed. No reclassifications have occurred during the second half of 2018.

Level 1 uses valuation of quoted prices in an active market, i.e. easily accessible by different market makers and represent actual and frequent transactions. Level 2 uses calculated values that are based on observable market quotations for similar instruments, or instruments on a less active market. This level includes interest bearing instruments, interest rate swaps, and cross-currency swaps. No financial assets or liabilities are included in level 3.

	Group				
2018-12-31	**Valued at fair value through profit or loss**	**Amortised cost**	**Amortised cost**	**Non-financial assets and liabilities**	**Sum Carrying value**
Assets					
Lending to credit institutions	-	1,862.8	-	-	1,862.8
Lending to the public[1]	-	14,521.7	-	-	14,521.7
Derivatives	213.4	-	-	-	213.4
Bonds and other interest-bearing securities	693.1	-	-	-	693.1
Intangible assets	-	-	-	58.0	58.0
Tangible assets	-	-	-	8.3	8.3
Other assets[1]	-	16.6	-	92.2	108.8
Prepaid expenses and accrued income	-	27.3	-	-	27.3
Tax assets	-	3.0	-	-	3.0
Total	**906.5**	**16,431.5**	**-**	**158.5**	**17,496.4**
Liabilities					
Liabilities to credit institutions	-	-	1,998.9	-	1,998.9
Issued bonds	-	-	3,433.7	-	3,433.7
Deposits from the public	-	-	10,416.6	-	10,416.6
Derivatives	38.1	-	-	-	38.1
Tax liabilities	-	-	-	-	-
Other liabilities	-	-	58.2	13.9	72.2
Accrued expenses and prepaid income	-	-	79.8	-	79.8
Total	**38.1**	**-**	**15,987.3**	**13.9**	**16,039.3**

[1]As of 2018 accrued interest is presented together with lending to the public, see "Changed presentation of accrued interest"

	Group				
	Financial assets and liabilities	Loans and receivables	Other financial liabilities	Non financial assets and liabilities	Carrying value
2017-12-31	Valued at fair value through profit or loss	Amortised cost	Amortised cost	Non-financial assets and liabilities	Sum Carrying value
Assets					
Lending to credit institutions	–	1,935.5	–	–	1,935.5
Lending to the public	–	13,609.7	–	–	13,609.7
Derivatives	169.1	–	–	–	169.1
Bonds and other interest-bearing securities	644.2	–	–	–	644.2
Intangible assets	–	–	–	61.3	61.3
Tangible assets	–	–	–	9.3	9.3
Other assets	–	37.6	–	109.2	146.8
Prepaid expenses and accrued income	–	13.3	–	10.9	24.2
Total	**813.3**	**15,596.1**	**–**	**190.8**	**16,600.2**
Liabilities					
Liabilities to credit institutions	–	–	547.8	–	547.8
Issued bonds	–	–	4,283.4	–	4,283.4
Deposits from the public	–	–	10,418.6	–	10,418.6
Derivatives	56.0	–	–	–	56.0
Tax liabilities	–	–	–	29.1	29.1
Other liabilities	–	–	43.4	12.0	55.4
Accrued expenses and prepaid income	–	–	100.4	–	100.4
Total	**56.0**	**–**	**15,393.7**	**41.1**	**15,490.8**

2018-12-31	Parent				
	Valued at fair value through profit or loss	Amortised cost	Amortised cost	Non-financial assets and liabilities	Sum Carrying value
Assets					
Lending to credit institutions	–	1,261.9	–	–	1,261.9
Lending to the public[1]	–	11,976.9	–	–	11,976.9
Derivatives	36.4	–	–	–	36.4
Bonds and other interest-bearing securities	693.1	–	–	–	693.1
Shares and participations in associated companies	–	–	–	4.7	4.7
Intangible assets	–	–	–	43.5	43.5
Tangible assets	–	–	–	7.3	7.3
Other assets[1]	–	723.3	–	92.1	815.4
Prepaid expenses and accrued income	–	13.0	–	12.6	25.5
Total	**729.5**	**13,975.1**	**–**	**160.1**	**14,864.8**
Liabilities					
Liabilities to credit institutions	–	–	2,631.8	–	2,631.8
Deposits from the public	–	–	10,416.6	–	10,416.6
Derivatives	25.5	–	–	–	25.5
Issued bonds	200.0	–	–	–	200.0
Tax liabilities	–	–	–	0.3	0.3
Other liabilities	–	–	68.9	13.2	82.1
Accrued expenses and prepaid income	–	–	51.5	–	51.5
Total	**225.5**	**–**	**13,168.8**	**13.5**	**13,407.8**

[1]As of 2018 accrued interest is presented together with lending to the public, see "Changed presentation of accrued interest"

