BlueStep Bank

# Interim Report

## Bluestep Bank AB (publ)

## January-June 2018

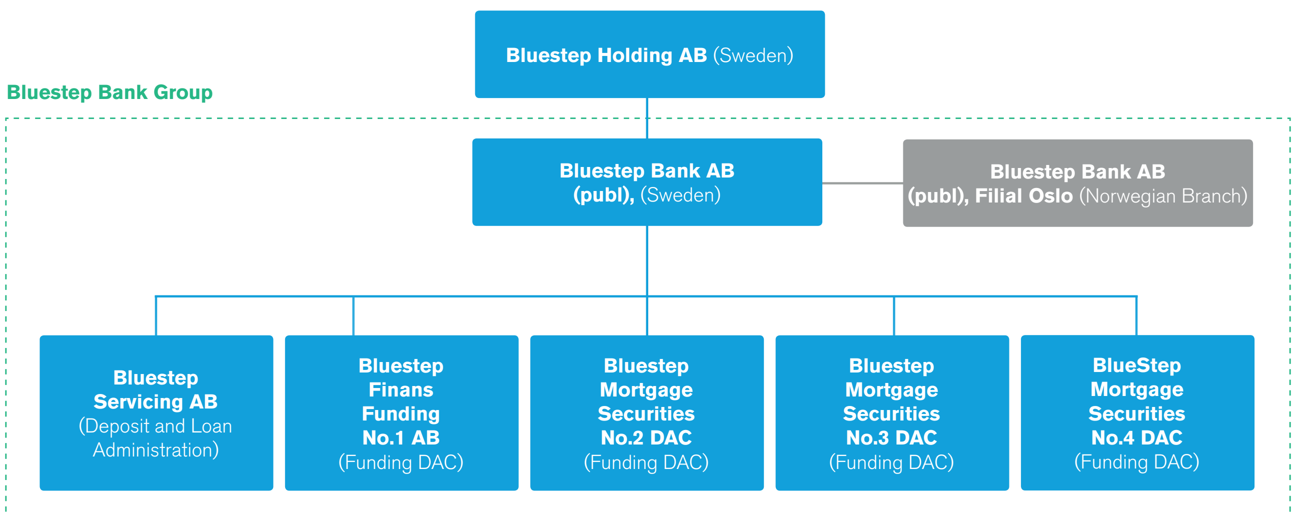
# Content



Bluestep Bank AB (publ), is a banking company under the supervision of the Swedish Financial Supervisory Authority (the "Swedish FSA"). The company's principal place of business is located at Sveavägen 163, 104 35 Stockholm, Sweden.

# Administration Report

Bluestep Bank AB (publ), org no 556717-5129 with registered offices in Stockholm, Sweden, hereby presents the interim accounts and group accounts for the period 2018-01-01—2018-06-30. The group accounts include the wholly owned subsidiaries Bluestep Finans Funding No 1 AB, org no 556791-6928 with registered offices in Stockholm, Sweden, Bluestep Mortgage Securities No 2 Designated Activity Company, org no 522186 with registered offices in Dublin, Ireland, Bluestep Mortgage Securities No 3 Designated Activity Company, org no 550839 with registered offices in Dublin, Ireland, Bluestep Mortgage Securities No 4 Designated Activity Company, org no 596111 with registered offices in Dublin, Ireland, and Bluestep Servicing AB, org no 556955 3927 with registered offices in Stockholm, Sweden.



## Ownership and definitions

The ownership structure and its definitions used is detailed below:

- Bluestep Holding AB ("BHAB")
  *100% owner of Bluestep Bank AB*
- Bluestep Bank AB (publ) ("The Company", also known as "The Bank")
  *Parent company of the Bluestep Bank Group ("The Group")*
- Bluestep Bank AB, filial Oslo ("The Branch")
  *Norwegian branch for the norwegian deposit and mortgage operations*
- Bluestep Finans Funding No 1 AB ("BFF1")
  *Warehouse company. Ownership 100%*
- Bluestep Mortgage Securities No 2 Designated Activity Company ("Step 2")
  *Special Purpose Entity. Ownership 100%*
- Bluestep Mortgage Securities No 3 Designated Activity Company ("Step 3")
  *Special Purpose Entity. Ownership 100%*
- Bluestep Mortgage Securities No 4 Designated Activity Company ("Step 4")
  *Special Purpose Entity. Ownership 100%*
- Bluestep Servicing AB ("BSAB")
  *Deposit and Loan Administration. Ownership 100%*

