

April 2020

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# Annual report Bluestep Bank AB (publ) 2019



**Bluestep.**



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# The year in brief

Strong continued demand for Bluestep’s mortgages led to a successful year.

As of 31 December 2019, compared with the same date the previous year, unless otherwise stated.

- Operating profit increased by 29% and amounted to SEK 275m (SEK 212m). The profit was driven by a continued strong demand for Bluestep’s mortgage loans and more cost-efficient funding.
- Lending to the public increased by 11.0% to SEK 16,124m (SEK 14,522m).
- Deposits from the public increased by 9.6% to SEK 11,421m (SEK 10,417m).
- Credit losses remained low, owing to a sound and thorough risk assessment, and amounted to SEK 60m (SEK 50m). This is equivalent to a credit loss level of 0.37% (0.35%), with only 0.11% relating to mortgages.
- The Common Equity Tier 1 ratio (CET1) was 17.9% (17.5%). Bluestep’s long-term target is a CET1 ratio of at least 16.0%.
- Björn Lander was appointed CEO in October.
- Bluestep’s notification to set up a branch and conduct mortgage lending operations in Finland was acknowledged by the Swedish and Finnish Financial Supervisory Authorities.
- Bluestep was assigned a credit rating of Baa2 with a stable outlook by Moody’s.
- Bluestep received a rating of Baa2 with a stable outlook from Moody’s.
- Interest in Bluestep’s bonds was high, which led to lower funding costs
- Bluestep’s application to issue covered bonds was approved by the Swedish Financial Supervisory Authority (pursuant to the Covered Bonds Issuance Act (SFS 2003:1223)).
- Holders of Bluestep Mortgage Securities No 2 Designated Activity Company (“Step 2”) bonds were notified that the bonds would be redeemed. A voluntary liquidation of Step 2 began once the redemption was completed.
- An SEK 2,000m credit facility for Bluestep Finans Funding No 1 was extended, with a new final maturity date in May 2021 (February 2020).
- Harry Klagsbrun left the Board of Directors, which reduced the number of ordinary directors from eight to seven.

## Key figures



	2019	2018	Δ %
Lending to the public (SEK m)	16,124.4	14,521.7	11%
Deposits from the public (SEK m)	11,421.4	10,416.6	10%
Net interest income (SEK m)	819.0	717.0	14%
Costs (SEK m)	514.3	483.6	6%
Operating result (SEK m)	274.5	212.2	29%
Credit losses, net (%) <sup>1</sup>	0.37%	0.35%	0.02
Return on equity (%) <sup>1 2</sup>	14.09%	13.00%	1.09
CET1 (%) <sup>1</sup>	17.87%	17.45%	0.42
C/I (%) <sup>1</sup>	60.61%	64.82%	-4.21

1. The change is in percentage points.  
2. Return on equity is calculated on annualized total result divided by the average of equity for the period.



## Remarks by the Chief Executive officer



Bluestep had a successful year in 2019, with the best operating profit in our history. Lending increased, while credit losses remained low. Although we are in an investment phase, operating profit increased by 29% and return on equity was 14%. The bank has a low risk level and credit losses for total lending amounted to 0.37% and only 0.11% for mortgage-related lending. The capital situation is strong with a Common Equity Tier 1 (CET1) ratio of 18%. Our long-term objective is to have a CET1 ratio of at least 16%. This means that Bluestep is well equipped to face the future, even if general economic conditions were to deteriorate significantly.

Being trusted with leading Bluestep into its next phase as a pure mortgage bank is an exciting challenge. Bluestep will continue to set ambitious targets to gain market shares in the mortgage industry. Our strong customer relationships help us accomplish this, as we develop the new mortgage products that a broader customer base is asking for.

### Bluestep's brand and geographic expansion

During the year we continued to clarify what our brand means and to increase understanding of what we offer. We are the market leader in Sweden and Norway, and the objective is to increase our market share going forward. Our strategic focus on mortgages will become clearer over the coming year. As part of this process we stopped offering unsecured personal loans at the beginning of 2020. There is also high demand for our offering in other countries, giving us the potential to expand geographically. We are opening an office in Helsinki during the first half of 2020 and will begin offering mortgages in Finland.

### An improved customer experience

We are developing and improving our mortgage products. Digitalisation of the customer service centre is increasing. Thereby we can focus on finding the best possible solutions for customers while spending less time

collecting information manually. These efficiency measures will result in shorter processing times, with a simpler process and an improved experience for customers.

### Financing

Our funding costs have decreased gradually during the year, which benefits our customers. Demand for our savings accounts has been high, and retail deposit volumes have increased. Bluestep was assigned a credit rating of Baa2 with a stable outlook from Moody's before the summer. Recently the rating was upgraded to Baa1 with positive outlook. During the year we issued SEK 1.8bn in bonds. Having multiple sources of financing reduces our risk. At the end of the year we received a license from the Swedish Financial Supervisory Authority to issue covered bonds. Covered bonds will be an important part of our funding from 2020.

### The current environment

The coronavirus (COVID-19) affects society and means a high degree of uncertainty, resulting in market volatility. Bluestep is following developments closely and has taken safety precautions. We have strong liquidity and a good capital situation, while at the same time we are seeing healthy demand for our mortgages and we continue to assist our customers. We are striving for the financial inclusion of more people in society, which leads to increased equality. Bluestep will continue delivering value to its customers, society, its employees and its owners and investors.

### A word of thanks

I would like to take the opportunity to thank everyone who is moving our business forward: our customers, investors and above all our committed employees. We will work hard to achieve Bluestep's strategic objectives, and I truly look forward to continuing to help Bluestep grow while helping our customers.

Sincerely,  
Björn Lander

## Remarks by the Chairman of the Board



### We are able to offer confidence through sound risk management

Bluestep fills an important role in society, helping people with financial solutions through mortgages that lead to greater social and economic inclusion for many of our customers.

2019 was an eventful year for Bluestep. The ongoing digitalisation project has streamlined loan processing, but we have also spent more time developing our array of products. New mortgage products have been launched in both Sweden and Norway, and we are proud to begin operations in Finland soon as well. In our view, demand for Bluestep's products and services will remain strong, and we therefore expect continued growth for the Bank. Today there is a relatively large group of people who are unable to turn to traditional banks due to various circumstances, even though they are creditworthy. We are an important complement to the traditional banks and through controlled means, we help our customers enter the banking system.

The clarification of what Bluestep's brand stands for is beginning to produce results, and we will continue to reach out to our target groups which range from young people to retirees.

Bluestep offers financial security to both customers and investors, since we spend extra time analysing the customer's financial situation. We are careful to ensure that the people we assist are able to meet their obligations. Therefore the quality of our lending is high, which is reflected in our low credit losses. At the same time, this shows the importance of the extra attention devoted to the credit assessment process. The personal relationship with our customers will remain a crucial part of our assessments. Both our customers and the investors who entrust us with their capital must feel confident. We have established a high internal capital requirement of a 16%

CET1 ratio. At the end of 2019 the ratio was 17.9%, which is four percentage points higher than the regulatory requirement (at year-end), which also includes buffers. Strong capitalization demonstrates that the organization has stamina and scope for action, even if the general economic situation were to significantly deteriorate.

We will be able to issue covered bonds going forward, which not only expands our sources of financing but which also can reduce Bluestep's financing costs, benefiting both the Company and our stakeholders.

We are looking ahead, refining and improving what we are already good at. We listen to our customers and make sure to do even better when there is an opportunity. We have the ability to expand our offering if we see a demand for new types of mortgage products. In Sweden we launched a new type of mortgage for borrowers aged 60 and above during the year, and this is a good example.

Thanks to sound risk management, we are able to offer financial solutions to more people in the form of various types of mortgages. Bluestep has a sense of pride and exhibits true social responsibility. Therefore the Board of Directors and senior management aim, together with all of our employees, to responsibly continue growing Bluestep into an ever more important player in the Nordic mortgage market.

Sincerely,  
Per-Arne Blomquist



# This is Bluestep

Bluestep is a complement to the traditional banks in the mortgage market. Since the company was founded in 2005, we have helped thousands of customers in Sweden and Norway to finance their housing in a sustainable way.

Bluestep is a Nordic bank specialized in creating value by offering mortgages. We take the time to understand and consider the customer's entire situation. We attach great importance to the customer's prospects rather than just looking at their history. We don't believe that credit history alone reflects a customer's entire situation and ability to pay.

Mortgage loans from Bluestep enable more people to purchase a home. The loans also help customers to consolidate debt in order to reduce their monthly costs. Our commitment enables more people to be included, rather than excluded from economic progress.

Lending operations in Sweden was established 2005 and launched in Norway in 2010. Operations in Finland will commence during

2020. Bluestep has gradually expanded the array of products offered since the start of the business in 2005. Bluestep also offers savings accounts with attractive and competitive rates of interest.

### How does this work?

The foundation of the business is a sound and thorough credit process which creates added value both for Bluestep as well as for our customers. We are able to offer mortgage loans to customers that many other organisations do not want to spend time and resources on. This makes us a complement to the traditional banks rather than a competitor.

Bluestep's employees are very involved in the process, and every loan applicant are assigned their own contact person. We

devote a great deal of time to understanding the customer's financial situation, and we want to be able to judge fairly whether it is possible for Bluestep to approve the loan the customer is applying for. A deeper customer understanding allows Bluestep to ensure each customer's ability to pay both principal and interest when the loan agreement is signed.. At the same time, Bluestep verifies the customer's ability to pay even if interest rates were to increase in the future. We take time during the application process to help the customer understand the effects the new loan will have on the household budget.

### The types of loans we offer

Bluestep offers various types of mortgages. Mortgages may be offered to customers who want to buy a new home, as well as to customers wishing to increase their mortgage for purposes such as paying off other more expensive loans or renovating their existing home. The customer's interest rate depends on income and expenses, their credit history and other loans they may have. The decisions rest on a strong foundation of the customer's future prospects and opportunities. It is possible to use one's home as collateral when borrowing, as long as the loan-to-value ratio of the home is below 85% of its total value. Interest and principal payment costs will ordinarily be lower than for an unsecured loan.

Thanks to our continuous development of the products we offer, we have been able to reach

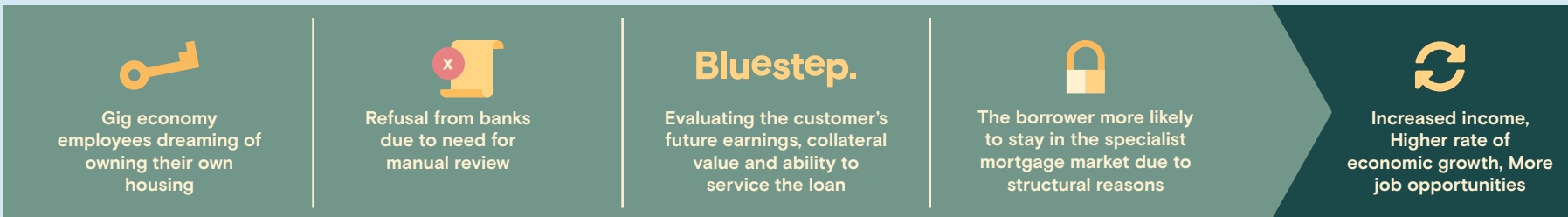
new customer segments in both Sweden and Norway successfully.

In Norway Bluestep has launched a second mortgage product that enables customers to take out a mortgage with Bluestep while retaining their original mortgage at another bank. This enables them to increase their mortgage rather than taking out a more expensive unsecured loan.

A new specialised loan product for customers in Sweden over 60 who own their homes but whose disposable income or pension is insufficient to keep up with interest payments was launched. The loan enables these customers to remain in their homes while freeing up value from their homes to make everyday life more pleasant. The customer can choose either to receive one single payout, or set monthly payouts. Interest is not paid monthly; instead, it is added to the loan and not claimed until the customer leaves the home. Bluestep guarantees that the customer may remain in their home and that the loan may never exceed the sale price of the house.

In 2019 Bluestep also offered unsecured personal loans. In mid-February 2020 a decision was made to place more emphasis on the strategy to concentrate on mortgage lending, and Bluestep therefore stopped offering personal loans as part of this decision.

### Purchasing a home



### Refinancing of debt - using property as collateral



### Our customers

- People with one or more payment remarks
- People who need to consolidate their debts
- People with variable incomes or limited credit history
- The self-employed/ people with flexible employment
- People aged over 60

### Mortgages

94%

### Personal loans

6%





# Bluestep's employees

Working at Bluestep means fulfilling a social function and creating a positive atmosphere for others. Our employees help people with mortgages and financing solutions that lead to social and economic inclusion.

**Our core values are:** Professionalism, Respect, Drive and Difference. We are stronger together, and we work as a team where diversity and differences contribute to solidarity. Our employees speak more than 20 different languages and differing experiences are viewed as an asset. Bluestep strongly believes

that a workforce with a diverse range of experience is crucial to success. As Bluestep grows and its geographical and product ranges expand, this provides professional opportunities for those employees wishing to take on the challenge.

## We've asked some of our employees to tell us a bit about themselves and what it's like to work at Bluestep



**Fanny Engströmer Finnson, 34**  
Bolånespecialist i Sverige

### Tell us about your job and why you decided to work at Bluestep:

I am a Mortgage specialist for our new mortgage product, the "New Senior Loan". There is a strong emphasis on analysing the collateral while at the same time we have a serious responsibility as intermediaries to explain the product clearly and informatively to our customers. I've had several different roles at the company and I am really enjoying my time here. This is now my fifth year. It is a friendly place to work, and I'd actually like to say that I don't often get the Monday blues thanks to all of my wonderful customers and co-workers.

### What's the best thing about your job?

We speak to customers every day and we hear many of their life stories. At other times we answer detailed financial and legal questions, and then go on to planning the next trade fair we will attend. This level of variety is what I like about this job.

### What are your sources of motivation?

I feel that this is where I can make a difference and benefit society, if only on a small scale, and this feels important to me.



**Daniel Almgren, 42**  
Valuation and sustainability manager

### Tell us about your job and why you decided to work at Bluestep:

I am in charge of advancing our strategic and operational sustainability efforts. I decided to work at Bluestep because its business concept of financial inclusion and the social benefit this provides appeals to me.

### What's the best thing about your job?

The opportunity to be heard and to make a difference, as well as to work in

a field I care deeply about which makes me proud.

### What are your sources of motivation?

I'm motivated by helping people and creating customer value, and being able to use my skills to achieve something positive for Bluestep, our customers and society.



**Sakib Hossain, 29**  
Mortgage centre in Sweden

### Tell us about your job and why you decided to work at Bluestep:

I work at the mortgage centre, and I am the first person customers will interact with. My job involves screening various potential customers and then forwarding them through the mortgage process. I started working at Bluestep as I'm very interested in the mortgage market. I know how difficult it can be to obtain a mortgage, since I recently bought my first home and wanted to learn more about what it's like to be on the other side of the equation.

### What's the best thing about your job?

The best thing about my job is my wonderful colleagues who always support me and teach me new things. Arriving at the office in the morning, experiencing the positive energy from my colleagues is something unique that I haven't felt at other workplaces in the past.

### What are your sources of motivation?

I get motivation from my colleagues and from getting the chance to improve the lives of families in difficult situations. It's with joy I hear what a difference we make, and this makes me want to continue helping even more people.



**Kejal Tahvili, 31**  
Mortgage specialist in Norway

### Tell us about your job and why you decided to work at Bluestep:

My job is to help customers find a better solution for their financial situation to make their lives easier. I decided to apply for a job here after a Bluestep employee recommended working here. It seemed like a job that would be exciting and different to the one I had previously.

### What's the best thing about your job?

The best thing about the job is the team spirit at the company. Our employees are extremely diverse,

with differing backgrounds. We can communicate with our customers in more than 20 different languages!

### What are your sources of motivation?

I am motivated by helping people who are facing a difficult situation. We are the market leader in an industry that provides a service that can really improve customers' life situations, and that is also very rewarding. At the same time, Bluestep is a growing company with many opportunities for professional growth!



**Olle Westerlundh, 58**  
Mortgage specialist in Sweden

### Tell us about your job and why you decided to work at Bluestep:

I work as a mortgage specialist processing loans to older borrowers (60+) who own their own homes. I work at Bluestep because I want to work at a smaller company that is growing.

### What's the best thing about your job?

The best thing about my job is that my customers are seniors and my colleagues are knowledgeable, helpful and pleasant to work with. I can get help and learn a lot when different groups of people sit nearby one another.

### What are your sources of motivation?

I get motivated by the chance to participate in Bluestep's change and development process. I still have a lot to learn and many customers' situations are improved thanks to help from Bluestep.



# Brand and visual identity

In 2019 Bluestep launched its new brand platform. Changing the perception of a brand takes time, but it was possible to see several positive effects of the relaunch during the year.

## Our customers and the challenge we face together

Ever since the company was founded, we have persistently cultivated our brand and our niche in the mortgage industry. We created a completely new segment as a niche bank specialising in mortgages! Bluestep is and will always be a complement to traditional banks by being able to offer more people the possibility of a secure future. We want our marketing to be inclusive. More people should feel that there is a smart choice: take a step towards security.

We know that our industry is complicated and difficult to understand for many people. We also know that a mortgage is often a requirement to be able to buy a home or take care of personal finances, leading to social and economic inclusion. This is where Bluestep's objective to become known for our work on financial inclusion lies. The majority of people are aware of Bluestep, but knowledge of what we offer is relatively low. If awareness is high but knowledge of what we do and offer is low this increases the risk of misconceptions.

That was our starting point when we launched our new brand in the spring of 2019. We have decided to be the secure, pleasant and smart mortgage specialist for customers with non-

permanent employment and those wishing to organise their finances.

Additional customer needs have arisen in recent years as patterns of living and employment have changed. This is a clear social trend that we at Bluestep believe will continue and even grow more pronounced in the future. More people will choose an alternative form of employment while also wanting to purchase a home. This makes our offering even more relevant.

The new visual identity, new website and marketing with the advertising concept "A step towards security" was rolled out in 2019. The marketing conveys our message: Bluestep makes it possible for people to get ahead. To take a step towards security.

Our strategic emphasis on being a mortgage business was made clearer by ceasing to offer personal loans in February 2020.



# Bluestep from a capital markets perspective

Bluestep has a variety of outstanding fixed income instruments.