	Parent				
	Financial assets and liabilities	Loans and receivables	Other financial liabilities	Non financial assets and liabilities	Carrying value
2017-12-31	**Fair value**	**Amortised cost**	**Amortised cost**	**Carrying value**	**Sum Carrying value**
Assets					
Lending to credit institutions	–	1,386.4	–	–	1,386.4
Lending to the public	–	12,495.9	–	–	12,495.9
Derivatives	34.9	–	–	–	34.9
Bonds and other interest-bearing securities	644.2	–	–	–	644.2
Shares and participations in associated companies	–	–	–	4.7	4.7
Intangible assets	–	–	–	45.6	45.6
Tangible assets	–	–	–	7.8	7.8
Other assets	–	644.5	–	109.0	753.5
Prepaid expenses and accrued income	–	13.3	–	9.4	22.7
Total	**679.2**	**14,540.1**	**–**	**176.5**	**15,395.8**
Liabilities					
Liabilities to credit institutions	–	–	3,673.2	–	3,673.2
Deposits from the public	–	–	10,418.6	–	10,418.6
Derivatives	35.4	–	–	–	35.4
Tax liabilities	–	–	–	30.0	30.0
Other liabilities	–	–	46.7	11.4	58.0
Accrued expenses and prepaid income	–	–	70.5	–	70.5
Total	**35.4**	**–**	**14,208.9**	**41.4**	**14,285.8**

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

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

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

	Group							
	2018-12-31				2017-12-31			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets								
Derivatives	–	217.4	–	217.4	–	169.1	–	169.1
Bonds / other interest-bearing securities	693.1	–	–	693.1	644.2	–	–	644.2
Total	**693.1**	**217.4**	**–**	**910.5**	**644.2**	**169.1**	**–**	**813.3**
Liabilities								
Derivatives	–	42.1	–	42.1	–	56.0	–	56.0
Total	**–**	**42.1**	**–**	**42.1**	**–**	**56.0**	**–**	**56.0**

	Parent							
	2018-12-31				2017-12-31			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets								
Derivatives	–	36.4	–	36.4	–	34.9	–	34.9
Bonds / other interest-bearing securities	693.1	–	–	693.1	644.2	–	–	644.2
Total	**693.1**	**36.4**	**–**	**729.5**	**644.2**	**34.9**	**–**	**679.2**
Liabilities								
Derivatives	–	25.5	–	25.5	–	35.4	–	35.4
Total	**–**	**25.5**	**–**	**25.5**	**–**	**35.4**	**–**	**35.4**

Note 29. Capital adequacy analysis – Parent company and consolidated situation

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

The rules state that the Bank's own funds shall cover both the statutory minimum capital requirements (capital requirements for credit risk, market risk and operational risk) and also should include the estimated capital requirements for additional risks identified in the activity in accordance with the Bank's ICLAAP.

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

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

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

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

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

	Consolidated situation		Parent	
Capital Adequacy	**2018-12-31**	**2017-12-31**	**2018-12-31**	**2017-12-31**
Total capital base	**1,303.0**	**1,063.8**	**1,413.4**	**1,064.4**
Common Equity Tier 1 (CET1) capital	**1,303.0**	**1,063.8**	**1,413.4**	**1,064.4**
Capital instruments and the related share premium accounts	4,451.4	4,286.6	663.7	463.7
Retained earnings	144.8	9.7	793.2	646.3
Accumulated other comprenhensive income	26.0	-	-	-
Intangible assets (net of related tax liability)	-3,319.2	-3,232.5	-43.5	-45.6
Additional Tier 1 capital				
Tier 2 Capital				
Risk Exposure Amount	**7,466.4**	**7,083.8**	**6,198.6**	**6,239.7**
Risk exposure amount credit risk	6,266.4	5,926.4	5,166.2	5,388.5
Risk exposure amount market risk	157.8	104.3	157.8	104.3
Risk exposure amount operational risk	880.8	773.9	874.6	719.2
Risk exposure amount credit valuation adjustment risk (CVA)	161.3	279.1	-	27.7
CET 1 capital ratio, %	**17.45%**	**15.02%**	**22.80%**	**17.06%**
Tier 1 capital ratio, %	**17.45%**	**15.02%**	**22.80%**	**17.06%**
Total capital ratio, %	**17.45%**	**15.02%**	**22.80%**	**17.06%**

Capital Buffer Requirements %	Consolidated situation		Parent	
	2018-12-31	2017-12-31	2018-12-31	2017-12-31
Institution specific buffert requirement	4.50%	4.50%	4.50%	4.50%
of which capital conservation buffer	2.50%	2.50%	2.50%	2.50%
of which countercyclical capital buffer	2.00%	2.00%	2.00%	2.00%
of which systemic risk buffer	-	-	-	-
of which: G-SII or O-SII buffer	-	-	-	-
CET1 available to meet buffers	9.45%	7.02%	14.80%	9.06%

The countercyclical capital buffer is to increase to 2,5% in September 2019

Capital requirement for credit risk

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

	Consolidated situation				
	2018-12-31				2017-12-31
Exposure class	Exposed amount	Risk weight	Risk weighted amount	Capital requirement	Capital requirement
Governments or central banks	255.6	0%	-	-	-
Exposures to institutions	2,293.7	20%	459.0	36.7	34.9
Exposures to corporates	-	0%	-	-	-
Retail exposures	998.4	75%	748.8	59.9	63.7
Exposures to mortgages	13,284.3	36%	4,730.4	378.4	353.4
Exposures in default	233.3	101%	236.1	18.9	15.1
Exposures in the form of covered bonds	526.7	10%	52.7	4.2	4.0
Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-
Equity exposures	-	-	-	-	-
Other exposures	39.5	100%	39.5	3.2	3.1
Securitisations	-	-	-	-	-
Total capital requirement for credit risk	**17,631.5**		**6,266.4**	**501.3**	**474.1**