Bluestep operates in Sweden and Norway, where the Norwegian operation is run through the Branch. The Company is Sweden's and Norway's largest non-conforming residential mortgage lender and its core business is to engage in lending activities. The business is funded by deposits from the public, equity, and issuance of asset backed securities within the wholly owned subsidiaries Step 2, Step 3, and Step 4.

All financial information is provided for the Group unless stated otherwise, while regulatory information is stated for the legal entity Bluestep Bank AB or the Consolidated situation, which is reported to the Swedish FSA. The Consolidated situation consists of Butterfly Bidco AB, BHAB, The Bank, The Branch, BSAB, BFF1, Step 2, Step 3, and Step 4.

## Significant events during the first six months of 2018

BFF1 have increased their credit facility with SEK 1,000m to a total of SEK 2,000m during the period. As of the end of June SEK 1,300m of the credit facility have been utilized, leaving SEK 700m unutilized. BFF1 have during this period acquired mortgages from the Bank with a total value of SEK 1,647m, financed through internal loans from the Bank.

The administration of personal loans was acquired by Bluestep Servicing AB from an external party during March.

BHAB has obtained a conditional shareholder contribution of SEK 200m during the period, which was subsequently transferred to the Bank.

## Significant regulatory updates

The Bank applies the new accounting standard IFRS 9 Financial instruments from January 1, 2018. IFRS 9 replaces IAS 39 Financial instruments: Recognition and Measurement, and includes new requirements for classification and measurement, impairment, and hedge accounting. The implementation of IFRS 9 decreased the Group's equity by SEK 13.9m (after tax) between December 31, 2017 and January 1, 2018. For further information regarding the transition to IFRS 9, please see Note 11. With regard to capital adequacy, there is an option to apply transitional rules where the effect is taken over a five-year period after the introduction of IFRS 9. The Bank has chosen not to apply the transitional rules. Comparative figures have not been adjusted. For more information regarding IFRS 9, see Note 1 Accounting Principles.

## Financial review

*Lending*

The Group's total loan portfolio increased by 11.5% compared to June 2017 and increased by 5.3% compared to December 2017. The loan portfolio, as of period end, amounted to SEK 14,336m (SEK 12,854m as of 2017-06-30, SEK 13,610m as of 2017-12-31). The lending in Norway increased by 34.5% compared to June 2017 and as of period end amounted to SEK 5,111m (SEK 3,800m as of 2017-06-30, SEK 4,368m as of 2017-12-31). The personal loans' portfolio decreased slightly compared to June 2017 and as of period end amounted to SEK 1,010m (SEK 1,022m as of 2017-06-30, SEK 1,054m as of 2017-12-31).

*Deposits*

Deposits to the public as of end of period amounted to SEK 10,977m (SEK 9,252m as of 2017-06-30, SEK 10,419m as of 2017-12-31), an increase of 18.6% compared to June 2017, of which the balance in Norway amounted to SEK 6,153m (SEK 5,020m as of 2017-06-30, SEK 5,599m as of 2017-12-31).

All deposit products are covered and approved by Riksgälden (The Swedish National Debt Office) and are therefore covered by the Swedish government deposit guarantee scheme, which amounts to SEK 950,000. The Norwegian Branch is a member of Bankenes Sikringsfond (The Norwegian Banks' Guarantee Fund) as well, meaning that deposits in Norway are guaranteed up to NOK 2,000,000.

*Liquidity reserve*

As of period end, the Group's excess liquidity amounted to SEK 2,841m (SEK 2,595m as of 2017-12-31). The amount consists of placements with credit institutions of SEK 2,117m (SEK 1,935m as of 2017-12-31), placements in Swedish and Norgegian covered bonds of SEK 547m (SEK 492m as of 2017-12-31), bonds issued by the Swedish and Norwegian government of SEK 176m (SEK 138m as of 2017-12-31), and bonds issued by other European governments of SEK 1m (SEK 1m as of 2017-12-31).