## Highlighting a selection of capital markets perspective advantages

### Nordic exposure with low credit losses

Bluestep is a Nordic mortgage bank. Its credit assessment process is based on risk assessment using strong underlying data. Its mortgages are secured by collateral in private homes. There is a high level of payment ethics in the Nordic region, which is demonstrated by the Bank's low credit losses. In 2019 credit losses for the mortgage portfolio amounted to 0.11%.

### A strong liquidity reserve and access to diversified funding

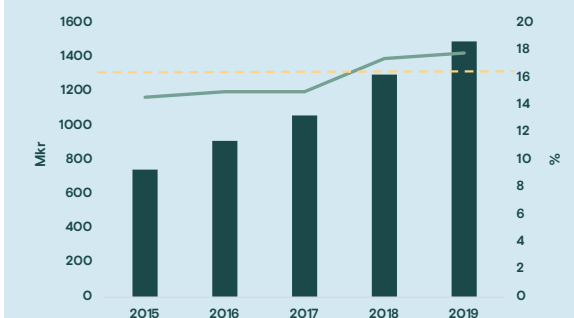
Bluestep has a strong liquidity reserve with a 361% liquidity coverage ratio for the consolidated situation. Bluestep uses multiple diversified sources of funding to finance its business in order to minimize financing risk: equity, deposits from the public in both Sweden and Norway, a credit facility, RMBSs and an MTN programme. In the future we will also be able to issue covered bonds through our established MTCN programme.

### Sustainable actions that offers financial inclusion

We are striving for the financial inclusion of more people in society. Changing forms of employment where we find people such as the self-employed, substitutes and freelancers with no permanent employment are becoming more common, and these people are also seeking the opportunity to borrow money for their homes but their applications are often denied by traditional banks. We look at the customer's prospects and ability to pay in the future rather than only looking at their credit history, and we are able to offer them mortgages if the conditions of the credit assessment process are met. Our mortgages thus help increase equal opportunity and security, as well as economic growth in society.

### A strong capital situation

A strong capital situation with a Common Equity Tier 1 ratio of 17%. Our long-term objective is to have a Common Equity Tier 1 ratio of at least 16%. This means that Bluestep is well equipped to face the future, even if general economic conditions were to deteriorate significantly.



An MTN programme that allows the Bank to issue senior unsecured bonds was established at the end of 2018, and currently there are two bonds outstanding with a total value of SEK 2m. In February 2020, Bluestep's rating was upgraded to Baa1 with positive outlook by Moody's. There are also two RMBSs (Residential Mortgage Backed Securities) totaling SEK 1,901m. In November 2019 the Bank received a licence from the Swedish Financial Supervisory Authority to issue covered bonds pursuant to the Covered Bonds Issuance Act (SFS 2003:1223). Bluestep's covered bonds have been assigned an expected rating of Aa1 by Moody's.



# Administration report

Bluestep Bank AB (publ) ("the Bank") also called "Parent"), 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 1 January 2019 to 31 December 2019. The group comprise the wholly-owned subsidiaries: Bluestep Finans Funding No 1 AB ("BFF1"), corporate registration number 556791-6928, with its registered office in Stockholm, Bluestep Mortgage Securities No 2 Designated Activity Company ("Step2"), corporate registration number 522186, with its registered office in Dublin, Bluestep Mortgage Securities No 3 Designated Activity Company ("Step 3"), corporate registration number 550839, with its registered office in Dublin, Bluestep Mortgage Securities No 4 Designated Activity Company ("Step 4"), corporate registration number 596111, with its registered office in Dublin and Bluestep Servicing AB ("BSAB"), corporate registration number 556955-3927, with its registered office in Stockholm. All the financial information is provided for the Group if not other is state, while the regulatory information refers to the legal person Bluestep Bank AB or the Consolidated situation which Bluestep reports to the Swedish Financial Inspection. The Consolidated situation consists of Bluestep Holding AB ("BHAB"), the Bank, the Branch, BSAB, BFF1, Step 2, Step 3 and Step 4.

Operating income			
SEK Millions	2019	2018	Change %
Net interest income	819.0	718.2	14%
Net result of financial transactions	17.9	14.2	27%
Other operating income	11.5	13.6	-15%
<b>Total operating income</b>	<b>848.5</b>	<b>746.0</b>	<b>14%</b>

Operating expenses			
SEK Millions	2019	2018	Change %
Staff costs	-244.4	-226.2	8%
Administration costs	-232.2	-209.7	11%
Depreciation and impairments	-37.6	-47.6	-21%
<b>Total operating expenses</b>	<b>-514.3</b>	<b>-483.6</b>	<b>6%</b>

Credit losses			
SEK Millions	2019	2018	Change %
Actual losses	-60	-50	19%
Total bad debt charge in relation to average loan book <sup>1</sup>	0.37%	0.35%	7%

<sup>1</sup> For definition of alternative performance measures, please refer to page 93.

## Consolidated profit

The full year refers to 1 January – 31 December 2019 compared with the same period in the previous year.

## Operating profit

Consolidated operating profit increased by 29% and amounted to SEK 275m (SEK 212m). The increase is primarily due to increased lending and more cost-effective financing.

## Net interest income

The Group's net interest income increased by 14% to SEK 819m (SEK 717m). The increase is driven by growth in lending volume and more cost-effective financing.

## Operating expenses

The Group's expenses increased by 6% to SEK 514m (SEK 484m). The increase was due to higher lending, investments in the brand and product and process development. C/I ratio before credit losses declined to 60.6% (64.8%).

## Employees

The average number of employees in the Group during the year amounted to 274 (243),

of which 72 (58) were employed by the Branch Office. This increase was driven by operating growth, investments in business and product development and development of the Company's IT platform.

## Loan losses

Consolidated net credit losses amounted to SEK 60m (SEK 50m). The increase was driven by higher reservations for future credit losses due to the growth in lending. The total credit loss level was 0.37% (0.35%), and for mortgages it was 0.11% (0.12%).

## Group contribution

The Board of Directors of BHAB (which owns 100% of the Bank) had a wish of a proposal of a dividend of SEK 67.1m to the AGM. This proposal was withdrawn due to the guidelines published by the Swedish Financial Supervisory Authority resulting from the coronavirus. The Bank made a Group contribution of SEK 85.3m (before tax) to BHAB through its previous dividend proposal. The Group contribution should be viewed in light of the capital situation, the macroeconomic prospects and the Group's earning capacity. The Bank's long-term capital target is to have a Common Equity Tier 1 ratio of at least 16%. A Group contribution of SEK 115.2 was furthermore made to the Bank by BFF1.

## Taxes

The tax expense amounted to SEK 43.6m (SEK 50.3m), which is equivalent to an effective tax rate of 23.1% (23.7%).

## Financial position

Per 31 december 2019 jämfört med samma datum föregående år, om inte annat nämns

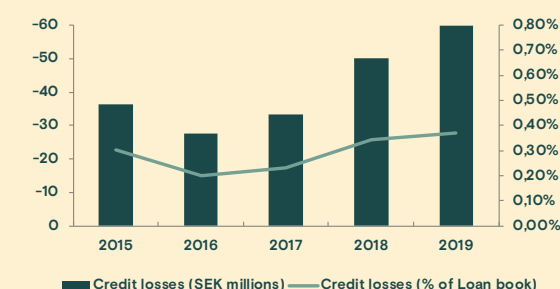
## Lending

Consolidated total lending to the public increased by 11.0% and amounted to SEK 16,124m (SEK 14,522m).

## Capital base and capital adequacy

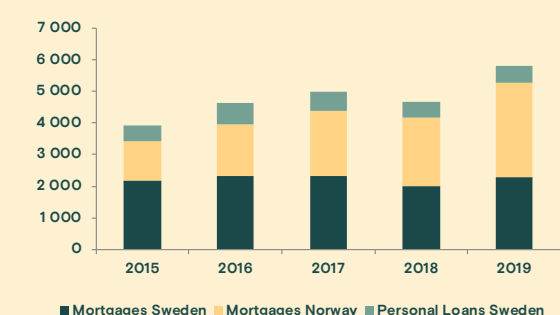
Common Equity Tier 1 capital ("CET1") amounted to SEK 1,475m (SEK 1,303m) for the consolidated situation. This is equivalent to a CET1 ratio of 17.9% (17.5%). Common Equity Tier 1 capital for the Bank amounted to 1,494 Mkr (1,413 Mkr), which is equivalent to a CET1 ratio of 21.4% (22.8%). The total capital requirements under Pillar I amounted

## Credit Losses<sup>1</sup>

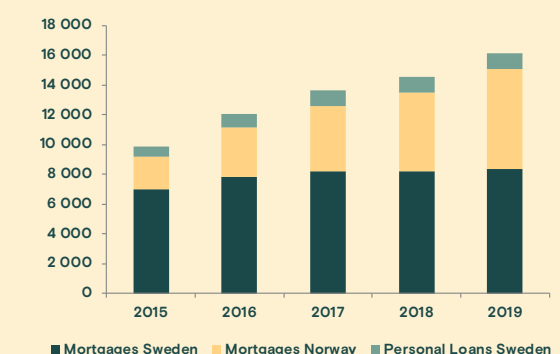


<sup>1</sup>The credit losses increased beginning in 2018 due to the transition to IFRS9.

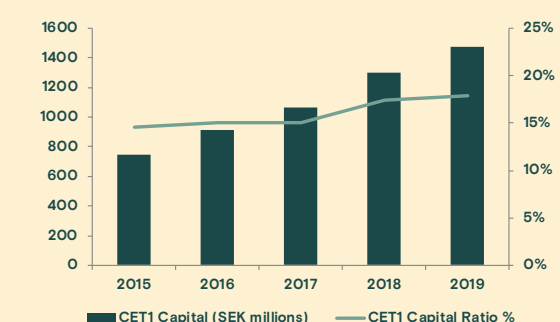
## New Lending (SEK millions)



## Lending portfolio (SEK millions)



## CET1 Capital & CET1 Capital Ratio (Consolidated situation)





to SEK 660m (SEK 597m) for the consolidated situation and SEK 560m (SEK 496m) for the Bank. For further more detailed information on the capital and capital adequacy at year-end, see Note 29. See the definition of the consolidated situation under "Ownership and definitions" on page 18.

## Return on equity

Return on equity amounted to 14.1% for full-year 2019 (13.0%).

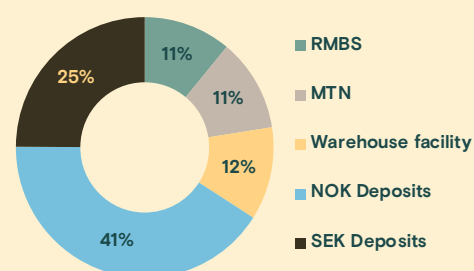
## Financing

The Group's sources of financing consisted of equity, deposits from the public in Sweden and Norway, a contracted credit facility and issuing of RMBSs (Residential Mortgage Backed Securities, i.e. bonds backed by underlying Swedish mortgage assets as security via the wholly owned subsidiaries Step 3 and Step 4) and senior non-covered bonds. In November 2019 the Bank received a licence from the Swedish Financial Supervisory Authority to issue covered bonds pursuant to the Covered Bonds Issuance Act (SFS 2003:1223).

## Borrowing

An RMBS transaction (Step 2) was repaid during the year. In combination of continual repayment of outstanding transactions (Step 3 and Step 4), RMBS borrowing declined to SEK 1,901.1m (SEK 3,233.7m). The outstanding volume of non-covered bonds issued under the Bank's MTN programme increased during the year to a total of SEK 2,000m (SEK 200m). The SEK 2,000m secured credit facility was fully utilised at year-end as in the previous year.

External funding sources



## Deposits

Total deposits from the public amounted to SEK 11,421m (SEK 10,417m) at year-end, an increase of 9.6%. SEK 7,105m (SEK 5,884m) of this amount consisted of deposits at the Branch Office, which is equivalent to a 20.8% increase. The deposit products offered to customers in Sweden are covered by the Swedish government deposit guarantee, which amounts to SEK 950,000. In Norway deposit products are covered by the Norwegian deposit guarantee, which amounts to NOK 2,000,000 via the Norwegian Banks' Guarantee Fund.

## Credit rating

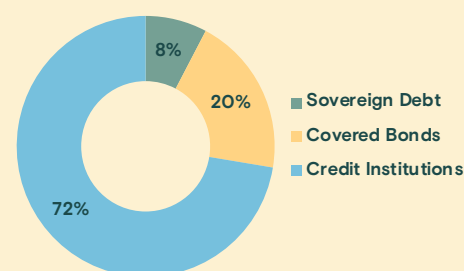
In June 2019 the Bank received a rating of Baa2 with a stable outlook from Moody's.

## Liquidity

At year-end the Group's liquidity reserve amounted to SEK 2,674m (SEK 2,556m), of which SEK 1,936m (SEK 1,863m) was held at credit institutions, SEK 532m (SEK 525m) consisted of covered bonds issued by Swedish and Norwegian credit institutions, SEK 205m (SEK 167m) consisted of Swedish and Norwegian government bonds and SEK 1m (SEK 1m) was invested in bonds issued by other European governments. All bond investments were made in bonds rated AAA/Aaa. The Bank's liquidity reserve amounted to SEK 2,071m (SEK 1,955m).

The liquidity coverage ratio (LCR) for all currencies in the consolidated situation amounted to 361% (324%) at year-end. The net stable funding ratio (NSFR) amounted to 118% (111%) at year-end.

Liquidity reserve, the Group



## Five-year overview

Key figures   the Group	2019	2018	2017	2016	2015
Operating Income (SEK m)	274.5	212.2	250.8	212.2	150.6
Gross revenue / Lending portfolio <sup>2</sup>	7.5%	7.5%	7.4%	7.3%	7.7%
Operatng revenues <sup>2</sup>	5.5%	5.3%	5.3%	5.3%	5.2%
Credit losses (%) <sup>2</sup>	0.37%	0.35%	0.25%	0.23%	0.37%
CET1 <sup>2</sup>	1,474.9	1,303.0	1,063.8	914.7	746.3
CET1 (%) <sup>2</sup>	17.87%	17.45%	15.02%	15.00%	14.58%
Return on Equity <sup>1,2</sup>	14.1%	13.0%	19.4%	19.8%	17.2%
Return on Assets <sup>2</sup>	1.5%	1.2%	1.6%	1.6%	1.4%
Liquidity Reserve (SEK m)	2,674	2,556	3,030	2,077	2,178
Deposits from the public (SEK m)	11,421.4	10,416.6	10,418.6	9,504.4	7,186.8
External Funding (SEK m)	5,901.1	5,432.6	4,831.3	3,404.0	3,675.6
Lending portfolio (SEK m)	16,124.4	14,521.7	12,366.0	9,918.0	8,344.0
Leverage Ratio	7.7%	7.5%	6.4%	6.5%	6.3%
Average number of employees	274	243	227	187	176

<sup>1</sup>A shareholders' contribution of SEK 200m was made in 2018, which had a negative effect on return on equity

<sup>2</sup>See page 93 for definitions of alternative performance measures.

## Significant events after the end of the financial year

- In January 2020 the Bank contracted a new SEK 2,000m credit facility with a final maturity date in October 2020. The primary reason for obtaining the credit facility was the Bank's licence to issue covered bonds.
- In February BFF1 repaid an existing SEK 2,000m credit facility. The Bank acquired mortgages valued at SEK 2,316m from BFF1.
- On 15 January 2020 Erik Walberg Olstad took over legal responsibility for the Norwegian business as branch manager in addition to his role as COO.
- The Finnish Branch Office was registered with the Finnish Patent and Registration Office in January 2020.
- In February 2020 the Bank ceased offering personal loans and placed more emphasis on its strategy to concentrate on mortgage lending.

In mid-February 2020 Moody's upgraded the Bank to Baa1 from Baa2 and upgraded the outlook from stable to positive.

The coronavirus (COVID-19) affects society and means a high degree of uncertainty, resulting in market volatility. Bluestep is following developments closely and has taken safety precautions. Provisions for credit losses did not change significantly during the first quarter of 2020, and the Bank's capital situation remain strong. We are seeing healthy demand for our mortgages and we continue to assist our customers.

## 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 percent of Bluestep Bank AB
- Bluestep Bank AB (publ) (“the Bank” also called “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 lending operation
- Bluestep Bank AB, the branch office in Finland (“the Finnish Branch Office”), was registered in January 2020 Finnish branch office for the Finnish lending operation
- Bluestep Finans Funding No 1 AB (“BFF1”) Financing company, 100 percent owned by the Bank
- Bluestep Mortgage Securities No 2 Designated Activity Company (“Step 2”) Previous financing company in liquidation. 100 percent owned by the Bank
- Bluestep Mortgage Securities No 3 Designated Activity Company (“Step 3”) Financing company, 100 percent owned by the Bank

- Bluestep Mortgage Securities No 4 Designated Activity Company (“Step 4”) Financing company, 100 percent owned by the Bank
- Bluestep Servicing AB (“BSAB”) Deposit and lending administration, 100 percent 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.

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 31 december, 2019, consists of BHAB, the Bank, the Branch Office, the Finish Branch Office, BSAB, BFF1, Step 2, Step 3 and Step 4.

Branch offices outside Sweden

The Bank operates in Norway through its Norwegian branch office. The Bank is one of the leading lenders in the specialised mortgage market in Norway, and it will finance its Norwegian operation primarily through deposits from the public in Norway, issuance of bonds and its own funds in the form of equity. The branch office is

also eligible to receive internal loans from the Bank. At the end of August the Bank submitted an application to establish a branch office and pursue mortgage operations in Finland. This was noted by both the Swedish and Finnish Financial Supervisory Authorities before the end of the year. The Finnish Branch Office was registered in January 2020. The initiation of lending operations in Finland is proceeding.