Exposure class	Parent 2018-12-31 Exposed amount	Risk weight	Risk weighted amount	Capital requirement	2017-12-31 Capital requirement
Governments or central banks	251.2	0%	–	–	–
Exposures to institutions	1,318.3	20%	264.0	21.1	23.8
Exposures to corporates	710.0	2%	14.2	1.1	0.2
Retail exposures	998.4	75%	748.8	59.9	63.7
Exposures to mortgages	10,756.3	36%	3,823.6	305.9	321.5
Exposures in default	222.3	101%	224.9	18.0	15.1
Exposures in the form of covered bonds	526.7	10%	52.7	4.2	4.0
Claims on institutions and corporates with a short-term credit assessment	–	–	–	–	–
Equity exposures	4.7	100%	4.7	0.4	0.4
Other exposures	33.4	100%	33.4	2.7	2.5
Securitisations	–	–	–	–	–
Total capital requirement for credit risk	**14,821.3**		**5,166.2**	**413.3**	**431.1**

Capital requirement for operational risk

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

	Consolidated situation 2018-12-31	Consolidated situation 2017-12-31	Parent 2018-12-31	Parent 2017-12-31
Relevant indicator	587.2	516.0	583.1	479.5
of which 12% (business line retail banking)	70.5	61.9	70.0	57.5
Total capital requirement for operational risk	**70.5**	**61.9**	**70.0**	**57.5**

Capital requirement for market risk

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

	Consolidated situation 2018-12-31	Consolidated situation 2017-12-31	Parent 2018-12-31	Parent 2017-12-31
Capital requirement for currency risks	12.6	8.3	12.6	8.3
Total capital requirement for market risk	**12.6**	**8.3**	**12.6**	**8.3**

Capital requirements for credit valuation adjustment risk

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

	Consolidated situation 2018-12-31	Consolidated situation 2017-12-31	Parent 2018-12-31	Parent 2017-12-31
Capital requirements for credit valuation adjustment risk	12.9	22.3	–	2.2
Total capital requirement for credit valuation adjustment risk	12.9	22.3	–	2.2
Total Pillar 1 capital requirement	**597.3**	**566.7**	**495.9**	**499.2**

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

Note 30. Related parties

Assets and liabilities	Group 2018-12-31	Group 2017-12-31	Parent 2018-12-31	Parent 2017-12-31
Intercompany receivables	–	0.0	710.0	612.5
Intercompany payables	12.4	12.4	24.4	17.8

Assets and costs	Group 2018	Group 2017	Parent 2018	Parent 2017
Interest and Commission income	–	0.6	194.6	219.3
Financial expense	–	–	-27.7	-20.0
Total	**–**	**0.6**	**166.9**	**199.3**

Related parties

Related parties for the group refer to:

- Bluestep Holding AB, organizational number 556668-9575, with domicile in Stockholm.

Related parties for the Bank refer to:

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

Senior officials

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

Interest income

The interest income in the Parent relates to interest income on internal loans between the Parent and other companies in the Group.

Commission income

Commission income is attributable to revenues from the former Group company Bluestep Capital Holdings Limited.

Note 31. Pledged assets, contingent liabilities and commitments

	Group		Parent	
	2018-12-31	2017-12-31	2018-12-31	2017-12-31
Pledged assets for own liabilities				
Shares and participations in associated companies*	None	None	0.0	0.0
Assets in Bluestep Mortgage Securities No 2 DAC**	1,583.4	1,864.0	None	None
Assets in Bluestep Mortgage Securities No 3 DAC**	2,226.2	2,629.2	None	None
Assets in Bluestep Mortgage Securities No 4 DAC**	3,397.7	4,622.6	None	None
Assets in Bluestep Finans Funding No 1 AB	2,705.7	1,187.3	None	None
Other assets pledged and pledged collateral				
Assets pledged for financial instruments	68.8	82.5	68.8	82.5
Contingent liabilities				
Contingent liabilities	None	None	None	None
Commitments	None	None	None	None

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

*** Designated Activity Company*

The main security for the Bank's mortgage loans is mortgages in real estates and condominiums. The Bank perform a valuation of the security used in the lending process. The Bank's policy to obtain securities has not changed considerable during the report period and there has not occurred any specific changes of the total quality on the securities which is held by the Bank since the previous report period. The most significant assumptions that effect the securities and the provisions in the end is the house price index in each country.

Mortgage loan Sweden	2018-12-31		2018-01-01	
Allocation LTV	**Exposure, gross**	**Write-downs**	**Exposure, gross**	**Write-downs**
-50%	813.2	0.6	793.6	0.5
50 - 60%	658.7	0.6	655.8	0.6
60 - 70%	1,308.7	2.0	1,247.8	1.4
70 - 80%	2,415.9	5.8	2,385.3	4.6
80 - 90%	3,018.5	10.6	3,081.5	8.7
90 - 100	30.2	0.0	32.5	0.0
100% +	12.8	0.0	12.6	0.1
Total	**8,257.9**	**19.6**	**8,209.0**	**16.0**