*Staff*

The average number of employees in the Group during the period amounted to 233 (227 for 2017), of which 55 (49 for 2017) are employed by the Norwegian Branch. The increase in number of employees is mainly related to organic growth in the business.

## Branches in other countries

The company is active in Norway through its Norwegian branch. The company aims to maintain the position as one of the leading creditors in the specialized mortgage market in Norway and will primarily finance the Norwegian operations through borrowing and borrowing from the public in Norway.

## Multi-year summary

| Key figures \| Group | 2018 H1 | 2017 H1 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|---|
| Net Profit after Tax (SEK m) | 90.8 | 82.0 | 191.9 | 163.2 | 115.6 | 113.0 |
| Gross Income / ANR[1] | 7.6% | 7.4% | 7.4% | 7.4% | 7.8% | 7.8% |
| Cost of Funds / Funding balance[1] | -2.2% | -2.3% | -2.2% | -2.1% | -2.5% | -2.3% |
| Operating Income / ANR[1] | 5.4% | 5.1% | 5.3% | 5.4% | 5.3% | 5.3% |
| Net Income Pre BDC / ANR[1] | 2.1% | 2.1% | 2.2% | 2.2% | 2.0% | 1.5% |
| Net Income Post BDC / ANR[1] | 1.7% | 1.7% | 2.0% | 2.0% | 1.7% | 1.9% |
| Return on Equity[1] | 15.1% | 17.0% | 18.9% | 19.4% | 16.8% | 20.1% |
| Return on Assets[1] | 1.4% | 1.5% | 1.6% | 1.6% | 1.4% | 1.5% |
| Liquidity Reserve (SEK m) | 3,531.0 | 2,285.3 | 3,029.7 | 2,076.7 | 1,803.3 | 1,699.5 |
| - whereof unutilized credit facility for BFF1 | 700.0 | 0.0 | 450.0 | 400.0 | 0.0 | 375.0 |
| Deposits from the public (SEK m) | 10,977.1 | 9,252.5 | 10,418.6 | 9,504.4 | 7,186.8 | 7,201.0 |
| External Funding (SEK m) | 5,154.2 | 4,998.2 | 4,831.3 | 3,404.0 | 3,675.6 | 1,971.7 |
| Lending portfolio (SEK m) | 14,335.6 | 12,854.2 | 13,609.7 | 12,068.6 | 9,692.1 | 8,307.9 |
| Credit losses (SEK m)[2] | -21.7 | -15.7 | -28.3 | -27.6 | -36.4 | -27.2 |
| Leverage Ratio | 7.3% | 6.3% | 6.4% | 6.5% | 6.3% | 6.1% |
| Average number of employees | 233 | 194 | 227 | 187 | 176 | 153 |