Significant regulatory changes

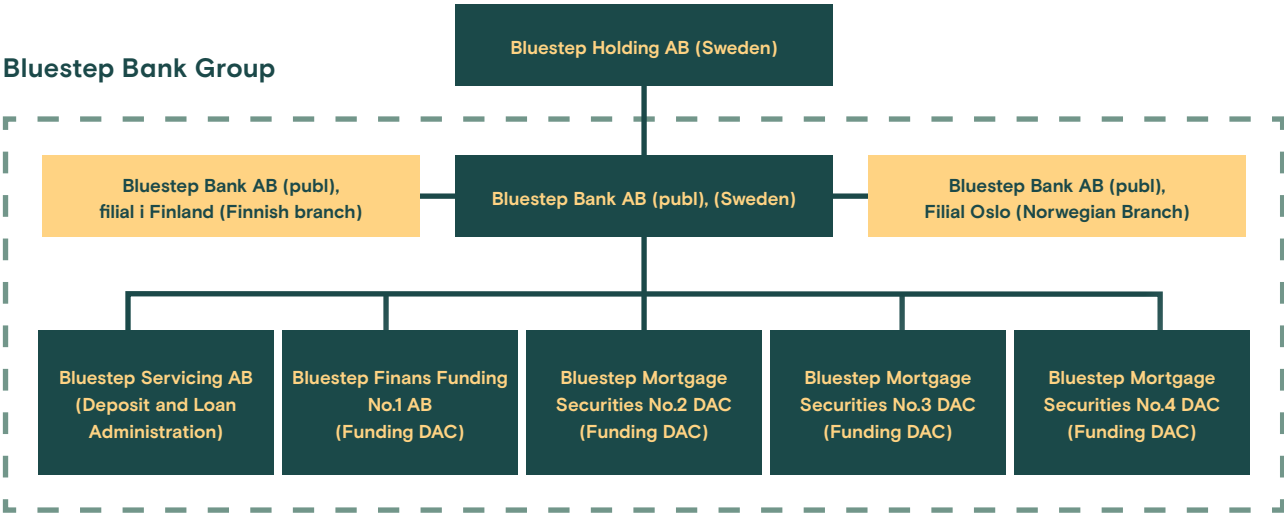
The Bank is applying the new accounting standard IFRS 16 Leases for the 2019 financial year. IFRS 16 supersedes IAS 17 Leases and its associated interpretations. The standard is applicable beginning on 1 January 2019 and has been adopted by the EU. The standard entails new disclosure requirements for lessees as well as affecting the balance sheet and income statement. This annual report is otherwise prepared in accordance with the same accounting policies and calculation methods that have been applied since the 2018 annual report.

The Bank has chosen to prepare the statutory sustainability report and corporate governance report separately from the annual report pursuant to the Swedish Annual Accounts Act Chapter 6 Section 6 and Chapter 6 Section 11. The corporate governance report and sustainability report are not part of the administration report; instead, they appear on pages 81-86 of this document.

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 Chief Risk Officer ("CRO") 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 second line of defense, the CRO reports directly to the CEO and the Board of Directors.

The Bank's 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 target 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 CRO 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.

Proposal for the appropriation of profits	
The following profits are available for appropriation at the annual general meeting	
Non-restricted equity from previous years	1,341,762,123
Result of the year	128,362,912
Translation difference for the year, foreign operations	7,340,392
	1,477,465,427
The Board propose that	
the following be carried forward	1,477,465,427
	1,477,465,427

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	2019	2018	2019	2018
Operating income					
Interest income calculated using the effective interest method		1,153.4	1,063.3	1,000.6	937.3
Other interesst income		9.8	6.5	59.8	70.8
Interest expense calculated using the effective interest method		-249.1	-213.9	-402.5	-459.0
Other interest expenses		-95.1	-138.8	-28.0	-34.5
Net interest income	4	819.0	717.0	629.9	514.5
Group contributions		-	-	115.2	85.4
Net result of financial transactions	6	17.9	15.4	-10.7	-4.5
Other operating income	7	11.5	13.6	85.0	10.7
Total operating income		848.5	746.0	819.4	606.1
Operating expense					
General administration expenses	8,9,10	-476.7	-435.9	-484.8	-308.4
Depreciation on fixed assets	11,12	-37.6	-47.6	-21.5	-41.9
Total expenses		-514.3	-483.6	-506.3	-350.3
Result pre credit losses		334.2	262.4	313.1	255.8
Credit losses, net	13	-59.7	-50.2	-57.4	-47.8
Operating profit/loss		274.5	212.2	255.7	208.0
Group contributions		-85.3	-	-85.3	-
Tax	14	-43.6	-50.3	-42.0	-50.3
NET PROFIT/LOSS FOR THE YEAR		145.6	161.9	128.4	157.7
Statement of Comprehensive Income					
Net income		145.6	161.9	128.4	157.7
Items that may be reclassified to the income statement					
Translation difference for the year, foreign operations		3.5	-0.3	3.7	-0.3
Whereof tax effect		-0.8	0.1	-0.8	0.1
COMPREHENSIVE PROFIT/LOSS		148.3	161.7	131.3	157.4



# Balance Sheet

		Group		Parent	
SEK Millions	Note	2019-12-31	2018-12-31	2019-12-31	2018-12-31
Assets					
Lending to credit institutions	15	1,935.6	1,862.8	1,333.4	1,261.9
Lending to the public	16	16,124.4	14,521.7	13,735.2	11,976.9
Derivatives	17	147.0	213.4	34.4	36.4
Bonds and other interest-bearing securities	18	738.1	693.1	738.1	693.1
Shares and participations in associated companies	19	-	-	4.7	4.7
Intangible assets	11	107.6	58.0	94.2	43.5
Tangible fixed assets	12	60.8	8.3	7.1	7.3
Other assets	20	105.4	108.8	780.1	815.4
Prepaid expenses and accrued income	21	20.9	27.3	20.2	25.5
Tax assets		13.9	3.0	13.0	-
Total assets		19,253.5	17,496.4	16,760.3	14,864.8
Liabilities					
Liabilities to credit institutions	22	2,000.0	1,998.9	1,487.8	2,631.8
Issued bonds	23	3,901.1	3,433.7	11,421.4	10,416.6
Deposits from the public	24	11,421.4	10,416.6	2,000.0	200.0
Derivatives	17	17.1	38.1	17.1	25.5
Tax liabilities	14	-	-	-	0.3
Other liabilities	26	219.8	72.2	169.3	82.1
Accrued expenses and prepaid income	25	88.6	79.8	76.5	51.5
Total liabilities		17,648.0	16,039.3	15,172.0	13,407.8
Equity					
Share capital		100.0	100.0	100.0	100.0
Self-procured acquisition values		-	-	10.8	-
Translation reserve		7.1	4.4	7.3	4.4
Shareholders' contribution		563.7	563.7	1,341.8	1,194.8
Retained earnings		789.1	627.1	128.4	157.7
Result for this year		145.6	161.9	128.4	157.7
Total equity		1,605.5	1,457.2	1,588.2	1,456.9
Total equity and liabilities		19,253.5	17,496.4	16,760.3	14,864.8

# Changes in Equity

Group SEK Millions	Eget kapital hänförligt till moderbolagets aktieägare				
	Share capital	Translation reserve	Shareholders' contribution	Retained earnings*	Total equity
<b>Opening balance 2018-01-01</b>	<b>100.0</b>	<b>4.6</b>	<b>363.7</b>	<b>641.1</b>	<b>1,109.4</b>
Shareholder contributions*			200.0		<b>200.0</b>
Result for the year reported via income statement				161.9	<b>161.9</b>
Effect of transition to IFRS 9				-17.2	<b>-17.2</b>
Tax effect due to transition to IFRS 9				3.3	<b>3.3</b>
Exchange differences, foreign operations		-0.2			<b>-0.2</b>
<b>Ending balance 2018-12-31</b>	<b>100.0</b>	<b>4.4</b>	<b>563.7</b>	<b>789.1</b>	<b>1,457.2</b>
<b>Opening balance 2019-01-01</b>	<b>100.0</b>	<b>4.4</b>	<b>563.7</b>	<b>789.1</b>	<b>1,457.2</b>
Result for the year reported via income statement				145.6	<b>145.6</b>
Exchange differences, foreign operations		2.8			<b>2.8</b>
<b>Ending balance 2019-12-31</b>	<b>100.0</b>	<b>7.1</b>	<b>563.7</b>	<b>934.6</b>	<b>1,605.5</b>

Parent SEK Millions	Shareholders' equity				
	Restricted		Non restricted		Total equity
	Share capital	Fund for development fees	Translation reserve	Retained earnings*	
<b>Opening balance 2018-01-01</b>	<b>100.0</b>	<b>-</b>	<b>4.7</b>	<b>1,005.3</b>	<b>1,110.0</b>
Shareholder contributions*				200.0	<b>200.0</b>
Result for the year reported via income statement				157.7	<b>157.7</b>
Effect of transition to IFRS 9				-13.5	<b>-13.5</b>
Tax effect due to transition to IFRS 9				3.0	<b>3.0</b>
Exchange differences, foreign operations			-0.2		<b>-0.2</b>
<b>Ending balance 2018-12-31</b>	<b>100.0</b>	<b>-</b>	<b>4.4</b>	<b>1,352.5</b>	<b>1,456.9</b>
<b>Opening balance 2019-01-01</b>	<b>100.0</b>	<b>-</b>	<b>4.4</b>	<b>1,352.5</b>	<b>1,456.9</b>
Result for the year reported via income statement				128.4	<b>128.4</b>
Exchange differences, foreign operations			2.9		<b>2.9</b>
The period's own accumulated intangible assets		10.8		-10.8	<b>-</b>
<b>Ending balance 2019-12-31</b>	<b>100.0</b>	<b>10.8</b>	<b>7.3</b>	<b>1,470.1</b>	<b>1,588.2</b>

\* Conditional shareholder contributions. Repayment of the conditional shareholder contributions is subject to a decision made

# Cash Flow Statement

SEK Millions	Note	Group		Parent	
		2019	2018	2019	2018
<b>Operating activities</b>					
Pre tax income		274.5	212.2	255.7	208.0
		<b>274.5</b>	<b>212.2</b>	<b>255.7</b>	<b>208.0</b>
<b>Adjustments for items not included in cash flow</b>					
Increase in tangible fixed assets due to IFRS 16		-64.0	-	-	-
Depreciation	11,12	37.6	47.6	21.5	41.9
Unrealised changes in value	6	-8.4	5.4	19.4	24.4
Credit losses excluding recoveries	13	105.0	95.9	102.3	93.5
<b>Total – Items not included in cash flow</b>		<b>70.2</b>	<b>148.9</b>	<b>143.1</b>	<b>159.8</b>
Taxes paid		-54.5	-76.1	-55.3	-77.0
<b>Cash flow from current operations before changes to operating capital</b>		<b>290.3</b>	<b>285.1</b>	<b>343.5</b>	<b>290.8</b>
<b>Cash flow from changes to operating capital</b>					
Increase (-)/decrease (+) of lending to the public		-1,707.6	-1,025.1	-1,860.6	411.9
Increase (-)/decrease (+) of change in receivables		76.3	-12.4	42.7	-66.2
Increase (+)/decrease (-) of deposits from the public		1,004.8	-1.9	1,004.8	-1.9
Increase (+)/decrease (-) of change in short term liabilities		50.2	-21.7	18.5	-4.9
<b>Cash flow from operating activities</b>		<b>-286.1</b>	<b>-776.1</b>	<b>-451.2</b>	<b>629.7</b>
<b>Investing activities</b>					
Decrease in intangible assets	11	-72.9	-41.0	-69.1	-37.0
Decrease of tangible fixed assets	12	-2.9	-2.3	-2.8	-2.3
Decrease of financial assets	18	-47.9	-54.3	-64.3	-73.3
<b>Cash flow from investing activities</b>		<b>-112.4</b>	<b>-97.6</b>	<b>-136.2</b>	<b>-112.5</b>
<b>Financing activities</b>					
Liabilities to credit institutions	22	1.1	1,451.1	656.0	-841.4
Issued bonds	23	467.4	-849.7	-	-
Shareholders' contribution		-	200.0	-	200.0
<b>Cash flow from financing activities</b>		<b>468.5</b>	<b>801.3</b>	<b>656.0</b>	<b>-641.4</b>
<b>NET CASH FLOW FOR THIS YEAR</b>		<b>70.0</b>	<b>-72.3</b>	<b>68.5</b>	<b>-124.2</b>
<b>Liquid funds at beginning of year</b>		<b>1,862.8</b>	<b>1,935.5</b>	<b>1,261.9</b>	<b>1,386.4</b>
<b>Currency difference i liquidity</b>		<b>2.8</b>	<b>-0.2</b>	<b>2.9</b>	<b>-0.2</b>
<b>LIQUID FUNDS END OF YEAR</b>		<b>1,935.6</b>	<b>1,862.8</b>	<b>1,333.4</b>	<b>1,261.9</b>
<b>Cash flow includes interest receipts of</b>		<b>1,168.6</b>	<b>1,076.0</b>	<b>1,065.9</b>	<b>1,011.7</b>
<b>Cash flow includes interest payments of</b>		<b>-354.6</b>	<b>-372.6</b>	<b>-440.9</b>	<b>-513.5</b>

# Disclosures

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# Note 1. Accounting policies

## General information

The Annual Report was approved for publication by the Board of Directors on April 22, 2020. The income statement and balance sheet will be presented at the Annual General Meeting for adoption on April 22, 2020. 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

### IFRS 16 Leases

On January 1, 2019, IFRS 16 Leases came into force, replacing IAS 17. The standard was approved by the EU in November 2017 for application to the financial year beginning on 1 January 2019. The new standard significantly changes the way lessee 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. At the transition to IFRS 16 as of January 1, 2019, the asset (rights of use) amounted to SEK 20.5m and the lease debt to SEK 20.5m. Initially balanced profits were not affected by any initial effect at the transition. IFRS 16 does not apply to the Parent Company.

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

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

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.

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 amortised 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

## 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.

### 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 to the parent company

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

All leases are operational, 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. The Bank, which is the seller of the loans, is bound to repurchase any loans that do not meet the requirements from the beginning.

# 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 contracted credit facilities. In November 2019, the Bank received permission from the Swedish FSA to issue covered bonds in accordance with the Act (2003:1223) on the issue of covered bonds.

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. To strengthen the strategic direction of mortgage lending, the Bank stopped offering personal loans in mid-February 2020 in Sweden. The credit portfolio is well diversified and consists of a large number of customers, mainly in sectors with medium risk. The Bank bases its credit strategy on the borrowers' expected

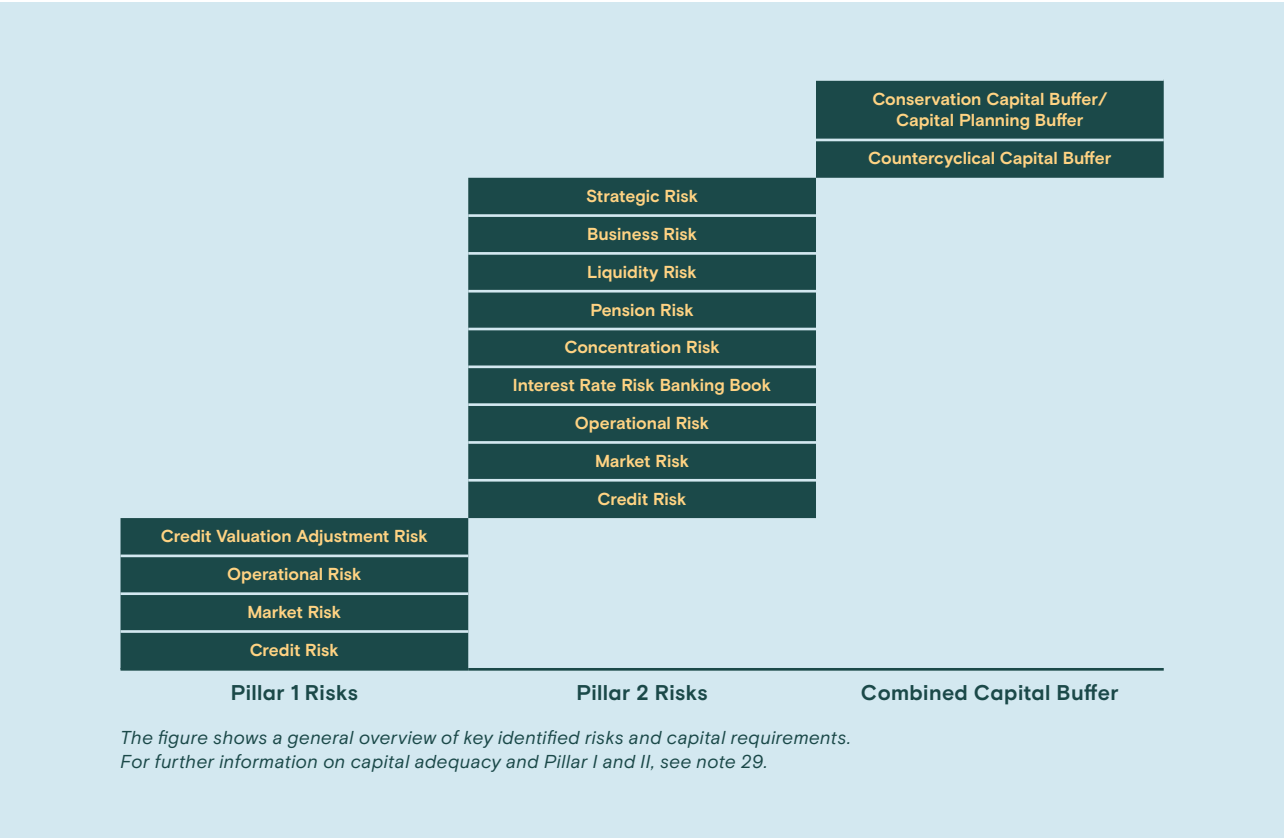
ability to repay their debts and credit history. In order to estimate probability of default, the Bank categorises borrowers into different risk grades (both for mortgages and personal loans).

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

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 principal 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	Förväntade kreditförluster under hela kontraktets löptid	Expected credit losses during the contract period

The following tables present a breakdown of loans valued at accrued acquisition value distributed according to internal risk classification with its step allocation.