Mortgage loan Norway	2018-12-31		2018-01-01	
Allocation LTV	**Exposure, gross**	**Write-downs**	**Exposure, gross**	**Write-downs**
-50%	1,109.5	0.6	847.7	0.6
50 - 60%	705.0	0.7	603.5	0.5
60 - 70%	1,030.2	1.0	854.6	1.0
70 - 80%	1,829.5	2.3	1,662.6	2.1
80 - 90%	625.1	0.5	421.9	0.4
90 - 100	1.5	0.0	-	-
100% +	1.1	0.0	-	-
Total	**5,175.2**	**4.9**	**4,385.6**	**4.5**

Sensitivity analysis

The most significant assumptions which effect securities and the provisions in the end, is the house price index in each country. The changes in ECL as of 31 December 2018 shown below would result in reasonable changes in its parameters compared to the actual assumptions made by the Bank. I.e. the affection on ECL through change of the house price index with X%.

	Mortgage Sweden				
Change in	-20%	-10%	+/-0%	10%	20%
ECL	5.6	2.9	-	-2.9	-4.3

	Mortgage Norway				
Change in	-20%	-10%	+/-0%	10%	20%
ECL	0.4	0.2	-	-0.2	-0.3

Note 32. Effects of changed accounting policies, IFRS 9

Change in balance sheet from IAS 39 to IFRS 9

The following table shows the effects of implementation of IFRS 9 in the balance sheet. The effect consists of the revaluations attributable to provisions and expected credit impairment. The Bank has not made any reclassifications that have had any impact on the valuation of financial instruments.

	Classification IAS 39	Classification IFRS 9	Book value in accordance with IAS 39	Book value in accordance with IFRS 9	Effect on equity*
	2017-12-31	2018-01-01	2017-12-31	2018-01-01	2018-01-01
Financial assets					
Lending to credit institutions	Loans and receivables	Amortised cost	1,935.5	1,935.5	–
Lending to the public	Loans and receivables	Amortised cost	13,609.7	13,592.5	-13.9
Derivatives	Financial assets at fair value through P&L	Fair value through P&L	169.1	169.1	–
Bonds and other interest-bearing securities	Financial assets at fair value through P&L	Fair value through P&L	644.2	644.2	–
Total financial assets			**16,358.5**	**16,341.3**	-13.9

Financial liabilities					
Issued bonds	Other financial liabilities	Other financial liabilities	4,283.4	4,283.4	–
Deposits from the public	Other financial liabilities	Other financial liabilities	10,418.6	10,418.6	–
Derivatives	Other financial liabilities	Other financial liabilities	56.0	56.0	–
Total financial liabilities			**14,758.0**	**14,758.0**	**–**

* *Including tax-effect*

Provisions according to IAS 39 compared to IFRS 9

The following table shows the closing balance for provisions in accordance with IAS 39 and the opening balance for provisions according to IFRS 9. The Group did not apply group-based provisions in accordance with IAS 39, only specific provisions for individually assessed loans.

Provisions IAS 39	**2017-12-31**
Specific provisions for individually assessed loans	28.6
Total provisions IAS 39	**28.6**

Provisions IFRS 9	**2018-01-01**
Financial assets measured at amortised cost	**45.8**
Stage 1	13.5
Stage 2	21.4
Stage 3	10.9
-	
Income taxes remeasurement due to transition to IFRS 9	-3.3
Total provisions IFRS 9	**42.6**
Total transition effect	**13.9**

Note 33. Hedge accounting

The Bank is using derivative instrument to obtain desired reduction of interest risks. Interest risks is mainly attributable to the lending to the bigger part at fixed interest rate, while the borrowing to the bigger part occur at variable interest rate. The Bank started to implement hedge accounting during 2016 on new derivatives contracts.

Value change for secured posts amounted to SEK -7,5 m (SEK10,8m) as of 31 December and corresponds to value change for secured instruments which amounted to SEK 5,5 m (SEK -11,4 m). The unrealized market value of the hedge accounting is reported under net result of financial transactions and amounted to SEK -2,0 m (SEK -0,6 m). The hedge accounting is effective and fulfills the conditions for when the hedge accounting may be applied.

		Carrying amount			
Hedging instruments and hedge ineffectiveness	**Nominal amount**	**Assets**	**Liabilities**	**Change in fair value used for measuring hedge ineffectiveness**	**Ineffectiveness recognised in Profit or Loss**
Interest rate risk					
Interest rate swap	9,225.0	11.3	-4.6	5.5	-2.0

	Carrying amount		Accumulated adjustment on the hedged item		
Hedged items	**Assets**	**Liabilities**	**Assets**	**Liabilities**	**Change in value used for measuring hedge ineffectiveness**
Interest rate risk					
Lending to the public	9,825.8	-	-	-7.7	-7.5

	Remaining contractual maturity		
Maturity profile and average price, hedging instruments	**<1 yr**	**1–5 yrs.**	**>5 yrs.**
Fair value hedges			
Nominal amount	3,810.0	5,415.0	-
Average fixed interest rate, %	0.44%	0.65%	-

Note 34. Proposal for profit distribution

Proposal for the appropriation of profits	
The following profits are available for appropriation at the annual general meeting	
Non-restricted equity from previous years	1,199,162,396
Result of the year	157,765,388
	1,356,927,784
The Board propose that	
the following be carried forward	1,356,927,784
	1,356,927,784

The boards assessment is that the equity accounted in the annual report is enough in relation to the business extent and risk. Concerning the result and position in general of the Group and the Bank, the following result-, balance sheet, cash flow and additional information is presented.