[1] *Key figures related to H1 are recalculated to full year numbers.*

[2] *Actuals losses and recoveries*

# Income Statement

| SEK Millions | Note | Group Jan-Jun 2018 | Group Jan-Jun 2017 | Group Full year 2017 | Parent Jan-Jun 2018 | Parent Jan-Jun 2017 | Parent Full year 2017 |
|---|---|---|---|---|---|---|---|
| **Operating income** | | | | | , | | |
| Interest income | | 521.7 | 467.8 | 957.4 | 505.5 | ,462.8 | 964.7 |
| Interest expense | | -173.5 | -157.7 | -323.8 | -253.4 | -251.4 | -515.6 |
| **Net interest income** | | **348.2** | **310.1** | **633.7** | **252.1** | **211.4** | **449.1** |
| Group contributions | | - | - | - | 20.0 | 13.8 | 12.4 |
| Commission income | | - | 0.1 | 0.2 | - | 0.1 | 0.2 |
| Net result of financial transactions | | 13.6 | 1.3 | 27.0 | -20.7 | 1.4 | 17.9 |
| Other operating income | | 7.6 | 7.1 | 14.5 | 5.5 | 5.2 | 10.5 |
| **Total operating income** | | **369.4** | **318.6** | **675.3** | **256.9** | **231.9** | **490.1** |
| **Operating expense** | | | | | | | |
| General administration expenses | | -212.8 | -178.0 | -368.2 | -140.8 | -89.2 | -198.0 |
| Depreciation on fixed assets | | -12.6 | -10.9 | -22.8 | -10.1 | -9.0 | -18.6 |
| **Total expenses** | | **-225.4** | **-188.9** | **-391.0** | **-150.9** | **-98.2** | **-216.6** |
| **Result pre credit losses** | | **144.1** | **129.7** | **284.3** | **105.9** | **133.7** | **273.5** |
| Credit losses, net | 4 | -26.7 | -21.0 | -33.5 | -25.5 | -19.8 | -31.9 |
| **Operating profit/loss** | | **117.4** | **108.7** | **250.8** | **80.5** | **113.9** | **241.6** |
| Tax | | -26.6 | -26.7 | -59.0 | -26.6 | -26.4 | -57.7 |
| **NET PROFIT/LOSS FOR THE PERIOD** | | **90.8** | **82.0** | **191.9** | **53.9** | **87.6** | **183.9** |

**Statement of Comprehensive Income**

| | | | | | | |
|---|---|---|---|---|---|---|
| **Net income** | **90.8** | **82.0** | **191.9** | **53.9** | **87.6** | **183.9** |
| Items that may be reclassified to the income statement | - | - | - | - | - | - |
| Exchange differences, foreign operations | 10.7 | -2.6 | -4.7 | 10.7 | -2.6 | -4.7 |
| **COMPREHENSIVE PROFIT/LOSS** | **101.5** | **79.4** | **187.1** | **64.6** | **84.9** | **179.2** |

# Balance Sheet

| SEK Millions | Note | Group 2018-06-30 | Group 2017-06-30 | Group 2017-12-31 | Parent 2018-06-30 | Parent 2017-06-30 | Parent 2017-12-31 |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Lending to credit institutions | | 2,106.6 | 1,576.5 | 1,935.5 | 1,501.1 | 887.9 | 1,386.4 |
| Lending to the public | | 14,335.6 | 12,854.2 | 13,609.7 | 11,783.8 | 12,854.2 | 12,495.9 |
| Derivatives | | 303.0 | 112.5 | 169.1 | 37.1 | 31.4 | 34.9 |
| Bonds and other interest-bearing securities | | 724.4 | 708.8 | 644.2 | 724.4 | 708.8 | 644.2 |
| Shares and participations in associated companies | | - | - | - | 4.7 | 8.7 | 4.7 |
| Intangible assets | | 65.1 | 57.7 | 61.3 | 49.1 | 42.2 | 45.6 |
| Tangible assets | | 8.7 | 10.2 | 9.3 | 7.4 | 8.5 | 7.8 |
| Other assets | | 166.7 | 164.8 | 146.8 | 1,514.4 | 177.1 | 753.5 |
| Prepaid expenses and accrued income | | 38.1 | 39.8 | 24.2 | 36.0 | 37.8 | 22.7 |
| **Total assets** | | **17,748.2** | **15,524.6** | **16,600.2** | **15,657.9** | **14,756.6** | **15,395.8** |
| **Liabilities** | | | | | | | |
| Liabilities to credit institutions | | 1,297.2 | - | 550.0 | 3,121.9 | 4,266.0 | 3,673.2 |
| Issued bonds | | 3,857.0 | 4,998.2 | 4,281.3 | - | - | - |
| Deposits from the public | | 10,977.1 | 9,252.5 | 10,418.6 | 10,977.1 | 9,252.5 | 10,418.6 |
| Derivatives | | 42.3 | 62.5 | 56.0 | 50.2 | 43.9 | 35.4 |
| Tax liabilities | | 7.5 | 25.5 | 29.1 | 9.7 | 26.8 | 30.0 |
| Other liabilities | | 79.3 | 88.3 | 55.4 | 81.7 | 89.2 | 58.0 |
| Accrued expenses and prepaid income | | 90.8 | 96.0 | 100.4 | 53.2 | 62.3 | 70.5 |
| **Total liabilities** | | **16,351.2** | **14,522.9** | **15,490.8** | **14,293.9** | **13,740.8** | **14,285.8** |
| **Equity** | | | | | | | |
| Share capital | | - | - | - | 100.0 | 100.0 | 100.0 |
| Shareholder contributions received | | - | - | - | 563.7 | 363.7 | 363.7 |
| Profit and loss account reserve brought forward | | - | - | - | 646.5 | 464.5 | 462.4 |
| Result for this period | | - | - | - | 53.9 | 87.6 | 183.9 |
| Shareholders' equity | | 1,397.0 | 1,001.6 | 1,109.4 | - | - | - |
| **Total equity** | | **1,397.0** | **1,001.6** | **1,109.4** | **1,364.1** | **1,015.8** | **1,110.0** |
| **Total equity and liabilities** | | **17,748.2** | **15,524.6** | **16,600.2** | **15,657.9** | **14,756.6** | **15,395.8** |