2019-12-31	Group				Parent			
Risk grade Mortgages	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
A	6,891.5	450.8	0.4	7,342.7	5,578.8	366.8	0.4	5,946.1
B	3,112.3	331.9	3.3	3,447.6	2,691.0	287.3	3.3	2,981.7
C	3,509.8	513.2	300.3	4,323.3	3,056.5	458.3	276.0	3,790.7
Change due to expertise	23.0	-23.0	-	-	15.0	-15.0	-	-
<b>Total</b>	<b>13,536.6</b>	<b>1,272.9</b>	<b>304.1</b>	<b>15,113.6</b>	<b>11,341.4</b>	<b>1,097.4</b>	<b>279.7</b>	<b>12,718.5</b>
Reserve for expected credit losses	-5.3	-13.8	-10.4	-29.5	-4.3	-10.6	-8.5	-23.5
<b>Total lending to the public valued at amortized cost</b>	<b>13,531.2</b>	<b>1,259.2</b>	<b>293.8</b>	<b>15,084.2</b>	<b>11,337.1</b>	<b>1,086.8</b>	<b>271.2</b>	<b>12,695.1</b>

Risk grade Personal loans	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
A	627.3	27.3	2.8	657.3	627.3	27.3	2.8	657.3
B	229.2	28.6	4.7	262.5	229.2	28.6	4.7	262.5
C	106.7	14.8	1.2	122.7	106.7	14.8	1.2	122.7
Change due to expertise	4.6	-4.6	-	-	4.6	-4.6	-	-
<b>Total</b>	<b>967.8</b>	<b>66.1</b>	<b>8.7</b>	<b>1,042.5</b>	<b>967.8</b>	<b>66.1</b>	<b>8.7</b>	<b>1,042.5</b>
Reserve for expected credit losses	-10.0	-14.8	-3.6	-28.4	-10.0	-14.8	-3.6	-28.4
<b>Total lending to the public valued at amortized cost</b>	<b>957.8</b>	<b>51.3</b>	<b>5.1</b>	<b>1,014.1</b>	<b>957.8</b>	<b>51.3</b>	<b>5.1</b>	<b>1,014.1</b>

2018-12-31	Group				Parent			
Risk grade Mortgages	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
A	5,801.2	263.1	4.8	6,069.1	4,402.4	200.4	4.8	4,607.5
B	3,090.4	278.1	3.9	3,372.4	2,601.9	225.1	3.9	2,830.9
C	3,567.2	322.5	228.6	4,118.2	3,093.8	260.2	216.8	3,570.7
Change due to expertise	18.6	-11.0	-7.6	-	12.3	-4.7	-7.6	-
<b>Total</b>	<b>12,477.4</b>	<b>852.7</b>	<b>229.7</b>	<b>13,559.8</b>	<b>10,110.3</b>	<b>680.9</b>	<b>217.9</b>	<b>11,009.1</b>
Reserve for expected credit losses	-4.1	-12.1	-8.4	-24.7	-2.8	-8.6	-7.4	-18.8
<b>Total lending to the public valued at amortized cost</b>	<b>12,473.2</b>	<b>840.6</b>	<b>221.2</b>	<b>13,535.1</b>	<b>10,107.5</b>	<b>672.4</b>	<b>210.4</b>	<b>10,990.3</b>

Risk grade Personal loans	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
A	606.7	19.4	2.5	628.7	606.7	19.4	2.5	628.7
B	236.5	29.3	2.8	268.7	236.5	29.3	2.8	268.7
C	106.3	14.1	2.5	122.9	106.3	14.1	2.5	122.9
Change due to expertise	-	-	-	-	-	-	-	-
<b>Total</b>	<b>949.6</b>	<b>62.9</b>	<b>7.8</b>	<b>1,020.2</b>	<b>949.6</b>	<b>62.9</b>	<b>7.8</b>	<b>1,020.2</b>
Reserve for expected credit losses	-9.8	-13.6	-3.0	-26.4	-9.8	-13.6	-3.0	-26.4
<b>Total lending to the public valued at amortized cost</b>	<b>939.8</b>	<b>49.3</b>	<b>4.8</b>	<b>993.9</b>	<b>939.8</b>	<b>49.3</b>	<b>4.8</b>	<b>993.9</b>

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	Threshold 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 2019	Gross amount 31 December 2019	Share of portfolio % 31 December 2019
<=0.4%	500%	0.0%	0.0%	0.2	1,906.7	22.8%
0.4%-0.8%	500%	0.0%	0.0%	0.8	3,236.0	38.7%
0.8%-3.2%	500%	25.3%	-1.6%	2.4	2,196.9	26.3%
3.2%-6.4%	500%	89.3%	-2.0%	1.5	476.0	5.7%
6.4%-12.8%	500%	2.6%	-15.7%	2.3	206.5	2.5%
12.8%-	500%	0.0%	-0.8%	7.6	257.0	3.1%
Loan in stage 3				7.2	85.8	1.0%
<b>Total</b>		<b>8.4%</b>	<b>-2.3%</b>	<b>22.0</b>	<b>8,364.8</b>	<b>100.0%</b>



**Mortgage loan Norway**  
Credit loss provision impact of

PD interval at first accounting date	Threshold value impairment of PD	Reduced limit for PD-impairment with 40%	Increased limit for PD-impairment with 50%	Credit loss reserve 31 December 2019	Gross amount 31 December 2019	Share of portfolio % 31 December 2019
<=0.4%	400%	0.0%	0.0%	0.0	512.3	7.6%
0.4%-0.8%	400%	0.0%	0.0%	0.0	1,009.6	15.0%
0.8%-3.2%	400%	3.3%	0.0%	0.4	3,672.1	54.4%
3.2%-6.4%	400%	64.4%	-22.8%	0.2	440.0	6.5%
6.4%-12.8%	400%	54.5%	-36.7%	0.6	426.0	6.3%
12.8%-	400%	3.3%	-8.4%	2.9	470.5	7.0%
Loan in stage 3				3.1	218.3	3.2%
<b>Total</b>		<b>8.1%</b>	<b>-7.1%</b>	<b>7.4</b>	<b>6,748.8</b>	<b>100.0%</b>

**Other operation**  
Credit loss provision impact of

PD interval at first accounting date	Threshold 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 2019	Gross amount 31 December 2019	Share of portfolio % 31 December 2019
<=0.4%	61%	0.0%	0.0%	0.0	7.9	0.8%
0.4%-0.8%	61%	0.0%	0.0%	0.0	22.8	2.2%
0.8%-3.2%	61%	0.0%	0.0%	2.3	479.7	46.0%
3.2%-6.4%	61%	0.0%	0.0%	2.4	200.2	19.2%
6.4%-12.8%	61%	1.0%	-2.7%	4.4	227.2	21.8%
12.8%-	61%	1.1%	-1.5%	15.7	96.0	9.2%
Loan in stage 3				3.6	8.7	0.8%
<b>Total</b>		<b>0.8%</b>	<b>-1.3%</b>	<b>28.4</b>	<b>1,042.5</b>	<b>100.0%</b>

**Mortgage loan Sweden**  
Credit loss provision impact of

PD interval at first accounting date	Threshold 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 2019	Gross amount 31 December 2019	Share of portfolio % 31 December 2019
<=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%
<b>Total</b>		<b>7,4%</b>	<b>-1,0%</b>	<b>19,6</b>	<b>8 257,9</b>	<b>100,0%</b>

**Mortgage loan Norway**  
Credit loss provision impact of

PD interval at first accounting date	Threshold 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%
<b>Total</b>		<b>23,9%</b>	<b>-2,4%</b>	<b>5,1</b>	<b>5 301,9</b>	<b>100,0%</b>

**Other operation**  
Credit loss provision impact of

PD interval at first accounting date	Threshold 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%
<b>Total</b>		<b>0,9%</b>	<b>-1,8%</b>	<b>26,4</b>	<b>1 020,2</b>	<b>100,0%</b>

## 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.

1 December 2019	Weight	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
SE_INT_Opt	0.25	-0.25	-0.59	-0.72	-0.65	-0.32	0.09	0.54	1.12	1.79	2.24
SE_INT_Base	0.50	-0.25	-0.25	-0.25	-0.07	0.18	0.50	0.87	1.37	1.96	2.32
SE_INT_Neg	0.25	-0.25	0.09	0.23	0.52	0.68	0.92	1.21	1.62	2.13	2.40
SE_HPI_Opt	0.25	1.05	1.05	1.05	1.05	1.05	1.05	1.05	1.05	1.05	1.05
SE_HPI_Base	0.50	1.02	1.02	1.02	1.02	1.02	1.02	1.02	1.02	1.02	1.02
SE_HPI_Neg	0.25	0.98	0.98	0.98	0.98	0.98	0.98	0.98	0.98	0.98	0.98
NO_HPI_Opt	0.25	1.06	1.06	1.06	1.06	1.06	1.06	1.06	1.06	1.06	1.06
NO_HPI_Base	0.50	1.03	1.03	1.03	1.03	1.03	1.03	1.03	1.03	1.03	1.03
NO_HPI_Neg	0.25	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

The regulations stipulate that the company must calculate reserves under various macroeconomic conditions. Bluestep has chosen to carry out the calculation under a Bass scenario, which corresponds to the expected macroeconomic development of the variables that affect the

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 2019 are shown in the table below. The base, optimistic and negative scenarios are used for all the portfolios.

provisions. In combination with the Bass scenario, an assumption is made of an optimistic, ie. a more positive market trend and a negative scenario, where the market does not develop in line with the assumptions in the models.

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	0.50	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	0.50	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	28.0	1.7%
	Negative	29.0	-1.8%
Sweden	Optimistic	20.6	2.3%
	Negative	21.6	-2.4%
Norway	Optimistic	7.4	0.0%
	Negative	7.4	0.0%
Other operation	Optimistic	28.1	1.1%
	Negative	28.7	-1.1%
Total	Optimistic	56.1	1.4%
	Negative	57.7	-1.4%

Parent			
Business area	Scenarios	Provisions attributable to the scenario	Change against reported allocation
Mortgage loan	Optimistic	21.8	1.6%
	Negative	22.5	-1.7%
Sweden	Optimistic	14.8	2.3%
	Negative	15.5	-2.4%
Norway	Optimistic	7.4	0.0%
	Negative	7.4	0.0%
Other operation	Optimistic	28.1	1.1%
	Negative	28.7	-1.1%
Total	Optimistic	50.3	0.5%
	Negative	51.6	-2.1%



## 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	Group				Parent			
	2019-12-31		2018-12-31		2019-12-31		2018-12-31	
	Sweden	Norway	Sweden	Norway	Sweden	Norway	Sweden	Norway
<b>Governments or central banks</b>								
– Credit Quality Step 1	386.5	113.6	181.2	74.4	383.5	113.6	176.8	74.4
<b>Total Governments or central banks</b>	<b>386.5</b>	<b>113.6</b>	<b>181.2</b>	<b>74.4</b>	<b>383.5</b>	<b>113.6</b>	<b>176.8</b>	<b>74.4</b>
<b>Lending to credit institutions</b>								
– Credit Quality Step 1	1,477.7	191.9	1,310.0	496.0	875.5	191.9	708.1	496.0
– Credit Quality Step 2	–	–	–	–	–	–	–	–
– No rating	–	–	–	0.4	–	–	–	0.4
<b>Total lending to credit institutions</b>	<b>1,477.7</b>	<b>191.9</b>	<b>1,310.0</b>	<b>496.4</b>	<b>875.5</b>	<b>191.9</b>	<b>708.1</b>	<b>496.4</b>
<b>Corporates</b>								
– No rating	–	–	–	–	683.2	–	710.0	–
<b>Total corporates</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>683.2</b>	<b>–</b>	<b>710.0</b>	<b>–</b>
<b>Lending to the general public</b>								
– Unsecured loans	1,031.1	–	1,003.3	–	1,031.1	–	1,003.3	–
– Loans secured by residential property	8,369.6	6,723.6	8,223.1	5,289.6	5,980.5	6,723.6	5,684.0	5,289.6
<b>Total lending to the general public</b>	<b>9,400.7</b>	<b>6,723.6</b>	<b>9,226.4</b>	<b>5,289.6</b>	<b>7,011.6</b>	<b>6,723.6</b>	<b>6,687.3</b>	<b>5,289.6</b>
<b>Bonds and other interestbearing securities</b>								
– Credit Quality Step 1	253.7	280.3	254.0	272.7	253.7	280.3	254.0	272.7
– Credit Quality Step 2	–	–	–	–	–	–	–	–
<b>Total bonds and other interest-bearing securities</b>	<b>253.7</b>	<b>280.3</b>	<b>254.0</b>	<b>272.7</b>	<b>253.7</b>	<b>280.3</b>	<b>254.0</b>	<b>272.7</b>
<b>Derivatives</b>								
– Credit Quality Step 2	190.5	18.7	282.7	8.1	78.0	18.7	105.7	8.1
– Credit Quality Step 2	–	–	–	–	–	–	–	–
– No rating	–	–	–	–	–	–	–	–
<b>Total derivatives</b>	<b>190.5</b>	<b>18.7</b>	<b>282.7</b>	<b>8.1</b>	<b>78.0</b>	<b>18.7</b>	<b>105.7</b>	<b>8.1</b>
<b>Other assets</b>								
– No rating	87.3	7.5	33.4	6.2	32.0	7.5	31.9	6.2
<b>Total other assets</b>	<b>87.3</b>	<b>7.5</b>	<b>33.4</b>	<b>6.2</b>	<b>32.0</b>	<b>7.5</b>	<b>31.9</b>	<b>6.2</b>
<b>Sum</b>	<b>11,796.5</b>	<b>7,335.6</b>	<b>11,287.6</b>	<b>6,147.5</b>	<b>9,317.5</b>	<b>7,335.6</b>	<b>8,673.8</b>	<b>6,147.5</b>
<b>Total</b>	<b>19,132.0</b>		<b>17,435.1</b>		<b>16,653.1</b>		<b>14,821.3</b>	

Credit risk	Group				Parent			
	2019-12-31		2018-12-31		2019-12-31		2018-12-31	
	Performing	Norway	Sweden	Norway	Sweden	Norway	Sweden	Norway
Due 30–60 days	8,967.0	6,216.4	8,812.0	4,963.5	6,717.3	6,216.4	6,402.4	4,963.5
Due 60–90 days	270.8	223.5	256.8	128.7	197.5	223.5	189.3	128.7
Due over 90 days	68.3	67.3	61.0	58.3	48.2	67.3	40.1	58.3
<b>Total</b>	<b>9,400.7</b>	<b>6,723.6</b>	<b>9,226.4</b>	<b>5,289.6</b>	<b>7,011.6</b>	<b>6,723.6</b>	<b>6,687.3</b>	<b>5,289.6</b>
<b>Provisions</b>								
<b>Reserveringar</b>	<b>22.0</b>	<b>7.4</b>	<b>46.0</b>	<b>5.1</b>	<b>16.1</b>	<b>7.4</b>	<b>40.1</b>	<b>5.1</b>

Other financial assets	Group				Parent			
	2019-12-31		2018-12-31		2019-12-31		2018-12-31	
	Sweden	Norway	Sweden	Norway	Sweden	Norway	Sweden	Norway
Performing	2,395.7	611.9	2,061.2	857.8	2,305.9	611.9	1,986.5	857.8
– Credit Quality Step 1	2,308.4	604.5	2,027.9	851.3	1,590.7	604.5	1,244.6	851.3
– Credit Quality Step 2	–	–	–	–	–	–	–	–
– No rating	87.3	7.5	33.4	6.6	715.2	7.5	741.9	6.6
<b>Non performing</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Total</b>	<b>2,395.7</b>	<b>611.9</b>	<b>2,061.2</b>	<b>857.8</b>	<b>2,305.9</b>	<b>611.9</b>	<b>1,986.5</b>	<b>857.8</b>
<b>Provisions</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>

## 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
<b>1</b>	Aaa – Aa3	AAA – AA–	AAA – AA–
<b>2</b>	A1 – A3	A+ – A–	A+ – A–
<b>3</b>	Baa1 – Baa3	BBB+ – BBB–	BBB+ – BBB–
<b>4</b>	Ba1 – Ba3	BB+ – BB–	BB+ – BB–
<b>5</b>	B1 – B3	B+ – B–	B+ – B–
<b>6</b>	<B3	<B–	<=CCC+

## Operational risk

### Definition

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

### Mitigation

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

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.

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 2019-12-31	Value change -10%	Value change +10%
EUR position	1,198	-120	120
GBP position	202	-20	20
NOK position	258,846	-25,885	25,885
Impact on earnings	260,245	-26,025	26,025

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 26.0m (SEK 15.8m). The effect on equity would be SEK

-20.4m (SEK -12.3m). 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 26.0m (SEK 15.8m). The effect on equity would be SEK 20.4m (SEK 12.3m).

## 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 2019-12-31			
Amounts that have not been offset in the balance sheet	Gross value	Netting in the Balance sheet	Net amount Balance sheet
ISDA Agreement			
Derivative	147.0	-	147.0
Sum financial assets	147.0	-	147.0
Derivative	17.1	-	17.1
Sum financial liabilities	17.1	-	17.1



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.

Sensitivity analysis in case of market interest rate change of 200 basis points (bps)

The Bank calculates interest risk exposures based on the Swedish FSA's guidance on methods to assess individual risk types under Pillar II. The tables below 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	-7,196	-0.48%
Decreased interest rates	-200bp	5,390	0.36%

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	30,125	4.71%
Decreased interest rates	-200bp	-47,979	-7.49%

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 CRO continuously monitors and assesses the risk to ensure that the risk profile is in line with expectations and managed appropriately. The CRO 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

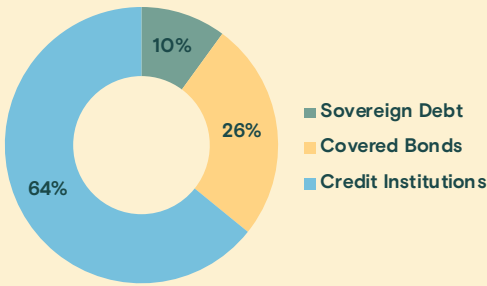
Liquidity risk is the risk of not being able to meet payment obligations on their due dates without the cost of obtaining the funds increasing considerably.