Note 35. Subsequent events

Harry Klagsbrun stepped down from the board during January 2019, whereby the number of board members decreased from 8 to 7. Noteholders of Step 2 were informed, on January 21st, 2019, that redemption will take place on February 11, 2019. Step 2 was redeemed on February 11, 2019 and the Bank will initiate a voluntary liquidation of Step 2. Bluestep Finans Funding No 1 AB has acquired mortgages of the Bank to a value of total SEK 411 m during March.

Stockholm 23 April 2019

Rolf Stub
CEO

Per-Arne Blomquist
Chairman

Göran Bronner
Board member

Andreas Pettersson Rohman
Board member

Albert Gustafsson
Board member

Toby Franklin
Board member

Lars Wollung
Board member

Sofia Arhall Bergendorff
Board member

Our audit report has been submitted as of 23 April 2019
Ernst & Young AB

Daniel Eriksson
Authorized auditor

Board of Directors

The board members are designated by the shareholders by the annual meeting. The board currently consists of 7 members.

Per-Arne Blomquist

Chairman of the Board

Albert Gustafsson

Member of the Board

Andreas Pettersson Rohman

Member of the Board

Göran Bronner

Member of the Board

Lars Wollung

Member of the Board

Sofia Arhall Bergendorff

Member of the Board

Toby Franklin

Member of the Board

Senior Management

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

Rolf Stub

Chief Executive Officer

Johanna Clason

Chief Financial Officer

Anna Bofeldt

Chief Marketing Officer, Marketing & BDM

Daniel Garcia

Risk Manager

Tomas Netz

Chief Operating Officer, Sweden

Karin Jenner

Human Resource Manager

Erik Walberg Olstad

Branch Manager, Norway

Christian Marker

Chief Legal Officer

Erik Lind

Chief Information Officer, Systems & IT

Definition of alternative performance measures

Gross income

Share income exclusive share income from covered bonds and share income from bank.

Financing cost/financing volume

Share cost, share income from covered bonds and share income from bank in % of average deposits and borrowing from public, liabilities to credit institutions and issued securities.

Return on equity

Results after standard tax (22%) in % of average equity.

Return on assets

Results after credit losses in % of average assets.

Corporate Governance Report

Bluestep Bank AB (publ) ("the Bank") conducts banking operations and is supervised by the Swedish Financial Supervisory Authority. The Bank is a wholly owned subsidiary of Bluestep Holding AB, which is owned by EQT VII since 2017. The Bank has a Norwegian branch for the Norwegian deposit and lending conducted on the Norwegian market, and the Bank is the Parent Company of a group consisting of the; Bluestep Servicing AB, which administrates deposit and lending activities; and the funding companies Bluestep Finance Funding No1 AB, Bluestep Mortgage Securities No 2 DAC, Bluestep Mortgage Securities No 3 DAC and Bluestep Mortgage Securities No 4 DAC. Corporate governance must function well for the Bank to enjoy confidence in the marketplace and create added value for stakeholders. For this reason and to prevent conflicts of interest, the Company has defined roles and clear areas of responsibility allocated among the Board of Directors, the CEO and other stakeholders. This corporate governance report is created in accordance with the requirements in the Annual Act (1995:1554). The main issues for corporate governance at the Bank are explained below.

Corporate governance

The Bank is a dedicated, solutions-oriented organisation that offers mortgages and savings accounts in Norway and Sweden, as well as personal loans in Sweden. The Bank is a Swedish public limited liability company. The Bank's corporate governance is based on Swedish law, regulations and general recommendations issued by the Swedish Financial Supervisory Authority and the European Banking Authority (EBA), Nasdaq Stockholm's regulations for issuers, and the Bank's Articles of Association and internal policies and instructions. The Bank has a traditional form of corporate governance, where the shareholders appoint the Board which in turn appoints the CEO. There are internal and external control functions as well.

Since the Bank's shares are not admitted to trading on a regulated market, the Swedish Code of Corporate Governance is not applicable to the Bank.

Annual General Meeting

The Bank is governed via the Annual General Meeting in accordance with the basic rules on the governance and organisation of a limited company. The Annual General Meeting is the Bank's highest decision-making body, and the Articles of Association contain no special provisions that affect decision making at the AGM.

At the Annual General Meeting, the shareholders of the Bank must confirm the income statement and balance sheet, dividend and other disposals according to the Bank's result, the discharge for the board and the CEO, election of the board and confirm the boards fees.

The Annual General Meeting also appoint the external auditor for the Bank who emits audit report over its audit of the Banks annual report and consolidated, the disposal of the result, and the boards and the CEOs management of the Bank and its activity. The external auditor's audit report is submitted to the Annual General Meeting, which subsequently must take a position on it.

The Bank's Article of Association has been prepared in accordance with the requirements in the Swedish Companies Act regarding mandatory information and has no decisions regarding appointment and dismissal of board members or amendment of the Articles of Association. Nor there are limitations of how many votes each shareholder can submit at the Annual General Meeting. The Article of Association has been approved by the Swedish Financial Supervisory Authority in accordance with the Banking and Finance act (2004:297).