# Changes in Equity

**Group**

| | Shareholders' equity | | | |
|---|---|---|---|---|
| | Restricted | Non restricted | | |
| **SEK Millions** | **Share capital** | **Shareholder contributions** | **Retained earnings** | **Total equity** |
| **Opening balance 2017-01-01** | **100.0** | **363.7** | **458.5** | **922.3** |
| Result for the period reported via income statement | | | 82.0 | 82.0 |
| Exchange differences, foreign operations | | | -2.6 | -2.6 |
| **Ending balance 2017-06-30** | **100.0** | **363.7** | **537.9** | **1,001.6** |
| | | | | |
| **Opening balance 2017-01-01** | **100.0** | **363.7** | **458.5** | **922.3** |
| Result for the period reported via income statement | | | 191.9 | 191.9 |
| Exchange differences, foreign operations | | | -4.7 | -4.7 |
| **Ending balance 2017-12-31** | **100.0** | **363.7** | **645.7** | **1,109.4** |
| | | | | |
| **Opening balance 2018-01-01** | **100.0** | **363.7** | **645.7** | **1,109.4** |
| Shareholder contributions[1] | | 200.0 | | 200.0 |
| Effect of transition to IFRS 9 | | | -17.2 | -17.2 |
| Tax effect due to transition to IFRS 9 | | | 3.3 | 3.3 |
| Result for the period reported via income statement | | | 90.8 | 90.8 |
| Exchange differences, foreign operations | | | 10.7 | 10.7 |
| **Ending balance 2018-06-30** | **100.0** | **563.7** | **733.3** | **1,397.0** |

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

**Parent**

| | Shareholders' equity | | | |
|---|---|---|---|---|
| | Restricted | Non restricted | | |
| **SEK Millions** | **Share capital** | **Shareholder contributions** | **Retained earnings** | **Total equity** |
| **Opening balance 2017-01-01** | **100.0** | **363.7** | **467.1** | **930.9** |
| Result for the period reported via income statement | | | 87.6 | 87.6 |
| Exchange differences, foreign operations | | | -2.6 | -2.6 |
| **Ending balance 2017-06-30** | **100.0** | **363.7** | **552.1** | **1,015.8** |
| | | | | |
| **Opening balance 2017-01-01** | **100.0** | **363.7** | **467.1** | **930.9** |
| Result for the period reported via income statement | | | 183.9 | 183.9 |
| Exchange differences, foreign operations | | | -4.7 | -4.7 |
| **Ending balance 2017-12-31** | **100.0** | **363.7** | **646.3** | **1,110.0** |
| | | | | |
| **Opening balance 2018-01-01** | **100.0** | **363.7** | **646.3** | **1,110.0** |
| Shareholder contributions[1] | | 200.0 | | 200.0 |
| Effect of transition to IFRS 9 | | | -13.5 | -13.5 |
| Tax effect due to transition to IFRS 9 | | | 3.0 | 3.0 |
| Result for the period reported via income statement | | | 53.9 | 53.9 |
| Exchange differences, foreign operations | | | 10.7 | 10.7 |
| **Ending balance 2018-06-30** | **100.0** | **563.7** | **700.3** | **1,364.1** |