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%

Liquidity reserve (Bank)



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	
	2019-12-31	2018-12-31	2019-12-31	2018-12-31
Liquidity Reserve				
Cash and balances with central banks	266.0	57.4	266.0	57.4
Deposits in other banks	1,681.7	1,806.4	1,067.3	1,204.5
Securities issued or guaranteed by sovereigns, central banks or multinational development banks	209.4	170.7	209.4	170.7
Covered bonds issued by other institutions	534.1	526.7	534.1	526.7
Total	2,691.2	2,561.3	2,076.8	1,959.4

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	
	2019-12-31	2018-12-31
<b>Liquidity Coverage Ratio (LCR) %</b>	<b>361</b>	<b>324</b>
Liquid Assets Level 1	711.4	457.5
Liquid Assets Level 2	215.5	215.7
<b>High-Quality Liquid Assets</b>	<b>926.9</b>	<b>673.2</b>
Customer deposits	918.2	831.4
Other outflows	109.9	0.6
<b>Cash Outflows</b>	<b>1,028.1</b>	<b>832.0</b>
Inflows from retail customers, lending activities	218.0	200.7
Other inflows	1,560.5	1,521.0
<b>Cash Inflows (max. 75% of Cash Outflows)</b>	<b>771.1</b>	<b>624.0</b>
<b>Net Stable Funding Ratio (NSFR) %</b>	<b>118</b>	<b>111</b>
Available Stable Funding	16.2	14.9
Required Stable Funding	13.8	13.4

## 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.

## LTV

LTV, loan to value, describes how large leverage a borrower have, and it is used by a lender to explain the relation between a loan and the value of the bought asset. The higher percent distribution a LTV has, the higher risk for the lender.

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 Sweden		2019-12-31	2018-12-31	
Allocation LTV	Exposure, gross	Write-downs	Exposure, gross	Write-downs
-50%	875.0	0.7	813.2	0.6
50 - 60%	671.2	0.8	658.7	0.6
60 - 70%	1,336.7	2.5	1,308.7	2.0
70 - 80%	2,488.4	5.3	2,415.9	5.8
80 - 90%	2,953.5	11.8	3,018.5	10.6
90 - 100	21.6	0.0	30.2	0.0
100% +	18.4	1.0	12.8	0.0
<b>Total</b>	<b>8,364.8</b>	<b>22.0</b>	<b>8,258.1</b>	<b>19.6</b>

Mortgage Norway		2019-12-31	2018-12-31	
Allocation LTV	Exposure, gross	Write-downs	Exposure, gross	Write-downs
-50%	1,372.0	1.0	1,109.5	0.6
50 - 60%	869.6	0.7	705.0	0.7
60 - 70%	1,251.9	1.6	1,030.2	1.0
70 - 80%	2,055.4	3.4	1,829.5	2.3
80 - 90%	1,196.8	0.8	625.1	0.5
90 - 100	-	-	1.5	0.0
100% +	3.1	0.0	1.1	0.0
<b>Total</b>	<b>6,748.8</b>	<b>7.4</b>	<b>5,301.9</b>	<b>5.1</b>

## Sensitivity analysis

The most significant presumptions which affect the securities and in the end even the reserves is the home price index in each country. Below, the changes in ECL per 31 December 2019 is shown which would result in reasonable changes

in these parameters compared with the actual presumptions made by the Bank. E.g. the affect on ECL through change of the home price index with X%.

Mortgage loan Sweden					
Change in	-20%	-10%	+/-0%	10%	20%
<b>ECL</b>	0.0	0.0	-	-0.0	-0.0

Mortgage loan Norway					
Change in	-20%	-10%	+/-0%	10%	20%
<b>ECL</b>	0.0	0.0	-	-0.0	-0.0



## Note 3. Operating segments

Income statement 2019	Koncernen				
	Mortgages Sweden	Mortgages Norway	Other operations	Eliminations, other items	Totalt
Interest income	593.6	519.0	111.6	-60.9	1,163.2
Interest expense	-185.2	-172.0	-17.6	30.6	-344.2
<b>Net interest income</b>	<b>408.3</b>	<b>347.0</b>	<b>94.0</b>	<b>-30.2</b>	<b>819.0</b>
<b>Total operating income</b>	<b>513.4</b>	<b>350.3</b>	<b>92.4</b>	<b>-107.6</b>	<b>848.5</b>
<b>Total expenses</b>	<b>-355.3</b>	<b>-210.0</b>	<b>-58.5</b>	<b>109.6</b>	<b>-514.3</b>
<b>Result pre credit losses</b>	<b>158.1</b>	<b>140.3</b>	<b>33.9</b>	<b>1.9</b>	<b>334.2</b>
Credit losses, net	-9.6	-7.0	-43.1	-	-59.7
<b>Operating profit/loss</b>	<b>148.5</b>	<b>133.3</b>	<b>-9.3</b>	<b>1.9</b>	<b>274.5</b>
Allocated tax*	-8.9	-36.6	-	1.8	-43.6
Group contributions	-	-	-	-85.3	-85.3
<b>NET PROFIT/LOSS FOR THE YEAR</b>	<b>139.6</b>	<b>96.8</b>	<b>-9.3</b>	<b>-81.5</b>	<b>145.6</b>

Income statement 2018	Group				
	Mortgages Sweden	Mortgages Norway	Other operations	Eliminations, other items	Totalt
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
<b>Net interest income</b>	<b>366.8</b>	<b>277.5</b>	<b>98.5</b>	<b>-24.7</b>	<b>718.2</b>
<b>Total operating income</b>	<b>395.0</b>	<b>279.7</b>	<b>98.5</b>	<b>-27.3</b>	<b>746.0</b>
<b>Total expenses</b>	<b>-258.8</b>	<b>-195.7</b>	<b>-56.3</b>	<b>27.3</b>	<b>-483.6</b>
<b>Result pre credit losses</b>	<b>136.2</b>	<b>84.0</b>	<b>42.2</b>	<b>0.0</b>	<b>262.4</b>
Credit losses, net	-12.3	-3.4	-34.5	-	-50.2
<b>Operating profit/loss</b>	<b>123.9</b>	<b>80.6</b>	<b>7.7</b>	<b>0.0</b>	<b>212.2</b>
Allocated tax*	-27.3	-22.1	-1.0	-	-50.3
<b>NET PROFIT/LOSS FOR THE YEAR</b>	<b>96.6</b>	<b>58.5</b>	<b>6.7</b>	<b>0.0</b>	<b>161.9</b>

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

Balance sheet 2019-12-31	Group				
	Mortgages Sweden	Mortgages Norway	Other operations	Eliminations, other items	Totalt
Lending to credit institutions	1,743.7	191.9	-	-	1,935.6
Lending to the public	8,386.6	6,723.6	1,014.1	-	16,124.4
Deposits from the public	4,316.0	7,105.4	-	-	11,421.4

Balance sheet 2018-12-31	Group				
	Mortgages Sweden	Mortgages Norway	Other operations	Eliminations, other items	Totalt
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

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 191 (176) full-time employees in Mortgages Sweden, 72 (58) in Mortgages Norway, and 11 (9) in Other operations.

## Note 4. Net interest income

	Group		Parent	
	2019	2018	2019	2018
<b>Interest income</b>				
Lending to credit institutions	6.4	4.6	8.5	4.6
Lending to the public	1,147.8	1,058.6	993.0	932.7
Derivates	-	-	-	-
Covered bonds	8.9	6.5	40.4	50.6
Intercompany loans	-	0.0	18.5	20.2
Other	0.1	-	0.1	-
<b>Total interest income</b>	<b>1,163.2</b>	<b>1,069.8</b>	<b>1,060.4</b>	<b>1,008.1</b>
Of which:				
Interest income from financial items calculated using the effective interest method	1,153.4	1,063.3	1,000.6	937.3
<b>Interest expense</b>				
Liabilities to credit institutions	-23.1	-18.6	-	-3.5
Deposits from the public	-199.6	-165.0	-384.5	-436.8
Derivates	-52.1	-96.9	-16.9	-34.4
Bonds	-43.0	-41.9	-11.1	-0.1
Other	-26.3	-30.3	-17.9	-18.7
<b>Total interest expense</b>	<b>-344.2</b>	<b>-352.7</b>	<b>-430.5</b>	<b>-493.5</b>
Of which:				
Interest expense from financial items calculated using the effective interest method	-249.1	-213.9	-402.5	-459.3
<b>Total net interest income</b>	<b>819.0</b>	<b>717.0</b>	<b>629.9</b>	<b>514.5</b>

## Note 5. Leasing

IFRS 16 Leases is the new accounting standard for leases and replaces IAS 17 Leases. The standard is applied for fiscal years beginning January 1, 2019. The greatest impact is related to the accounting for lessees insofar as leasing contracts are recognized in the balance sheet. For the Bank, this entails a changed accounting of leases for office premises, overnight apartments, service cars and office equipment. Implementation of the new leasing standard results in increased assets and interest-bearing liabilities in the balance sheet, thereby affecting the net financial position. It also has a positive impact on operating income in the income statement based on the

fact that part of the leasing costs is reported as an interest expense within the financial net. In the cash flow analysis, leasing payments are divided between interest paid on operating cash flow and amortization of leasing liabilities within the financing operations. It thus has a positive effect on operating cash flow. The Bank applies IFRS 16 retroactively with the cumulative effect of initial application as of January 1, 2019. SEK 20.5 million in use rights are classified as tangible fixed assets in the balance sheet and are balanced against equivalent leasing debt which is classified as other liabilities in the balance sheet.

### Transition IFRS 16

Future operating leasing fees as of 31 December 2018	21.2
Discounting effect	-0.8
Leasing debt as of 1 January 2019	20.5

	Group	
	2019	2018
<b>Opening balance of value rights</b>		
Additional value rights	20.0	-
Other	0.4	-
<b>Total</b>	<b>20.5</b>	<b>-</b>
<b>Tillkommande nyttjanderätter</b>		
Facilities	44.4	-
<b>Total</b>	<b>44.4</b>	<b>-</b>
<b>Depreciation of value rights</b>		
Facilities	-13.0	-
Other	-0.2	-
<b>Total</b>	<b>-13.2</b>	<b>-</b>
<b>Closing balance of value rights</b>		
Facilities	51.4	-
Other	0.2	-
<b>Total</b>	<b>51.6</b>	<b>-</b>
<b>Räntekostnad för leasingskuld</b>		
Facilities	0.8	-
Other	0.0	-
<b>Total</b>	<b>0.8</b>	<b>-</b>

Total cash outflow	2019-12-31	2018-12-31
Facilities	12.9	-
Other	0.6	-
<b>Total</b>	<b>13.5</b>	<b>-</b>

Cash outflow future rental costs	< 1 year	1-5 year	> 5 year
Facilities	12.8	47.5	1.2

Term analysis of debt	< 1 year	1-3 year	3-5 year	> 5 year
Facilities	0.9	-	29.6	20.9
Other	0.0	0.2	-	-

## Note 6. Net result of financial transactions

	Group		Parent	
	2019	2018	2019	2018
Bonds - unrealised changes	-1.0	-3.7	-1.0	-3.7
Mortgage book derivatives - unrealised changes	-2.6	-6.7	-24.1	-14.6
-realised change in value	8.0	19.6	8.0	19.6
Issued securities and related currency derivatives - unrealised changes	7.1	9.8	0.8	-1.2
Exchange rate changes other receivables and liabilities - unrealised changes	4.6	-2.8	4.7	-2.8
Hedge accounting - fair value hedged item*	-18.2	-7.5	-18.2	-7.5
Hedge accounting - fair value hedge instrument*	18.5	5.5	18.5	5.5
Relocation of interest payments on derivatives to net interest income	1.6	1.2	0.7	0.3
<b>Total</b>	<b>17.9</b>	<b>15.4</b>	<b>-10.7</b>	<b>-4.5</b>

\*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	
	2019	2018	2019	2018
Billing fees	10.8	10.2	84.3	9.1
Valuation fees	0.7	1.5	0.7	1.5
Other operating income	-	1.9	-	0.0
<b>Total</b>	<b>11.5</b>	<b>13.6</b>	<b>85.0</b>	<b>10.7</b>



## Note 8. General administration expenses

	Group		Parent	
	2019	2018	2019	2018
<b>Personnel costs</b>				
Salaries and emoluments	-167.8	-146.4	-159.4	-136.4
Variable performance benefit	-8.5	-4.0	-8.4	-4.0
Social security charges	-50.3	-43.3	-47.4	-39.7
Pension expenses	-18.7	-16.0	-18.1	-15.4
Other personnel costs	-13.2	-16.4	-12.4	-15.8
Activated salary costs	14.1	-	11.9	-
<b>Total</b>	<b>-244.4</b>	<b>-226.2</b>	<b>-233.7</b>	<b>-211.4</b>
<b>Other administration expenses</b>				
Administration expenses deposits from the public	-0.7	-0.5	-5.7	-9.4
Administration expenses lending to the public	-6.5	-12.6	-21.7	-30.0
Professional fees	-41.5	-27.0	-37.6	-24.0
Other administration expenses	-183.5	-169.5	-186.1	-33.5
<b>Total</b>	<b>-232.2</b>	<b>-209.7</b>	<b>-251.1</b>	<b>-96.9</b>
<b>Total General administration expenses</b>	<b>-476.7</b>	<b>-435.9</b>	<b>-484.8</b>	<b>-308.4</b>

## Note 9. Auditors remuneration and expenses

SEK Thousands	Group		Parent	
	2019	2018	2019	2018
<b>Ernst &amp; Young AB</b>				
Audit assignment	1,843	2,179	1,209	1,375
Audit activities in addition to audit assignment	418	38	267	38
<b>Deloitte</b>				
Audit activities in addition to audit assignment	-	654	-	601
<b>Total</b>	<b>2,261</b>	<b>2,870</b>	<b>1,476</b>	<b>2,014</b>

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 of Directors

The Board's fees are determined by the Bank's annual general meeting. At the end of the year the Board consisted of seven 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 23, 2019 up to and including the Annual General Meeting on April 22, 2020 the Board has replaced two of the members with a total of SEK 2,099m. 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 2019	Salary	Bonus*	Pension	Total
CEO - Björn Lander (assigned September 2019)	470	-	114	584
CEO - Rolf Stub (resigned September 2019)	5,228	-	117	5,346
Chairman of the Board - Per-Arne Blomquist	682	-	-	682
Board member - Toby Franklin	420	-	-	420
Board member - Göran Bronner	472	-	-	472
Board member - Lars Wollung	315	-	-	315
Board member - Sofia Arhall Bergendorff	210	-	-	210
Board member - Harry Klagsbrun (resigned May 2018)	-	-	-	-
Board member - Andreas Pettersson Rohman	-	-	-	-
Board member - Albert Gustafsson	-	-	-	-
Senior management team excluding CEO - 7 people	6,432	1,265	2,020	9,716
<b>Total costs related to pensions 2019</b>	<b>14,229</b>	<b>1,265</b>	<b>2,251</b>	<b>17,745</b>

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

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 October 2018)	5,788	-	117	5,905
Chairman of the Board – Per-Arne Blomquist** (assigned in May 2018)	-	-	-	-
Board member – Toby Franklin	479	-	-	479
Chairman of the Board – Harry Klagsbrun (resigned May 2018)	-	-	-	-
Board member – Göran Bronner	197	-	-	197
Boardmember – Lars Wollung**	-	-	-	-
Board member – Andreas Pettersson Rohman	-	-	-	-
Board member – Albert Gustafsson	-	-	-	-
Board member – Sofia Arhall Bergendorff**	-	-	-	-
Senior management team excluding CEO – 9 people	9,060	-	1,978	11,038
<b>Total costs related to pensions 2018</b>	<b>19,889</b>	<b>-</b>	<b>3,229</b>	<b>23,118</b>

\* 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 SEK Thousands	Group		Parent	
	2019	2018	2019	2018
Salaries and remuneration	162,189	150,430	155,905	140,405
Pension costs	18,735	16,037	18,068	15,441
Social security	50,273	43,315	47,394	39,738
Other staff costs	13,224	16,447	12,380	15,843
<b>Total salaries, remuneration, social security, and pensions</b>	<b>244,421</b>	<b>226,230</b>	<b>233,748</b>	<b>211,426</b>

Distribution by gender in board and management	Parent	
	2019	2018
<b>The Board</b>		
Women	1	1
Men	6	6
<b>Management team including CEO</b>		
Women	3	3
Men	5	6

Average number of employees	Group		Parent	
	2019	2018	2019	2018
<b>Sweden</b>				
Women	102	90	91	81
Men	100	95	86	81
<b>Norway</b>				
Women	34	26	34	26
Men	38	32	38	32
<b>Total</b>	<b>274</b>	<b>243</b>	<b>249</b>	<b>220</b>

## Note 11. Intangible assets

	Group		Parent	
	2019-12-31	2018-12-31	2019-12-31	2018-12-31
<b>Acquisition value brought forward</b>	<b>182.0</b>	<b>140.9</b>	<b>157.3</b>	<b>120.2</b>
Investments for the year	58.9	41.1	57.7	37.1
<b>Acquisition value carried forward</b>	<b>240.9</b>	<b>182.0</b>	<b>215.1</b>	<b>157.3</b>
<b>Depreciation brought forward</b>	<b>-124.1</b>	<b>-79.5</b>	<b>-113.8</b>	<b>-74.6</b>
Depreciation for the year	-21.7	-22.7	-17.8	-17.9
Impairments	-	-21.8	-	-21.3
<b>Depreciation carried forward</b>	<b>-145.8</b>	<b>-124.1</b>	<b>-131.6</b>	<b>-113.8</b>
<b>Self-generated acquisition value brought forward</b>				
Intangible assets for the period	14.1	-	11.9	-
Depreciation intangible assets	-1.6	-	-1.1	-
<b>Self-generated acquisition value carried forward</b>	<b>12.5</b>	<b>-</b>	<b>10.8</b>	<b>-</b>
<b>Residual value at the end of the accounting period</b>	<b>107.6</b>	<b>58.0</b>	<b>94.2</b>	<b>43.5</b>

FX revaluation of foreign operations result in an exchange rate difference amounting to SEK 1.6m 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. Average remaining maturity is 41,0 months (39,4 months).