At present the Annual General Meeting has not authorised the Board of Directors to resolve to issue new shares or buy back the Bank's own shares.

Board of Directors

The Board of Directors is responsible for the Bank's administration and organisation. The duties of the Board of Directors are primarily governed by the Swedish Companies Act (2005:551), the Banking and Finance act (2004:297) and by regulations from the Swedish Financial Supervisory Authority. The Board's responsibilities include determining and reviewing the Bank's objectives and strategies considering its long-term financial targets and the risks to which the Bank is exposed; applying capital requirements; satisfactory control of regulatory compliance; and ensuring compliance with internal rules for risk management, risk control and risk reporting. The Board of Directors is also responsible for ensuring that written guidelines and instructions are regularly evaluated to ensure that the Bank's operations are run in a way that the Bank's obligations are not jeopardized, that reporting of violations is done and followed up, and that the Bank's operations are driven in a healthy way. It also includes maintaining a healthy risk culture regarding credit risks. The Board of Directors must also monitor the Company's financial performance and ensure the quality of its financial reporting and reporting by the control functions. The Board follows written rules of procedure that are determined annually. The rules of procedure comply with the Swedish Companies Act, the Swedish Banking and Financing Business Act and regulations issued by the Swedish Financial Supervisory

Authority. The rules of procedure also govern the allocation of duties between Board members and the CEO.

The Boards committees and the Bank's remunerations principles

The Board of Directors has established an Audit, Risk, and Compliance Committee, "ARCCO". One of ARCCOs role is to ensure the quality in the Bank's financial reporting and corporate governance. More information regarding ARCCO is found under "Control environment" below.

The Bank has also established a remuneration committee and the Bank has, in accordance with the legislation of the Swedish Financial Supervisory Authority, established a clear policy, instructions and processes to maintain a healthy remuneration structure. Compensations to CEO and other identified individuals which are seen as special regulated employees are determined by the Board of Directions after preparations by the remuneration committee.

Compensations to CEO and senior executives consists of salary and variable salary in form of bonus and pension contributions. The Bank's remuneration principles to the employees are created to ensure that remunerations to individuals does not counteract the Bank's long-term interests. For the employees who are special regulated employees, the payment of this compensation is postponed by at least 40 percent over a period of at least three years

The CEO and the Bank's senior management

The CEO bears overall responsibility for ensuring that all the Bank's business risks are managed according to established policies and guidelines. The CEO is also responsible for ensuring that the Bank's organisation and work processes continually follow applicable regulations. According to internal governing documents, the CEO is also responsible for the Bank's financial reporting, and the CEO must accordingly ensure that the Board receives adequate information to be able to evaluate the Bank's financial position. This includes trends in liquidity and credit risk, important business transactions and other circumstances that may be important to the Board of Directors and the owners. The CEO must also lead the Bank's senior management in implementing decisions taken by the Board.

Internal control

The Board's responsibility for internal control is governed primarily by the Swedish Companies Act, the Swedish Annual Accounts Act (1995:1554) and relevant sections of the regulations and general recommendations issued by the Swedish Financial Supervisory Authority and the EBA.

Internal control – financial report

The Bank's procedures for internal control, risk assessment, control activities and monitoring of financial reporting are designed with the objective of ensuring reliable overall financial reporting and external financial reporting in accordance with International Financial Reporting Standards (IFRS), applicable laws and regulations and other requirements applicable to companies with listed securities. The work involves the Board of Directors, the Bank's senior management and other personnel.

Internal control – governing documents

An important part of the Bank's internal control consists of governing documents in forms of policies, instructions and manuals. The governing documents exists for essential areas and form the framework for the business. All the policies are approved by the Board of Directors and the instructions approves by the CEO. The governing documents evaluates, updates and approves ongoing, however, at least annually.

Control environment

The Board of Directors has adopted several governing documents that, together with external regulations, serve as the basis for the Bank's control environment. It is the duty of all employees to comply with the adopted governing documents. The Board of Directors has adopted governing documents that govern the respective responsibilities of the CEO and the Board of Directors.

The Bank's risk management, risk control and compliance processes are based on the three lines of defence approach to allocating roles and areas of responsibility. This approach aims to achieve satisfactory risk management with effective risk control and compliance.

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

In addition to regularly scheduled annual controls, the risk management and compliance functions are also obligated to report back to the Board of Directors and CEO at least once per month. Their reports must point out material shortcomings and risks, and regularly report each new material risk and shortcoming that has been identified. The CEO and Board of Directors must ensure that the Bank has procedures in place to regularly follow up which actions have been taken in response to a report by the control function.

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

The Board of Directors has also appointed a risk manager, who is responsible for identifying, assessing, managing and reporting risks that arise in all lines of business and all types of risk within the organisation. As part of the second line of defence, the risk manager reports directly to the CEO and the Board of Directors.