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

# Cash Flow Statement

| SEK Millions | Note | Group Jan-Jun 2018 | Group Jan-Jun 2017 | Group Full year 2017 | Parent Jan-Jun 2018 | Parent Jan-Jun 2017 | Parent Full year 2017 |
|---|---|---|---|---|---|---|---|
| **Operating activities** | | | | | | | |
| Pre tax income | | 117.4 | 108.7 | 250.8 | 80.5 | 113.9 | 241.6 |
| | | **117.4** | **108.7** | **250.8** | **80.5** | **113.9** | **241.6** |
| **Adjustments for items not included in cash flow** | | | | | | | |
| Depreciation | | 12.6 | 10.9 | 22.8 | 10.1 | 9.0 | 18.6 |
| Unrealised changes in value | | -13.6 | -1.3 | -53.8 | 20.7 | -1.4 | -44.7 |
| Credit losses excluding recoveries | 4 | 50.9 | 41.3 | 70.3 | 49.7 | 40.0 | 68.7 |
| Effect of transition to IFRS 9 | 11 | -13.9 | - | - | -10.5 | - | - |
| **Total – Items not included in cash flow** | | **35.9** | **50.9** | **39.3** | **70.0** | **47.7** | **42.6** |
| Taxes paid | | -48.2 | -32.6 | -61.2 | -46.9 | -29.1 | -57.2 |
| **Cash flow from current operations before changes to operating capital** | | **105.1** | **127.0** | **228.9** | **103.6** | **132.5** | **227.0** |
| **Cash flow from changes to operating capital** | | | | | | | |
| Increase (-)/decrease (+) of lending to the public | | -776.8 | -827.0 | -1,611.4 | 662.5 | -2,748.8 | -2,419.1 |
| Increase (-)/decrease (+) of change in receivables | | -167.7 | -10.9 | -33.9 | -776.4 | 1,352.4 | 787.6 |
| Increase (+)/decrease (-) of deposits from the public | | 558.5 | -251.9 | 914.2 | 558.5 | -251.9 | 914.2 |
| Increase (+)/decrease (-) of change in short term liabilities | | 0.6 | -8.1 | -43.1 | 21.1 | -26.9 | -58.4 |
| **Cash flow from operating activities** | | **-280.2** | **-970.9** | **-545.4** | **569.3** | **-1,542.7** | **-548.8** |
| **Investing activities** | | | | | | | |
| Investments in intangible assets | | -14.8 | -13.0 | -26.8 | -12.2 | -6.0 | -17.6 |
| Acquisition of fixed assets | | -0.9 | -0.3 | -1.2 | -0.9 | 0.3 | -0.5 |
| Increase (-)/decrease (+) of financial assets | | -66.6 | 133.7 | 250.8 | -100.9 | 133.8 | 245.7 |
| **Cash flow from investing activities** | | **-82.3** | **120.4** | **222.8** | **-114.0** | **128.1** | **227.6** |
| **Financing activities** | | | | | | | |
| Liabilities to credit institutions | | 747.2 | -600.0 | -50.0 | -551.3 | 1,825.8 | 1,233.0 |
| Issued bonds | | -424.2 | 2,194.2 | 1,477.3 | - | - | - |
| Shareholders' contribution | | 200.0 | - | - | 200.0 | - | - |
| **Cash flow from financing activities** | | **522.9** | **1,594.2** | **1,427.3** | **-351.3** | **1,825.8** | **1,233.0** |
| **NET CASH FLOW FOR THIS PERIOD** | | **160.4** | **743.6** | **1,104.7** | **104.0** | **411.3** | **911.8** |
| **Liquid funds at beginning of year** | | **1,935.5** | **835.4** | **835.4** | **1,386.4** | **479.3** | **479.3** |
| **Currency difference i liquidity** | | **10.7** | **-2.6** | **-4.7** | **10.7** | **-2.6** | **-4.7** |
| **LIQUID FUNDS END OF PERIOD** | | **2,106.6** | **1,576.5** | **1,935.5** | **1,501.1** | **887.9** | **1,386.4** |
| **Cash flow includes interest receipts of** | | **524.7** | **468.0** | **962.3** | **507.4** | **464.5** | **970.3** |
| **Cash flow includes interest payments of** | | **-117.4** | **-117.8** | **-339.1** | **-197.2** | **-211.4** | **-531.0** |

# Disclosures

All amounts in the notes are in millions of Swedish kronor (SEKm) and represent carrying amounts unless indicated otherwise. Figures in parentheses refer to the same period previous year.