## Note 12. Tangible fixed assets

	Group		Parent	
	2019-12-31	2018-12-31	2019-12-31	2018-12-31
<b>Acquisition value brought forward</b>	<b>23.6</b>	<b>21.3</b>	<b>21.3</b>	<b>19.0</b>
Investments for the year	2.9	2.3	2.9	2.3
Tangible fixed asses according to IFRS 16	64.0	-	-	-
<b>Acquisition value carried forward</b>	<b>90.6</b>	<b>23.6</b>	<b>24.2</b>	<b>21.3</b>
<b>Depreciation brought forward</b>	<b>-15.3</b>	<b>-12.0</b>	<b>-14.0</b>	<b>-11.1</b>
Depreciation for the year	-14.4	-3.3	-3.2	-2.8
Translation effect on fixed assets in Norway	-0.1	-	-	-
<b>Depreciation carried forward</b>	<b>-29.8</b>	<b>-15.3</b>	<b>-17.1</b>	<b>-14.0</b>
<b>Residual value at the end of the accounting period</b>	<b>60.8</b>	<b>8.3</b>	<b>7.1</b>	<b>7.3</b>

FX revaluation of foreign operations result in an exchange rate difference amounting to SEK -0.1m 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 net

The Group implemented IFRS 9 on January 1, 2018 when the new standard came into force and replaced IAS 39. For effects of the transaiton to IFRS 9, see Note 11. 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	
	2019	2018	2019	2018
<b>Credit impairments</b>				
<b>Credit impairment provisions</b>	<b>-6.7</b>	<b>-5.3</b>	<b>-7.0</b>	<b>-3.1</b>
of which Stage 1	-1.4	-0.6	-1.7	-1.9
of which Stage 2	-2.8	-4.3	-3.5	-1.7
of which Stage 3	-2.5	-0.5	-1.7	0.5
<b>Credit impairments for off balance sheet exposures</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Write-offs</b>				
Actual losses during the period	-53.0	-44.9	-50.4	-44.8
<b>Credit losses, net</b>	<b>-59.7</b>	<b>-50.2</b>	<b>-57.4</b>	<b>-47.8</b>

Group level net losses during the year amounted to SEK -59.7m (SEK -50.2m) of which actual losses amounted to SEK -53.0m (SEK -44.9m).

## Note 14. Tax on net result

The tax rate for 2019 in Sweden is 21% (22%). The tax rate for 2019 in Norway is 25% (25%).

	Group		Parent	
	2019	2018	2019	2018
Current tax	-43.6	-50.3	-42.0	-50.3
<b>Total tax cost</b>	<b>-43.6</b>	<b>-50.3</b>	<b>-42.0</b>	<b>-50.3</b>

	Group		Parent	
	2019	2018	2019	2018
Net profit before tax	189.2	212.2	170.4	208.0
Tax based on current tax rate	-40.5	-46.7	-36.5	-45.8
Tax according previous year	0.2	-	0.2	-
Tax effect due to foreign operations	-2.3	-2.9	-5.2	-2.9
Tax effect of:				
Non deductible items	-0.6	-0.6	-0.5	-0.6
Deferred tax	-0.4	-	-	-
<b>Total tax cost</b>	<b>-43.6</b>	<b>-50.3</b>	<b>-42.0</b>	<b>-50.3</b>

## Note 15. Lending to credit institutions

	Group		Parent	
	2019-12-31	2018-12-31	2019-12-31	2018-12-31
Swedish banks	1,935.5	1,862.7	1,333.3	1,261.9
Foreign banks	0.1	0.1	0.1	0.1
<b>Total</b>	<b>1,935.6</b>	<b>1,862.8</b>	<b>1,333.4</b>	<b>1,261.9</b>

## Note 16. Lending to the public

	Koncernen		Moderbolaget	
	2019-12-31	2018-12-31	2019-12-31	2018-12-31
<b>Lending to the public</b>				
Valued at amortized cost	16,098.3	14,529.3	13,709.2	11,984.5
Valued at fair value	51.8	-	51.8	-
Adjustment hedge accounting	-25.7	-7.5	-25.7	-7.5
<b>Sum lending to the public</b>	<b>16,124.4</b>	<b>14,521.8</b>	<b>13,735.2</b>	<b>11,977.0</b>

The tables 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
<b>Reported value gross 1 January 2019</b>	<b>13,426.9</b>	<b>915.7</b>	<b>237.4</b>	<b>14,580.0</b>
<b>New financial assets</b>	4,575.6	281.6	24.4	4,881.6
<b>Change in PD/LGD/EAD</b>	-233.1	-12.8	-1.5	-247.3
<b>Change due to expertise</b>	27.6	-27.6	-0.0	-
<b>Transfers between stages</b>	<b>-614.1</b>	<b>393.7</b>	<b>188.8</b>	<b>-31.6</b>
-Transfer from stage 1 to 2	-686.9	671.2	0	-15.7
-Transfer from stage 1 to 3	-117.9	0	116.3	-1.7
-Transfer from stage 2 to 1	183.3	-193.1	0	-9.7
-Transfer from stage 2 to 3	0	-98.3	96.0	-2.3
-Transfer from stage 3 to 1	7.4	0	-7.9	-0.4
-Transfer from stage 3 to 2	0	13.9	-15.6	-1.7
<b>Exchange rate change</b>	184.3	22.0	6.9	213.1
<b>Removed financial assets</b>	-2,863.0	-233.5	-143.2	-3,239.7
<b>Provisions 31 December 2019</b>	<b>14,504.3</b>	<b>1,339.0</b>	<b>312.8</b>	<b>16,156.1</b>

Parent	Stage 1	Stage 2	Stage 3	Total
Reported value gross 1 January 2019	11,059.9	743.8	225.6	12,029.4
New financial assets	4,246.2	273.3	23.5	4,543.0
Change in PD/LGD/EAD	-194.7	-11.0	-1.4	-207.1
Change due to expertise	19.6	-19.6	-	-
Transfers between stages	-535.0	337.4	168.2	-29.3
-Transfer from stage 1 to 2	-593.8	579.2	-	-14.6
-Transfer from stage 1 to 3	-103.8	-	102.3	-1.5
-Transfer from stage 2 to 1	155.4	-164.7	-	-9.3
-Transfer from stage 2 to 3	-	-90.1	88.2	-1.8
-Transfer from stage 3 to 1	7.3	-	-7.7	-0.4
-Transfer from stage 3 to 2	-	12.9	-14.6	-1.7
Exchange rate change	184.3	22.0	6.9	213.1
Removed financial assets	-2,471.2	-182.4	-134.4	-2,788.1
Provisions 31 December 2019	12,309.2	1,163.5	288.4	13,761.0

Mortgage loan Sweden	Stage 1	Stage 2	Stage 3	Total
Reported value gross 1 January 2019	7,610.3	557.9	89.7	8,257.9
New financial assets	1,884.9	47.8	8.9	1,941.6
Change in PD/LGD/EAD	-100.8	-4.4	-1.4	-106.6
Change due to expertise	23.0	-23.0	-0.0	-
Transfers between stages	-197.7	138.8	50.5	-8.4
-Transfer from stage 1 to 2	-290.1	286.4	-	-3.7
-Transfer from stage 1 to 3	-35.5	-	35.0	-0.6
-Transfer from stage 2 to 1	126.6	-128.7	-	-2.2
-Transfer from stage 2 to 3	-	-27.1	25.7	-1.4
-Transfer from stage 3 to 1	1.4	-	-1.4	-0.0
-Transfer from stage 3 to 2	-	8.2	-8.7	-0.5
Exchange rate change	-	-	-	-
Removed financial assets	-1,518.1	-139.9	-61.9	-1,719.9
Provisions 31 December 2019	7,701.6	577.2	85.8	8,364.6

Mortgage loan Norway	Stage 1	Stage 2	Stage 3	Total
Reported value gross 1 January 2019	4,867.1	294.9	139.9	5,301.9
New financial assets	2,276.2	219.8	13.6	2,509.6
Change in PD/LGD/EAD	-63.4	-6.9	-0.1	-70.4
Change due to expertise	-	-	-	-
Transfers between stages	-377.3	226.8	131.5	-18.9
-Transfer from stage 1 to 2	-352.9	343.1	-	-9.8
-Transfer from stage 1 to 3	-75.9	-	75.1	-0.8
-Transfer from stage 2 to 1	45.5	-51.4	-	-5.9
-Transfer from stage 2 to 3	-	-70.4	69.7	-0.8
-Transfer from stage 3 to 1	6.0	-	-6.4	-0.4
-Transfer from stage 3 to 2	-	5.6	-6.8	-1.2
Exchange rate change	184.3	22.0	6.9	213.1
Removed financial assets	-1,052.1	-60.7	-73.6	-1,186.5
Provisions 31 December 2019	5,834.7	695.8	218.3	6,748.8

Other operations	Stage 1	Stage 2	Stage 3	Total
Reported value gross 1 January 2019	949.6	62.9	7.8	1,020.2
New financial assets	414.5	14.0	1.8	430.3
Change in PD/LGD/EAD	-69.1	-1.4	-	-70.5
Change due to expertise	4.6	-4.6	-	-
Transfers between stages	-39.1	28.2	6.7	-4.3
-Transfer from stage 1 to 2	-43.9	41.7	-	-2.2
-Transfer from stage 1 to 3	-6.5	-	6.2	-0.3
-Transfer from stage 2 to 1	11.3	-13.0	-	-1.7
-Transfer from stage 2 to 3	-	-0.7	0.6	-0.1
-Transfer from stage 3 to 1	-	-	-	-
-Transfer from stage 3 to 2	-	0.1	-0.1	-0.0
Exchange rate change	-	-	-	-
Removed financial assets	-292.7	-32.9	-7.7	-333.3
Provisions 31 December 2019	967.7	66.1	8.7	1,042.5



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 financial 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	-	-7.2
-Transfer from stage 1 to 3	-103.3	-	102.2	-1.1
-Transfer from stage 2 to 1	204.6	-210.2	-	-5.7
-Transfer from stage 2 to 3	-	-81.5	75.0	-6.4
-Transfer from stage 3 to 1	8.1	-	-14.2	-6.1
-Transfer from stage 3 to 2	-	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 financial 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	-	-5.6
-Transfer from stage 1 to 3	-98.2	-	97.3	-1.0
-Transfer from stage 2 to 1	166.0	-171.3	-	-5.3
-Transfer from stage 2 to 3	-	-75.5	69.2	-6.2
-Transfer from stage 3 to 1	5.8	-	-11.9	-6.1
-Transfer from stage 3 to 2	-	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 financial 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	-	-3.6
-Transfer from stage 1 to 3	-39.8	-	39.2	-0.6
-Transfer from stage 2 to 1	125.7	-127.8	-	-2.1
-Transfer from stage 2 to 3	-	-40.4	38.5	-1.9
-Transfer from stage 3 to 1	2.3	-	-2.3	-0.1
-Transfer from stage 3 to 2	-	15.7	-16.3	-0.5
Exchange rate change	-	-	-	-
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 financial 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	-	-	-	-
Transfers between stages	-150.0	58.6	76.6	-14.8
-Transfer from stage 1 to 2	-164.6	163.0	-	-1.5
-Transfer from stage 1 to 3	-58.4	-	58.0	-0.4
-Transfer from stage 2 to 1	67.2	-69.1	-	-1.9
-Transfer from stage 2 to 3	-	-39.8	35.3	-4.5
-Transfer from stage 3 to 1	5.7	-	-11.8	-6.1
-Transfer from stage 3 to 2	-	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	Stage 1	Stage 2	Stage 3	Total
Reported value gross 1 January 2018	1,000.0	60.9	7.5	1,068.4
New financial assets	366.7	18.3	1.6	386.5
Change in PD/LGD/EAD	-70.3	-1.1	-	-71.4
Change due to expertise	-	-	-	-
Transfers between stages	-30.4	20.5	6.0	-3.9
-Transfer from stage 1 to 2	-37.1	35.0	-	-2.1
-Transfer from stage 1 to 3	-5.1	-	5.0	-0.1
-Transfer from stage 2 to 1	11.6	-13.3	-	-1.6
-Transfer from stage 2 to 3	-	-1.3	1.2	-0.0
-Transfer from stage 3 to 1	0.0	-	-0.1	-0.0
-Transfer from stage 3 to 2	-	0.1	-0.1	-0.0
Exchange rate change	-	-	-	-
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 reserv for expected credit losses

	Stage 1	Stage 2	Stage 3	Total
Reported value gross 1 January 2019	13,426.9	915.7	237.4	14,580.0
Reported value gross 31 December 2019	14,504.3	1,339.0	312.8	16,156.1
Provisions 1 January 2019	13.9	25.7	11.4	51.0
New financial assets	5.4	5.4	2.1	12.8
Change in PD/LGD/EAD	1.2	-0.5	-0.1	0.6
Change due to expertise	-0.2	-1.5	-	-1.7
Transfers between stages	-1.0	10.8	9.0	18.9
-Transfer from stage 1 to 2	-1.2	16.4	-	15.2
-Transfer from stage 1 to 3	-0.2	-	6.4	6.3
-Transfer from stage 2 to 1	0.4	-4.2	-	-3.7
-Transfer from stage 2 to 3	-	-1.7	3.4	1.7
-Transfer from stage 3 to 1	0.0	-	-0.1	-0.1
-Transfer from stage 3 to 2	-	0.3	-0.7	-0.4
Exchange rate change	0.0	0.1	0.1	0.2
Removed financial assets	-4.0	-11.4	-8.6	-24.1
Provisions 31 December 2019	15.3	28.6	14.0	57.8
Opening balance 1 January 2019	13,413.0	889.9	226.0	14,529.0
Closing balance 31 December 2019	14,489.0	1,310.5	298.8	16,098.3

Parent	Stage 1	Stage 2	Stage 3	Total
Reported value gross 1 January 2019	11,059.9	743.8	225.6	12,029.4
Reported value gross 31 December 2019	12,309.2	1,163.5	288.4	13,761.0
Provisions 1 January 2019	12.6	22.2	10.4	45.2
New financial assets	5.2	5.1	2.0	12.2
Change in PD/LGD/EAD	1.2	-0.4	-0.1	0.7
Change due to expertise	-0.1	-1.3	-	-1.4
Transfers between stages	-0.9	9.9	7.5	16.5
-Transfer from stage 1 to 2	-1.1	14.8	-	13.7
-Transfer from stage 1 to 3	-0.2	-	5.5	5.4
-Transfer from stage 2 to 1	0.4	-3.8	-	-3.4
-Transfer from stage 2 to 3	-	-1.4	2.7	1.3
-Transfer from stage 3 to 1	0.0	-	-0.1	-0.1
-Transfer from stage 3 to 2	-	0.2	-0.6	-0.4
Exchange rate change	0.0	0.1	0.1	0.2
Removed financial assets	-3.8	-10.2	-7.8	-21.7
Provisions 31 December 2019	14.3	25.4	12.1	51.9
Opening balance 1 January 2019	11,047.3	721.7	215.2	11,984.2
Closing balance 31 December 2019	12,294.8	1,138.1	276.3	13,709.2

Mortgage loan Sweden	Stage 1	Stage 2	Stage 3	Total
Reported value gross 1 January 2019	7,610.3	557.9	89.7	8,257.9
Reported value gross 31 December 2019	7,701.8	577.2	85.8	8,364.8
Provisions 1 January 2019	3.2	9.9	6.5	19.6
New financial assets	1.4	1.4	1.2	4.0
Change in PD/LGD/EAD	1.0	-0.3	-0.1	0.6
Change due to expertise	-0.2	-0.5	-	-0.8
Transfers between stages	-0.3	2.9	4.3	6.9
-Transfer from stage 1 to 2	-0.3	5.2	-	4.9
-Transfer from stage 1 to 3	-0.0	-	2.7	2.7
-Transfer from stage 2 to 1	0.1	-1.6	-	-1.5
-Transfer from stage 2 to 3	-	-0.9	2.2	1.3
-Transfer from stage 3 to 1	0.0	-	-0.0	-0.0
-Transfer from stage 3 to 2	-	0.2	-0.6	-0.4
Exchange rate change	-	-	-	-
Removed financial assets	-0.7	-3.0	-4.6	-8.3
Provisions 31 December 2019	4.4	10.4	7.2	22.0
Opening balance 1 January 2019	7,605.8	547.5	82.5	8,235.9
Closing balance 31 December 2019	7,697.4	566.8	78.6	8,342.8



Mortgage loan Norway	Stage 1	Stage 2	Stage 3	Total
Reported value gross 1 January 2019	4,867.1	294.9	139.9	5,301.9
Reported value gross 31 December 2019	5,834.7	695.8	218.3	6,748.8
Provisions 1 January 2019	0.9	2.2	2.0	5.1
New financial assets	0.4	1.1	0.2	1.7
Change in PD/LGD/EAD	-0.1	-0.2	-0.0	-0.2
Change due to expertise	-	-	-	-
Transfers between stages	-0.2	0.7	2.0	2.5
-Transfer from stage 1 to 2	-0.2	1.5	-	1.4
-Transfer from stage 1 to 3	-0.0	-	1.1	1.1
-Transfer from stage 2 to 1	0.0	-0.3	-	-0.3
-Transfer from stage 2 to 3	-	-0.6	1.0	0.4
-Transfer from stage 3 to 1	0.0	-	-0.1	-0.1
-Transfer from stage 3 to 2	-	0.0	-0.1	-0.1
Exchange rate change	0.0	0.1	0.1	0.2
Removed financial assets	-0.2	-0.5	-1.0	-1.8
Provisions 31 December 2019	0.9	3.4	3.1	7.4
Opening balance 1 January 2019	4,866.2	292.7	138.0	5,296.8
Closing balance 31 December 2019	5,833.9	692.4	215.2	6,741.4

Other operations	Stage 1	Stage 2	Stage 3	Total
Reported value gross 1 January 2019	949.6	62.9	7.8	1,020.2
Reported value gross 31 December 2019	967.7	66.1	8.7	1,042.5
Provisions 1 January 2019	9.8	13.6	3.0	26.4
New financial assets	3.5	2.8	0.8	7.1
Change in PD/LGD/EAD	0.3	-0.1	-	0.2
Change due to expertise	0.1	-0.9	-	-0.9
Transfers between stages	-0.5	7.3	2.8	9.5
-Transfer from stage 1 to 2	-0.7	9.6	-	8.9
-Transfer from stage 1 to 3	-0.1	-	2.6	2.5
-Transfer from stage 2 to 1	0.3	-2.3	-	-2.0
-Transfer from stage 2 to 3	-	-0.1	0.2	0.1
-Transfer from stage 3 to 1	-	-	-	-
-Transfer from stage 3 to 2	-	0.0	-0.0	-0.0
Exchange rate change	-	-	-	-
Removed financial assets	-3.1	-7.9	-3.0	-14.0
Provisions 31 December 2019	10.0	14.8	3.6	28.4
Opening balance 1 January 2019	939.8	49.3	4.8	993.9
Closing balance 31 December 2019	957.8	51.3	5.1	1,014.1

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	45.6
New financial 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
Opening 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	14,529.3

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 financial 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
Opening 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	11,984.5