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

Risk assessment and control activities

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

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

To manage identified risks, the Bank has created a framework for managing risk and capital through policies, organisational structures and valuation and monitoring processes tailored to the activities of the business. Under the framework:

(i) the Board of Directors handles the overall monitoring of risk and capital management;

(ii) the Bank uses a three lines of defence risk management model;

(iii) risk strategy and risk tolerance are defined based on strategic plans to combine risk, capital and performance targets;

(iv) all major risks such as credit risk, market risk, operational risk, liquidity risk, and interest rate risk are managed via risk management processes;

(v) modelling and measurement approaches for quantifying risk and capital requirements are implemented in all major risk classes, while other risks such as business risk, strategic risk and reputational risk are assessed and quantified during the Bank's internal capital and liquidity adequacy assessment process (ICLAAP); and,

(vi) effective processes and policies are established to implement the identified risk management processes and constitute a critical component of the Bank's risk management capability.

Monitoring, evaluation and reporting

The Board of Directors continually evaluates the information it receives. The Board regularly receives reports from the Bank's operations concerning issues that include the Bank's financial position, as well as reports from the ARCCO, RiCO, NPAP and ALCO concerning their observations, recommendations and proposed actions and decisions. Internal audit and the compliance and risk functions regularly report their observations and proposed actions to the CEO and Board of Directors. Internal and external regulations that govern financial reporting, as well as other applicable requirements, and communicated internally by means of governing documents. All Bank personnel have access to these documents on the intranet.

Sustainability report

Bluestep Banks sustainability report is presented below for 2018. The report includes the parent company Bluestep Bank AB and its subsidiaries.

Bluestep is a responsible bank and has the ability to provide financial security to more customers. Sustainability at Bluestep is also about to be an attractive employee and to act responsible to customers, investors, owners and authorities. At Bluestep, we want to contribute to a stronger society through increased financial inclusiveness. Our expectation is that this will contribute to U. Ns global goal for sustainability development achieves.

An inclusive and responsible business model

Bluestep is a committed and solution focused lender with the goal to help customers to an increased overview over their financial situation and, based on the customer financial need, offer an attractive solution. Bluestep tries to help customers that has for some reason been denied a loan from the traditional banks. The Bank offer mortgages and private loans in Sweden, and mortgages in Norway. Beyond this, Bluestep also offer saving accounts.

Bluestep was created 2005 with the purpose to complement the traditional banks on an unprioritized segment of the mortgage market. There is still a need to provide mortgages to customers that has been denied loans from other actors. In the beginning of Bluesteps history, the customers were mainly people that had have a tougher period in life. A period where they had been unable to pay their bills in time, which results in reminders. A reminder means a huge risk to a rejection in a credit application. At Bluestep, we cherish the manual review of a credit application. This includes a lot of work but enable us to understand every unique customer and situation and how their ability to pay is today and in the future. The higher level of manual work and customer interaction means higher costs compared to automated processes. Customers risk profiles can also differ. Based on this, Bluestep applies an individual rate setting. A careful review of a credit application and a risk-based pricing, in combination with a reward in form of an interest reduction when the customer manages its loan payments, contributes to a sustainable credit grant.

In the last years, additional customer needs have occurred, as the life and employment changes. Nowadays, there is flexible works, consulting works, project employments, and self-employed in a greater extent than before. As these employment types increases, there are many lenders that tries to automate and digitize the lending process. This means that some customer groups exclude, when they do not fit into the standardized pattern. The extra work that Bluestep perform has resulted that more customers has been included and been offered loans. These customers have now the ability to use the advantages that comes with a mortgage, which results in owning your own living.

Through our products and processes, Bluestep has made the mortgage market available to more people. The advantage is that more people can make an own choice regarding the living. This results in a financial inclusiveness, which leads to stronger societies. Financial inclusiveness can for example contribute to increased equality and increased economic growth, two areas that are included in the U. Ns global goal for sustainable development. Through continued work with development and improvement of our products, we want to contribute to those people that want to and have the possibility to have their own mortgage to have it. This means that we at Bluestep can continue to deliver a value to customers, society, employees and owners.

Bluestep sees that the extended digitizing and atomizing of other actors lending processes leads to a rejection to more people, even when they have a good credit quality. This increases the need of Bluesteps products. To help customers that has been neglected loans takes a carefully analysis. Bluestep provides this by a profound review of the individual personal finance and tries to understand the persons future ability to pay. A central part in this analysis is the interaction between the customer and Bluestep. The business model has meant that we since the start in 2005 have been able to help over 15 000 customers to own their own living.

As a part of providing credits in a responsible way, it also includes that we can ensure that the customer understand the agreement. Bluestep actively work with this by ask the customer if they have talked to their traditional bank first. Through this question, it is ensured that only people that need Bluesteps loan products applies for a loan here. The understanding between customer and Bluestep also reflects in our employees since we together master over 30 different languages, and when necessary, we hire an interpreter to ensure that customer and officer understand each other. Before every loan payment there is a payment call to the customer. In this call, Bluestep goes through the agreement with the customer to make sure that the customer understand the contract and that eventual questions can be answered. These are a few examples of how Bluestep work with a responsible credit lending to more people. An indicator of the performance of the business model is the size of Bluesteps credit losses. Low credit losses mean that we have achieved in the meaning to provide credits in a responsible way.