## Note 1 | Accounting principles

This interim report is prepared according to IAS 34, Interim Financial Reporting. The financial reports and the consolidated financial statements are prepared in accordance with the International Financial Reporting Standards ("IFRS") as adopted by the EU and interpretations of them and the regulations and general advice issued by the Swedish FSA, FFFS 2008:25. The consolidated financial statements also apply recommendation RFR 1 Complementary Accounting Rules for Groups, issued by the Swedish Financial Reporting Board, the pronouncements of the Swedish Financial Reporting Board, and the law (1995:1559), Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL).

The accounting principles for the Parent Company is prepared according to the law (1995:1559), Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL), and FSA regulations and general advice on the Annual Report of banks and securities companies (FFFS 2008:25) in accordance with all amended regulations, and the council of Financial Reporting Recommendation RFR 2, Accounting for Legal Entities. The interim report applies the accounting principles and method of calculation as stated in the annual report of 2017, Note 1. Except for IFRS 9 Financial Instruments, which came into force in 2018, there have been no material changes in accounting principles and methods of calculations since the annual report of 2017 was published.

New or updated IFRS standards are expected during coming financial year but have not been applied prematurely in this year's financial reports. For more information regarding this, please see the annual report of 2017.

### IFRS 9 Finansiella instrument

The Group implemented IFRS 9 Financial instruments on January 1, 2018. The standard contains rules for accounting, classification, measurement, impairment, derecognition and hedge accounting. The major changes are related to classification and measurement, impairment and hedge accounting. IFRS 7 Financial Instruments: Disclosures has been updated with additional disclosures.
As permitted by IFRS 9, the Bank has chosen not to restate comparative periods. All comparative periods are in accordance with the accounting principles described in the annual report of 2017.

***Financial instruments, classification and measurement***

The principle for measuring debt instruments is determined by a combination of the business model applied for the asset and the extent to which the cash flows from the asset consist of solemnly principal and interest (the cash flow characteristics). The Bank's financial assets are measured at fair value through profit or loss or amortised cost. No financial assets are measured at fair value through comprehensive income. The Bank has evaluated the business model for financial instruments on portfolio basis and based on how they are managed and analysed. SPPI (solemnly principal and interest) tests have been performed for a representative sample from each portfolio. The business model assessment did not result in any change in the measurement of the Bank's financial assets compared to the measurement under IAS 39. The requirements for classification and measurement of financial liabilities are to a large extent the same as under IAS 39.

*Financial assets measured at amortised cost*

The Bank's financial assets measured at amortised cost consist of lending to the public and lending to credit institutions.

Financial assets which are debt instruments are measured at amortised cost if they are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows and if the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are initially recognised at fair value plus transaction costs that are directly attributable to the issuance or acquisition of financial assets and subsequently measured at amortised cost. The amortised cost is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and adjusted for any credit impairment provisions. Accounting principles regarding credit impairment provisions are described in section Financial instruments, credit impairment.

*Financial assets measured at fair value through profit or loss*

The Bank's financial assets measured at fair value through profit or loss consist of:

- Debt instruments that are mandatorily classified at fair value through profit or loss
- Derivative assets that are not designated for hedge accounting

The mandatory classification includes debt instruments in other business models than hold to collect the contractual cash flows, including those that are held for trading or that are managed and whose performance is evaluated on a fair value basis.

Financial assets at fair value through profit or loss are initially recognised and subsequently measured at fair value. Transaction costs that are directly attributable to the issuance or acquisition of financial assets at fair value through profit or loss are expensed in profit or loss. The fair value of financial instruments is determined based on quoted prices on active markets.

Changes in fair value are recognised through profit or loss in Net result of financial transactions. Changes in fair value due to changes in exchange rates are recognised in the same profit or loss line.