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 financial 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	-	4.5
-Transfer from stage 1 to 3	-0.0	-	2.5	2.5
-Transfer from stage 2 to 1	0.1	-1.3	-	-1.2
-Transfer from stage 2 to 3	-	-0.8	2.6	1.8
-Transfer from stage 3 to 1	0.0	-	-0.2	-0.2
-Transfer from stage 3 to 2	-	0.3	-0.9	-0.6
Exchange rate change	-	-	-	-
Removed financial assets	-0.6	-1.1	-3.6	-5.3
Provisions 31 December 2018	3.2	9.9	6.5	19.6
Opening 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

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 financial 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	-	-	-	-
Transfers between stages	-0.1	0.6	1.1	1.6
-Transfer from stage 1 to 2	-0.1	1.2	-	1.2
-Transfer from stage 1 to 3	-0.0	-	0.8	0.8
-Transfer from stage 2 to 1	0.0	-0.3	-	-0.3
-Transfer from stage 2 to 3	-	-0.3	0.5	0.1
-Transfer from stage 3 to 1	0.0	-	-0.2	-0.2
-Transfer from stage 3 to 2	-	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
Opening 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

Other operations	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 financial assets	3.7	3.5	0.6	7.7
Change in PD/LGD/EAD	0.2	0.0	-	0.2
Change due to expertise	-	-	-	-
Transfers between stages	-0.3	5.8	2.3	7.8
-Transfer from stage 1 to 2	-0.6	8.1	-	7.5
-Transfer from stage 1 to 3	-0.1	-	1.9	1.8
-Transfer from stage 2 to 1	0.3	-2.1	-	-1.8
-Transfer from stage 2 to 3	-	-0.2	0.5	0.3
-Transfer from stage 3 to 1	0.0	-	-0.0	-0.0
-Transfer from stage 3 to 2	-	0.0	-0.0	-0.0
Exchange rate change	-	-	-	-
Removed financial assets	-3.2	-8.3	-2.8	-14.3
Provisions 31 December 2018	9.8	13.6	3.0	26.4
Opening 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

Transferred assets which are not excluded from the balance sheet in the Parent company:

The Bank has kept the assets sold to the securitisation companies, Step 3 and Step 4, in its own balance sheet since they not fulfil the requirements for derecognition. A number of tests has been performed and the conclusion is supported by the following factors:

- The size of BBABs earnings is directly dependent of the economical presentations of the assets
- The credit risk is not transferred to Step 3 and Step 4 since the Bank has invested in underlying bonds with low ranking (lower payment priority)

The table below shows the presented values of the assets:

Transferred assets	Step 3	Step 4
Lending to the public (SEKm)	1,471.9	1,404.7



## Note 17. Hedge accounting and 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					
	2019-12-31			2018-12-31		
	Notional amount	Purchase value	Recognised value	Notional amount	Purchase value	Recognised value
Assets						
Swedish financial institutes	5,115.0	-	32.7	4,635.0	-	8.3
Foreign financial institutes	8,762.3	-	114.2	9,856.6	-	205.1
<b>Total</b>	<b>13,877.3</b>	<b>-</b>	<b>147.0</b>	<b>14,491.6</b>	<b>-</b>	<b>213.4</b>

	Parent					
	2019-12-31			2018-12-31		
	Notional amount	Purchase value	Recognised value	Notional amount	Purchase value	Recognised value
Assets						
Swedish financial institutes	5,115.0	-	32.7	4,635.0	-	8.3
Foreign financial institutes	2,450.0	-	1.7	4,576.0	-	28.1
<b>Total</b>	<b>7,565.0</b>	<b>-</b>	<b>34.4</b>	<b>9,211.0</b>	<b>-</b>	<b>36.4</b>

	Group					
	2019-12-31			2018-12-31		
	Notional amount	Purchase value	Recognised value	Notional amount	Purchase value	Recognised value
Liabilities						
Swedish financial institutes	1,101.1	-	7.7	2,601.0	-	9.7
Foreign financial institutes	3,279.1	-	9.4	5,641.3	-	28.4
<b>Total</b>	<b>4,380.3</b>	<b>-</b>	<b>17.1</b>	<b>8,242.3</b>	<b>-</b>	<b>38.1</b>

	Parent					
	2019-12-31			1900-01-00		
	Notional amount	Purchase value	Recognised value	Notional amount	Purchase value	Recognised value
Liabilities						
Swedish financial institutes	1,101.1	-	7.7	2,601.0	-	9.7
Foreign financial institutes	3,279.1	-	9.4	2,815.2	-	15.9
<b>Total</b>	<b>4,380.3</b>	<b>-</b>	<b>17.1</b>	<b>5,416.3</b>	<b>-</b>	<b>25.5</b>

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

The bank applies fair value hedging in accordance with the so-called carve-out method in IAS

39. The hedged items consist of portfolios of borrowing, deposits and lending. The hedging instruments consist of interest rate swaps in SEK and NOK where Bluestep pays fixed interest and receives variable, usually with a maturity of up to three years.

The hedging ratio between hedging instruments and hedged items is 1: 1. The efficiency of the hedging relationship is evaluated by comparing the change in the fair value of hedging instruments

and the hedged item, respectively. Possible inefficiencies in the economic relationship are mainly attributable to differences in changes in value in interest rate swaps in relation to changes in value in the hedged item.

The change in value of hedged items amounted to SEK -18,2m (-7,5m) as per 31 December, and

the corresponding change in value of hedge instruments was SEK 18,5m (5,5m). The unrealized market valuation of hedge accounting is reported under "Net result of financial transactions" and amounted to SEK 0,2m (-2,0m). The hedge accounting is effective and thereby meets the conditions for when hedge accounting may be applied.

Hedging instruments and hedge ineffectiveness	Carrying amount				
	Nominal amount	Change in fair value used for measuring hedge ineffectiveness		Ineffectiveness recognised in Profit or Loss	
		Assets	Liabilities		
Interest rate risk					
Interest rate swap	8,865.0	28.6	-2.7	18.5	0.2

Hedged items	Carrying amount		Accumulated adjustment on the hedged item		
	Assets	Liabilities	Change in value used for measuring hedge ineffectiveness		
			Assets	Liabilities	
Interest rate risk					
Lending to the public	10,064.8	-	-	-25.7	-18.2

Maturity profile and average price, hedging instruments	Remaining contractual maturity		
	<1 yr	1-5 yrs.	>5 yrs.
Fair value hedges			
Nominal amount	1,915.0	6,950.0	-
Average fixed interest rate (%)	0.61%	0.72%	-

## Note 18. Bonds and other interest-bearing securities

	Group and Parent			
	2019-12-31		2018-12-31	
	Purchase value	Recognised value	Purchase value	Recognised value
<b>Swedish issuers</b>				
Bonds issued by the Swedish government	111.9	95.7	111.9	100.0
Covered bonds (listed) issued by Swedish credit institutions	253.6	253.6	253.6	253.8
<b>Foreign issuers</b>				
Bonds issued by the German government	1.0	1.1	1.0	1.1
Bonds issued by the Norwegian government	114.9	109.3	72.9	67.0
Covered bonds (listed) issued by Norwegian credit institutions	272.5	278.3	272.5	271.1
<b>Total</b>	<b>753.8</b>	<b>738.1</b>	<b>711.9</b>	<b>693.1</b>

## Note 19. Shares in associated companies

Company name	Number of shares	Share %	Recognised value 2019	Recognised value 2018
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
<b>Total</b>			<b>4.7</b>	<b>4.7</b>

Company name	Reg. No.	Domicile	Equity	Net profit 2019	Net profit 2018
Bluestep Finans Funding No 1 AB	556791-6928	Stockholm	1.7	-0.2	-0.0
Bluestep Mortgage Securities No 2 DAC	522186	Dublin	0.0	2.3	-1.4
Bluestep Mortgage Securities No 3 DAC	550839	Dublin	0.0	12.0	-2.7
Bluestep Mortgage Securities No 4 DAC	596111	Dublin	0.0	-0.9	8.4
Bluestep Servicing AB	556955-3927	Stockholm	16.4	2.6	0.0

## Note 20. Other assets

	Group		Parent	
	2019-12-31	2018-12-31	2019-12-31	2018-12-31
Accounts receivable	18.8	16.6	13.3	13.3
Intercompany receivables	-	-	683.2	710.0
Securities financial instruments <sup>1</sup>	62.2	68.8	62.2	68.8
Tax receivables	24.7	23.1	21.7	23.1
Long term deposits	1.1	0.0	1.0	0.0
Other assets	-1.4	0.2	-1.4	0.2
<b>Total</b>	<b>105.4</b>	<b>108.8</b>	<b>780.1</b>	<b>815.4</b>

<sup>1</sup> Liquids that the parties regulate between each other due to changes in the value of the underlying financial instruments.

## Note 21. Prepaid expenses and accrued income

	Group		Parent	
	2019-12-31	2018-12-31	2019-12-31	2018-12-31
Prepaid expenses	-	2.3	-	1.9
Accrued interest	5.4	13.0	5.4	13.0
Other prepaid expenses and accrued income	15.5	12.0	14.8	10.6
<b>Total</b>	<b>20.9</b>	<b>27.3</b>	<b>20.2</b>	<b>25.5</b>

## Note 22. Liabilities to credit institutions

	Group		Parent	
	2019-12-31	2018-12-31	2019-12-31	2018-12-31
Foreign banks*	2,000.0	1,998.9	-	-
Bluestep Mortgage Securities No 2, No 3 and No 4	-	-	1,487.8	2,631.8
<b>Total</b>	<b>2,000.0</b>	<b>1,998.9</b>	<b>1,487.8</b>	<b>2,631.8</b>

\* Consists of a committed credit facility in BFF1.

## Note 23. Issued bonds

Bonds	Group		Parent	
	2019-12-31	2018-12-31	2019-12-31	2018-12-31
Carrying balance	3,233.7	4,283.4	-	-
Repayments on bonds	-1,401.8	-1,091.5	-	-
Change due to currency fluctuation	69.2	41.8	-	-
<b>Total</b>	<b>1,901.1</b>	<b>3,233.7</b>	<b>-</b>	<b>-</b>

Unsecured bonds	Group		Parent	
	2019-12-31	2018-12-31	2019-12-31	2018-12-31
Carrying balance	200.0	-	200.0	-
Issued bonds during year	1,800.0	200.0	1,800.0	200.0
<b>Total</b>	<b>2,000.0</b>	<b>200.0</b>	<b>2,000.0</b>	<b>200.0</b>

## Note 24. Deposits from the public

	Group		Parent	
	2019-12-31	2018-12-31	2019-12-31	2018-12-31
Deposits from the public	11,421.4	10,416.6	11,421.4	10,416.6
<b>Total</b>	<b>11,421.4</b>	<b>10,416.6</b>	<b>11,421.4</b>	<b>10,416.6</b>

## Note 25. Accrued expenses and prepaid income

	Group		Parent	
	2019-12-31	2018-12-31	2019-12-31	2018-12-31
Accrued salaries and remunerations	24.0	24.7	23.3	22.8
Accrued social costs	5.9	5.5	5.7	4.9
Accrued interest	35.1	39.7	24.5	14.8
Other accrued expenses and prepaid income	23.6	9.9	23.0	9.0
<b>Total</b>	<b>88.6</b>	<b>79.8</b>	<b>76.5</b>	<b>51.5</b>

## Note 26. Other liabilities

	Group		Parent	
	2019-12-31	2018-12-31	2019-12-31	2018-12-31
Trade creditors	30.1	23.6	29.8	22.3
Intercompany liabilities	85.3	12.4	87.3	24.4
Social costs	13.1	13.9	12.4	13.2
Other liabilities	91.3	22.3	39.9	22.2
<b>Total</b>	<b>219.8</b>	<b>72.2</b>	<b>169.3</b>	<b>82.1</b>

Intercompany liabilities include a group contribution from the Bank to BHAB, amounting to SEK 85.3m (SEK 12.4m).

## Note 27. Assets and liabilities duration information

	Group					
	Non discounted contractual cash flows					
Remaining duration 2019-12-31	Payable on demand	< 3 mth	3 mth – 1 yr	1 – 5 yr	>5 yr	Total
<b>Assets</b>						
Lending to credit institutions	1,935.6	-	-	-	-	<b>1,935.6</b>
Lending to the public	-	229.0	405.9	696.1	16,439.6	<b>17,770.5</b>
Derivatives	0.0	56.3	233.7	882.3	-	<b>1,172.3</b>
Interest bearing securities	-	151.5	78.4	527.2	-	<b>757.1</b>
<b>Total</b>	<b>1,935.6</b>	<b>436.8</b>	<b>718.0</b>	<b>2,105.6</b>	<b>16,439.6</b>	<b>21,635.5</b>
<b>Liabilities</b>						
Liabilities to credit institutions	-	12.8	1,166.7	833.3	-	<b>2,012.8</b>
Issued bonds	-	11.4	785.9	3,111.9	-	<b>3,909.2</b>
Deposits from the public	8,951.8	589.5	1,186.5	619.2	17.9	<b>11,364.9</b>
Derivatives	0.0	24.4	28.8	50.1	-	<b>103.2</b>
<b>Total</b>	<b>8,951.8</b>	<b>638.1</b>	<b>3,167.8</b>	<b>4,614.6</b>	<b>17.9</b>	<b>17,390.2</b>

	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
<b>Assets</b>						
Lending to credit institutions	1,862.8	-	-	-	-	<b>1,862.8</b>
Lending to the public	-	204.6	388.1	612.3	14,601.4	<b>15,806.5</b>
Derivatives	0.3	58.3	-	-	-	<b>58.6</b>
Interest bearing securities	-	3.7	83.2	1,432.4	-	<b>1,519.3</b>
<b>Total</b>	<b>1,863.1</b>	<b>266.6</b>	<b>471.3</b>	<b>2,044.7</b>	<b>14,601.4</b>	<b>19,247.1</b>
<b>Liabilities</b>						
Liabilities to credit institutions	-	3.7	1,555.6	444.4	-	<b>2,003.7</b>
Issued bonds	-	1,101.9	-	3,670.5	-	<b>4,772.4</b>
Deposits from the public	7,880.6	905.6	938.9	500.0	32.8	<b>10,257.9</b>
Derivatives	0.2	46.1	11.7	34.0	-	<b>92.0</b>
<b>Total</b>	<b>7,880.9</b>	<b>2,057.2</b>	<b>2,506.1</b>	<b>4,648.9</b>	<b>32.8</b>	<b>17,125.9</b>



	Parent					
	Non discounted contractual cash flows					
Remaining duration 2019-12-31	Payable on demand	< 3 mth	3 mth – 1 yr	1 – 5 yr	>5 yr	Total
<b>Assets</b>						
Lending to credit institutions	1,333.4	-	-	-	-	<b>1,333.4</b>
Lending to the public	-	202.2	371.7	679.0	14,457.5	<b>15,710.4</b>
Derivatives	0.0	18.7	-	-	-	<b>18.7</b>
Interest bearing securities	-	151.5	78.4	527.2	-	<b>757.1</b>
<b>Total</b>	<b>1,333.4</b>	<b>372.4</b>	<b>450.1</b>	<b>1,206.2</b>	<b>14,457.5</b>	<b>17,819.7</b>
<b>Liabilities</b>						
Deposits from the public	8,951.8	589.5	1,186.5	619.2	17.9	<b>11,364.9</b>
Issued bonds	-	-	-	2,000.0	-	<b>2,000.0</b>
Derivatives	0.0	8.2	28.8	50.1	-	<b>87.1</b>
<b>Total</b>	<b>8,951.8</b>	<b>597.7</b>	<b>1,215.2</b>	<b>2,669.3</b>	<b>17.9</b>	<b>13,452.0</b>

	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
<b>Assets</b>						
Lending to credit institutions	1,862.8	-	-	-	-	<b>1,862.8</b>
Lending to the public	-	173.1	317.3	536.2	12,773.2	<b>13,799.8</b>
Derivatives	0.3	9.4	-	-	-	<b>9.6</b>
Interest bearing securities	-	3.7	83.2	1,432.4	-	<b>1,519.3</b>
<b>Total</b>	<b>1,863.1</b>	<b>186.2</b>	<b>400.5</b>	<b>1,968.6</b>	<b>12,773.2</b>	<b>17,191.5</b>
<b>Liabilities</b>						
Deposits from the public	7,880.6	905.6	938.9	500.0	32.8	<b>10,257.9</b>
Issued bonds	-	-	-	200.0	-	<b>200.0</b>
Derivatives	0.2	41.4	11.7	34.0	-	<b>87.3</b>
<b>Total</b>	<b>7,880.9</b>	<b>947.0</b>	<b>950.6</b>	<b>733.9</b>	<b>32.8</b>	<b>10,545.2</b>

## 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. Lending to the public is classified in its entirety at Level 3.

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. Level 3 refers to financial instruments that are not actively traded in a market and where valuation models are used where significant input data is based on unobservable data. At this level there is a certain proportion of lending to the public.