Sustainability policy and control documents

Bluestep has adopted a CSR-policy (Corporate Social Responsibility) to regulate the sustainability work. The policy, which was reviewed by the board 2018, describes Bluesteps work and steering within sustainability connected to the three focus areas; internal steering, customer satisfaction and employees. To support the daily work and to be able to handle risks in the business, the following control documents are also important parts:

- Governance and control policy
- Ethical guidelines policy
- Conflicts of interest policy
- AML policy
- Business continuity plan policy and Disaster Recovery plan
- Remuneration policy
- Consumer protection policy
- Data protection policy
- Information Security Governing Policy

Internal steering and education

As a part of ensuring that the control documents regarding that rules and data are correctly handled, every new employee are educated in an introduction program. In this program, it includes a review of internal control functions (risk control, compliance and internal audit) and an education in how Bluestep actively work to prevent money laundering, corruption and financing of terrorism. The education also includes bank secrecy and information security. For Bluestep to ensure that all employees have updated knowledge within these areas, there is also a mandatory yearly education. The education Is followed up with a test, which all employees passed 2018. Associated with the implementation of GDPR, there was also a mandatory e-learning concerning the laws and how the managers and the employees should work with the data. The result of Bluesteps work is a high internal risk awareness together with well-functioning processes and routines. Bluestep has never been an object for regulatory fines or sanctions. The Bank advocates an open and constructive dialogue with authorities. For additional information about Bluesteps risks and risk management, see part "Risk management" in the management report and in note 2.

Customer satisfaction

One of the central indicators over how Bluestep has succeed in its business model is how satisfied the customers are. The satisfaction is measured through the indicators Net Promoter Score ("NPS"), and satisfied customer index ("NKI"). Every customer that has had a phone call with a contact person at Bluestep are called back and asked to answer a few questions to improve the different areas.

In the NPS-survey, the customers get to answer how likely they would recommend Bluestep to a friend or colleague. During 2018, Bluestep had as a goal to reach a NPS of 37 in both Sweden and Norway. The result became 37.7. For 2019, Bluesteps goal is 39. In the NKI-survey, the customers get to answer how satisfied they were with the service when they contacted Bluestep. During 2018, Bluesteps goal was to reach a NKI of 88% in both Sweden and Norway. The result became 87%. For 2019, Bluesteps goal is 90%. The customer satisfaction is followed up by the management and is reported by the CEO to the board every month.

Coworker, working environment and human rights

Bluestep cherish diversity in our customers and in our employees. Bluesteps employees has different backgrounds, which is a strength since it facilitates understanding for different persons and customers situations. The different backgrounds manifesting that over 30 different languages are spoken in our approximately 250 coworkers. The language knowledge and the different backgrounds decreases the barriers and increases the understanding in general, and this is important in Bluesteps business. A mortgage is a big decision for the customer and for the Bank, therefor, a good communication and understanding are an essential part. Respect is one of Bluesteps key values and it is important that all customers and coworkers are treated with respect no matter age, ethnicity or gender. Bluestep always strive to balance the employees between men and women. At Bluestep, 47% are women and 53% are men. The management consists of four women and seven men, and the board consists of one woman and seven men. Bluestap always want to achieve an equitable treatment of coworkers and customers. Risks for crimes against human rights are judged as small by our business, which also is the reason why this report do not treat those risks any further.

Through the early coworker survey, in collaboration with Great Place to Work, different areas are measured which reflects how the coworkers finds its work situation. After the survey, every section at Bluestep, identifies three different strength to build upon and three different areas that has improvements potential. This work has resulted in increased engagement and trust among the coworkers, which is shown in the result of the surveys. Trust Index describes the employees that has a good coworker experience among the engagement driven areas which are trust, pride and fellowship. The engagement index is the coworkers that consider that Bluestep is a great workplace. The goals for 2019 is set at 78% for Trust Index and 84% for Engagement Index.

Trust index:

2016: 70%

2017: 69%

2018: 76%

Engagement Index:

2016: 71%

2017: 73%

2018: 82%

During 2018, multiplied commitments was performed in purpose to increase Engagement- and Trust Index. The purposes have contained a better pension offer and competence improvements. Investments to develop the leadership through education and training of both new and existing managers has also been performed. This has contributed to a better leadership index, from 67 to 75 in the coworker survey. Stronger commitment has also been supported in increased involvement of coworkers in the efficiency of processes and flows that has been performed during 2018.

Environment

Bluestep strives to have a low impact on the environment as possible, both when it comes to offices and business trips. The goal with business trips is that those should be as environment friendly and cost-effective as possible. Instead of traveling between offices, the coworkers are using phone- and video conferences in the extent that is possible. The head quarter in Stockholm is based in a building with the environmental certification LEED Guld. Bluestep is working with the landlord to limit the energy consumption regarding heat, electricity and air conditioning.

Bluestep are supporting the initiative by the coworkers to limit the waste from the daily work. One example is an effectiveness work which led to a saving of 90 000 paper sheet each year. Digitalized sheets were used instead in chosen parts in the lending process.

Social initiatives

A social initiative which leads to great pride is Bluesteps collaboration with Mentor Sweden. In the professional mentor program Bluestep get to meet students from 8th grade. The purpose is to discuss the future, personal finance and job applying. Bluesteps employees also share experiences, both job related and personal, to inspire the students to continuing studying, give information about the work market and a responsible attitude to personal financing. The students get to practice creating a budget, write CV and to go to a job interview. The program ends with a visit at Bluestep where the students gets an insight in which type of roles there are and who the coworkers are. In the summer, a few students also practice at Bluestep.

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