	Group				
	Valued at fair value through profit or loss	Amortised cost	Amortised cost	Non-financial assets and liabilities	Sum Carrying value
<b>2019-12-31</b>					
<b>Assets</b>					
Lending to credit institutions	-	1,935.6	-	-	<b>1,935.6</b>
Lending to the public	51.8	16,072.6	-	-	<b>16,124.4</b>
Derivatives	147.0	-	-	-	<b>147.0</b>
Bonds and other interest-bearing securities	738.1	-	-	-	<b>738.1</b>
Intangible assets	-	-	-	107.6	<b>107.6</b>
Tangible fixed assets	-	-	-	60.8	<b>60.8</b>
Other assets	-	18.8	-	86.5	<b>105.4</b>
Prepaid expenses and accrued income	-	5.4	-	15.5	<b>20.9</b>
Tax assets	-	-	-	13.9	<b>13.9</b>
<b>Total</b>	<b>936.8</b>	<b>18,032.4</b>	<b>-</b>	<b>284.3</b>	<b>19,253.5</b>
<b>Liabilities</b>					
Liabilities to credit institutions	-	-	2,000.0	-	<b>2,000.0</b>
Issued bonds	-	-	3,901.1	-	<b>3,901.1</b>
Deposits from the public	-	-	11,421.4	-	<b>11,421.4</b>
Derivatives	17.1	-	-	-	<b>17.1</b>
Tax liabilities	-	-	-	-	<b>-</b>
Other liabilities	-	-	206.8	13.1	<b>219.8</b>
<b>Accrued expenses and prepaid income</b>	<b>-</b>	<b>-</b>	<b>88.6</b>	<b>-</b>	<b>88.6</b>
<b>Total</b>	<b>17.1</b>	<b>-</b>	<b>17,617.9</b>	<b>13.1</b>	<b>17,648.0</b>

2018-12-31	Group				
	Valued at fair value through profit or loss	Amortised cost	Amortised cost	Non-financial assets and liabilities	Sum Carrying value
<b>Assets</b>					
Lending to credit institutions	-	1,862.8	-	-	<b>1,862.8</b>
Lending to the public	-	14,521.7	-	-	<b>14,521.7</b>
Derivatives	213.4	-	-	-	<b>213.4</b>
Bonds and other interest-bearing securities	693.1	-	-	-	<b>693.1</b>
Intangible assets	-	-	-	58.0	<b>58.0</b>
Tangible fixed assets	-	-	-	8.3	<b>8.3</b>
Other assets	-	16.6	-	92.2	<b>108.8</b>
Prepaid expenses and accrued income	-	13.0	-	14.3	<b>27.3</b>
Tax assets	-	-	-	3.0	<b>3.0</b>
<b>Total</b>	<b>906.5</b>	<b>16,414.1</b>	<b>-</b>	<b>175.8</b>	<b>17,496.4</b>
<b>Liabilities</b>					
Liabilities to credit institutions	-	-	1,998.9	-	<b>1,998.9</b>
Issued bonds	-	-	3,433.7	-	<b>3,433.7</b>
Deposits from the public	-	-	10,416.6	-	<b>10,416.6</b>
Derivatives	38.1	-	-	-	<b>38.1</b>
Tax liabilities	-	-	-	-	<b>-</b>
Other liabilities	-	-	58.2	13.9	<b>72.2</b>
<b>Accrued expenses and prepaid income</b>	<b>-</b>	<b>-</b>	<b>79.8</b>	<b>-</b>	<b>79.8</b>
<b>Total</b>	<b>38.1</b>	<b>-</b>	<b>15,987.3</b>	<b>13.9</b>	<b>16,039.3</b>

2019-12-31	Parent				
	Valued at fair value through profit or loss	Amortised cost	Amortised cost	Non-financial assets and liabilities	Sum Carrying value
<b>Assets</b>					
Lending to credit institutions	-	1,333.4	-	-	<b>1,333.4</b>
Lending to the public	51.8	13,683.5	-	-	<b>13,735.2</b>
Derivatives	34.4	-	-	-	<b>34.4</b>
Bonds and other interest-bearing securities	738.1	-	-	-	<b>738.1</b>
Shares and participations in associated companies	-	-	-	4.7	<b>4.7</b>
Intangible assets	-	-	-	94.2	<b>94.2</b>
Tangible fixed assets	-	-	-	7.1	<b>7.1</b>
Other assets	-	696.5	-	83.5	<b>780.1</b>
Prepaid expenses and accrued income	-	5.4	-	14.8	<b>20.2</b>
Tax assets	-	-	-	13.0	<b>13.0</b>
<b>Total</b>	<b>824.3</b>	<b>15,718.8</b>	<b>-</b>	<b>217.2</b>	<b>16,760.3</b>
<b>Liabilities</b>					
Liabilities to credit institutions	-	-	1,487.8	-	<b>1,487.8</b>
Deposits from the public	-	-	11,421.4	-	<b>11,421.4</b>
Derivatives	17.1	-	-	-	<b>17.1</b>
Issued bonds	2,000.0	-	-	-	<b>2,000.0</b>
Tax liabilities	-	-	-	-	<b>-</b>
Other liabilities	-	-	156.9	12.4	<b>169.3</b>
<b>Accrued expenses and prepaid income</b>	<b>-</b>	<b>-</b>	<b>76.5</b>	<b>-</b>	<b>76.5</b>
<b>Total</b>	<b>2,017.1</b>	<b>-</b>	<b>13,142.5</b>	<b>12.4</b>	<b>15,172.0</b>

Parent					
2018-12-31	Fair value	Amortised cost	Amortised cost	Carrying value	Sum Carrying value
<b>Assets</b>					
Lending to credit institutions	-	1,261.9	-	-	1,261.9
Lending to the public	-	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 fixed assets	-	-	-	7.3	7.3
Other assets	-	723.3	-	92.1	815.4
Prepaid expenses and accrued income	-	13.0	-	12.6	25.5
<b>Total</b>	<b>729.5</b>	<b>13,975.1</b>	<b>-</b>	<b>160.1</b>	<b>14,864.8</b>
<b>Liabilities</b>					
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
<b>Total</b>	<b>225.5</b>	<b>-</b>	<b>13,168.8</b>	<b>13.5</b>	<b>13,407.8</b>

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								
2019-12-31					2018-12-31			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets</b>								
Lending to public	-	-	51.8	51.8	-	-	-	-
Derivatives	-	147.0	-	147.0	-	213.4	-	213.4
Bonds / other interest-bearing securities	738.1	-	-	738.1	693.1	-	-	693.1
<b>Total</b>	<b>738.1</b>	<b>147.0</b>	<b>51.8</b>	<b>936.8</b>	<b>693.1</b>	<b>213.4</b>	<b>-</b>	<b>906.5</b>
<b>Liabilities</b>								
Derivatives	-	17.1	-	17.1	-	38.1	-	38.1
<b>Total</b>	<b>-</b>	<b>17.1</b>	<b>-</b>	<b>17.1</b>	<b>-</b>	<b>38.1</b>	<b>-</b>	<b>38.1</b>

Parent								
2019-12-31					2018-12-31			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets</b>								
Lending to public	-	-	51.8	51.8	-	-	-	-
Derivatives	-	34.4	-	34.4	-	36.4	-	36.4
Bonds / other interest-bearing securities	738.1	-	-	738.1	693.1	-	-	693.1
<b>Total</b>	<b>738.1</b>	<b>34.4</b>	<b>51.8</b>	<b>824.3</b>	<b>693.1</b>	<b>36.4</b>	<b>-</b>	<b>729.5</b>
<b>Liabilities</b>								
Derivatives	-	17.1	-	17.1	-	25.5	-	25.5
<b>Total</b>	<b>-</b>	<b>17.1</b>	<b>-</b>	<b>17.1</b>	<b>-</b>	<b>25.5</b>	<b>-</b>	<b>25.5</b>



## 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

- 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.

- the Bank's risk profile,
- identified risks in terms of probability and financial impact,

Capital Adequacy	Consolidated situation		Parent	
	2019-12-31	2018-12-31	2019-12-31	2018-12-31
<b>Total capital base</b>	<b>1,474.9</b>	<b>1,303.0</b>	<b>1,494.0</b>	<b>1,413.4</b>
<b>Common Equity Tier 1 (CET1) capital</b>	<b>1,474.9</b>	<b>1,303.0</b>	<b>1,494.0</b>	<b>1,413.4</b>
Capital instruments and the related share premium accounts	4,451.4	4,451.4	663.7	663.7
Retained earnings	354.8	144.8	924.5	793.2
Accumulated other comprehensive income	26.0	26.0	-	-
Intangible assets (net of related tax liability)	-3,357.4	-3,319.2	-94.2	-43.5
<b>Additional Tier 1 capital</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Tier 2 Capital</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Risk Exposure Amount</b>	<b>8,252.3</b>	<b>7,466.4</b>	<b>6,995.8</b>	<b>6,198.6</b>
Risk exposure amount credit risk	6,889.1	6,266.4	5,804.8	5,166.2
Risk exposure amount market risk	259.6	157.8	259.6	157.8
Risk exposure amount operational risk	1,036.1	880.8	931.4	874.6
Risk exposure amount credit valuation adjustment risk (CVA)	67.4	161.3	-	-
<b>CET 1 capital ratio, %</b>	<b>17.87%</b>	<b>17.45%</b>	<b>21.36%</b>	<b>22.80%</b>
<b>Tier 1 capital ratio, %</b>	<b>17.87%</b>	<b>17.45%</b>	<b>21.36%</b>	<b>22.80%</b>
<b>Total capital ratio, %</b>	<b>17.87%</b>	<b>17.45%</b>	<b>21.36%</b>	<b>22.80%</b>

Capital Buffer Requirements %	Consolidated situation		Parent	
	2019-12-31	2018-12-31	2019-12-31	2018-12-31
Institution specific buffert requirement	5.00%	4.50%	5.00%	4.50%
of which capital conservation buffer	2.50%	2.50%	2.50%	2.50%
of which countercyclical capital buffer	2.50%	2.00%	2.50%	2.00%
of which systemic risk buffer	-	-	-	-
of which: G-SII or O-SII buffer	-	-	-	-
CET1 available to meet buffers	9.87%	9.45%	13.36%	14.80%

The countercyclical capital buffer is increased to 2.50% in September 2019.

## Capital requirement for credit risk

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

Exposure class	Consolidated situation				
	2019-12-31				2018-12-31
	Exposed amount	Risk weight	Risk weighted amount	Capital requirement	Capital requirement
Governments or central banks	502.1	0%	-	-	-
Exposures to institutions	2,017.2	20%	403.4	32.3	36.7
Exposures to corporates	-	0%	-	-	-
Retail exposures	1,026.2	75%	769.7	61.6	59.9
Exposures to mortgages	14,789.8	36%	5,260.7	420.9	378.4
Exposures in default	304.2	101%	306.8	24.5	18.9
Exposures in the form of covered bonds	534.1	10%	53.4	4.3	4.2
Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-
Equity exposures	-	-	-	-	-
Other exposures	95.2	100%	95.2	7.6	3.2
Securitisations	-	-	-	-	-
<b>Total capital requirement for credit risk</b>	<b>19,268.8</b>		<b>6,889.1</b>	<b>551.1</b>	<b>501.3</b>

Exposure class	Parent				
	2019-12-31				2018-12-31
	Exposed amount	Risk weight	Risk weighted amount	Capital requirement	Capital requirement
Governments or central banks	497.1	0%	-	-	-
Exposures to institutions	1,164.0	20%	232.8	18.6	21.1
Exposures to corporates	683.2	1%	3.9	0.3	1.1
Retail exposures	1,026.2	75%	769.7	61.6	59.9
Exposures to mortgages	12,427.8	36%	4,421.8	353.7	305.9
Exposures in default	281.2	101%	283.8	22.7	18.0
Exposures in the form of covered bonds	534.1	10%	53.4	4.3	4.2
Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-
Equity exposures	4.7	100%	4.7	0.4	0.4
Other exposures	34.8	100%	34.8	2.8	2.7
Securitisations	-	-	-	-	-
<b>Total capital requirement for credit risk</b>	<b>16,653.1</b>		<b>5,804.8</b>	<b>464.4</b>	<b>413.3</b>

## Capital requirement for operational risk

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

	Consolidated situation		Parent	
	2019-12-31	2018-12-31	2019-12-31	2018-12-31
Relevant indicator	690.8	587.2	620.9	583.1
of which 12% (business line retail banking)	82.9	70.5	74.5	70.0
<b>Total capital requirement for operational risk</b>	<b>82.9</b>	<b>70.5</b>	<b>74.5</b>	<b>70.0</b>

## Capital requirement for market risk

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

	Consolidated situation		Parent	
	2019-12-31	2018-12-31	2019-12-31	2018-12-31
Capital requirement for currency risks	20.8	12.6	20.8	12.6
<b>Total capital requirement for market risk</b>	<b>20.8</b>	<b>12.6</b>	<b>20.8</b>	<b>12.6</b>

## Capital requirements for credit valuation adjustment risk

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

	Consolidated situation		Parent	
	2019-12-31	2018-12-31	2019-12-31	2018-12-31
Capital requirements for credit valuation adjustment risk	5.4	12.9	-	-
<b>Total capital requirement for credit valuation adjustment risk</b>	<b>5.4</b>	<b>12.9</b>	<b>-</b>	<b>-</b>

	Consolidated situation		Parent	
	2019-12-31	2018-12-31	2019-12-31	2018-12-31
Pillar 1 capital requirement	660.2	597.3	559.7	495.9
<b>Total Pillar 1 capital requirement</b>	<b>660.2</b>	<b>597.3</b>	<b>559.7</b>	<b>495.9</b>

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		Parent	
	2019-12-31	2018-12-31	2019-12-31	2018-12-31
<b>Intercompany receivables</b>				
Parent	-	-	-	-
Group	-	-	683.2	710.0
<b>Total</b>	<b>-</b>	<b>-</b>	<b>683.2</b>	<b>710.0</b>
<b>Intercompany payables</b>				
Parent	85.3	12.4	85.3	12.4
Group	-	-	1.9	12.0
<b>Total</b>	<b>85.3</b>	<b>12.4</b>	<b>87.3</b>	<b>24.4</b>

Income and costs	Group		Parent	
	2019	2018	2019	2018
<b>Interest income calculated using the effective interest method</b>				
Parent	-	-	-	-
Group	-	-	130.3	194.6
<b>General administration expenses</b>				
Parent	-	-	-	-
Group	-	-	-21.5	-27.7
<b>Total</b>	<b>-</b>	<b>-</b>	<b>108.7</b>	<b>166.9</b>

## 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.

# Note 31. Pledged assets, contingent liabilities and commitments

	Group		Parent	
	2019-12-31	2018-12-31	2019-12-31	2018-12-31
<b>Pledged assets for own liabilities</b>				
Shares and participations in associated companies	0.0	0.0	0.0	0.0
Lending to credit institutions	596.3	588.2	-	-
Lending to the public	5,265.6	7,213.0	2,876.5	4,668.2
Derivatives	109.2	175.0	-	-
Intangible assets	0.2	0.6	-	-
Other assets	66.4	70.6	62.2	68.8
Prepaid expenses and accrued income	0.7	1.2	-	-
<b>Contingent liabilities</b>				
Contingent liabilities	-	-	-	-
Commitments	-	-	-	-

# Note 32. Proposal for profit distribution

<b>Proposal for the appropriation of profits</b>	
<b>The following profits are available for appropriation at the annual general meeting</b>	
Non-restricted equity from previous years	1,341,762,123
Result of the year	128,362,912
	<b>1,470,125,035</b>
<b>The Board propose that</b>	
the following be carried forward	1,477,465,427
	<b>1,477,465,427</b>

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.



# The Board of Directors

The board of directors is elected by the shareholders at the annual general meeting. The board is currently consisting of seven members.

- 1. Toby Franklin, Board member
- 2. Lars Wollung, Board member
- 3. Göran Bronner, Board member
- 4. Sofia Arhall Bergendorff, Board member

- 5. Andreas Pettersson Rohman, Board member
- 6. Per-Arne Blomquist, Chairman
- 7. Albert Gustafsson, Board member



# Senior Management

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

	<b>Björn Lander</b> Chief Executive Officer		<b>Johanna Clason</b> Chief Financial Officer
	<b>Anna Bofeldt</b> Chief Marketing Officer, Marketing & BDM		<b>Erik Lind</b> Chief Information Officer, Systems & IT
	<b>Tomas Netz</b> Chief Operating Officer, Sweden		<b>Karin Jenner</b> Human Resource Manager
	<b>Erik Walberg Olstad</b> Operativ Chef Norge		<b>Christian Marker</b> Chief Legal Officer







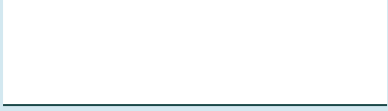
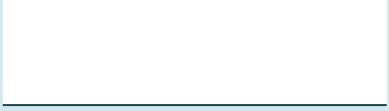
# The board’s and the CEO’s signatures

The Board of Directors and the CEO ensure that the annual accounts have been prepared in accordance with generally accepted accounting principles in Sweden and the consolidated accounts have been prepared in accordance with the international accounting standards referred to in Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards . The annual accounts and consolidated accounts, respectively, provide a true and fair view of the parent company’s and the Group’s position and earnings.

The Directors’ Report for the Parent Company and the Group, respectively, provides a true and fair view of the development of the Parent Company and the Group’s operations, financial position and results, and describes the significant risks and uncertainties facing the Parent Company and the companies included in the Group.

Our audit report was submitted in Swedish on the 22nd of April 2020.

## Stockholm 22 April 2020

		
<b>Björn Lander</b> CEO	<b>Per-Arne Blomquist</b> Chairman	<b>Göran Bronner</b> Board member
		
<b>Andreas Pettersson Rohman</b> Board member	<b>Albert Gustafsson</b> Board member	<b>Toby Franklin</b> Board member
		
<b>Lars Wollung</b> Board member	<b>Sofia Arhall Bergendorff</b> Board member	

Our audit report has been submitted as of 22 April 2020  
Ernst & Young AB.

  
**Daniel Eriksson**  
Authorized auditor

# Definition of alternative performance measures

## Return on equity

Operating profit as a percentage of average equity.

## Gross revenue

Interest income exclusive interest income from bond holdings and banks.

## Leverage ratio

Capital base in relation to assets exclusive intangible assets.

## C/I ratio

Sum of costs divided with sum of operating income.

## Credit losses (%)

Credit losses net in relation to closing balance of lending to public.

## CET1

CET1 in relation to risk weighted exposure amount.



# 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. Permission to establish a mortgage branch in Finland were received during the year. 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 Designated Activity Company, Bluestep Mortgage Securities No 3 Designated Activity Company and Bluestep Mortgage Securities No 4 Designated Activity Company. 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 Board's 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 the 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 the 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 CRO, 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 CRO 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 2019. 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 inclusion and thereby contribute to UNs 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 many 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 20 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 management, 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, GDPR 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 2019. 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. The result came in at 21.9 (due to changed measuringmechanism, this number however is not comparable with goals or earlier years). For 2020 Bluestep's goal is to reach 24. In the NKI-survey, the customers get to answer how satisfied they were with the servicethey received when they contacted Bluestep. During 2019, Bluestep's goal was to reach a NKI of 90% in both Sweden and Norway. The result became 88.2%. For 2020, Bluestep's goal remains at 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 20 different languages are spoken in our approximately 290 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, 49% are women and 51% are men. The management consists of three women and five men, and the board consists of one woman and six 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 2020 is set at 80% for Trust Index.

Trust Index:  
2016: 70%  
2017: 69%  
2018: 76%  
2019: 74%

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 continuing effectiveness work were 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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