*Financial liabilities at amortised cost*

Financial liabilities measured at amortised cost include those liabilities that are not classified as fair value through profit or loss. Such financial liabilities are recognised on the trade day at fair value, which is the amount borrowed, and subsequently measured at amortised cost using the effective interest method.

*Financial liabilities at fair value through profit or loss*

Financial liabilities measured at fair value through profit or loss consist of derivatives that are not designated for hedge accounting.

Financial liabilities at fair value through profit or loss are initially recognised at fair value on the trade day and subsequently measured at fair value. Changes in fair value are recognised in profit or loss in Net result of financial transactions.

***Financial instruments, credit impairment***

Credit impairment provisions are recognised for financial assets measured at amortised cost. The provisions are calculated by an expected credit loss model and are based on the estimated risk at initial recognition, whether a significant increase in credit risk has occurred and assessed macroeconomic development, even if an actual loss has not yet occurred. Expected credit losses are calculated by taking internal and external information into account. The information consists of past events, current circumstances and reasonable verifiable forecasts of future economic conditions that could affect expected future cashflows.

Credit impairment provisions are measured based on whether a significant increase in credit risk has occurred since initial recognition.

- Stage 1 includes financial instruments that have not experienced a significant increase in credit risk since initial recognition.
- Stage 2 includes financial instruments that have deteriorated significantly in credit quality since the initial recognition, but for which there is no objective evidence of credit impairment, and
- Stage 3 includes financial instruments which are credit-impaired and for which there is objective evidence of impairment.

For financial instruments in stage 1, the credit impairment provision corresponds to the expected credit losses due to a default event within 12 months. For financial instruments in stage 2, where a significant increase in credit risk has occurred, and credit-impaired financial instruments in stage 3, the credit impairment provision corresponds to the expected credit losses for the financial instrument's remaining lifetime.

The Bank's model for impairment is based on a quantitative cash flow model that calculates expected credit losses, using a number of input models to estimate the expected credit losses in the portfolio at a given time of calculation, within 12 months as well as the asset's remaining lifetime.

*Measurement of expected credit losses*

Expected credit losses are measured for each individual exposure as the discounted product of a probability of default (PD), an exposure at default (EAD), and a loss given default (LGD). The PD represents the likelihood that a borrower will default on its obligation, during the next 12 months or during the remaining lifetime of the obligation. The EAD is an expected exposure at the time of default, taking into account scheduled repayments of principal and interest, and expected further drawdowns on irrevocable facilities. The LGD represents the expected loss on a defaulted exposure, taking into account factors such as counterparty characteristics, collateral and product type. Expected credit losses are determined by projecting the PD, LGD and EAD for each future month over the calculated lifetime of an exposure. This effectively calculates monthly expected credit losses, which are discounted back to the reporting date using the original effective interest rate and summed. The sum of all monthly expected credit losses over the remaining calculated lifetime results in the lifetime expected credit losses and the sum of expcted credit losses due to default within the next 12 months results in the 12-month expected credit losses. When estimating expected credit losses, the Bank considers at least three scenarios (a base case, an upside and a downside), represented by relevant macroeconomic variables. The macroeconomic variables when calculating expected credit losses for the Swedish mortgage loans are interest rates and house price index and house price index only for the Norwegian mortgage loans.

The calculation is different for mortgage loans compared to personal loans. Expected credit losses for mortgage loans are calculated as write-offs minus expected recoveries (after a cure rate has been applied). For personal loans the expected credit losses are calculated as write-offs minus the income that is generated when the loan is sold (in accordance with agreement).

*Definition of default*

Default is parameter in the calculation of expected credit losses which affects both the identification of a significant increase in credit risk and the measurement of the expected credit losses. Financial assets classified as credit-impaired are included in stage 3.

The Bank's definition of a default event is that the receivable has been past due for 90 days or more.

A financial instrument is no longer considered to be in default or credit-impaired when all overdue amounts are repaid, there is sufficient evidence to demonstrate that there is a significant reduction in the risk of non-payment of future cash flows and there are no other indicators of credit-impairment.

*Determining a significant increase in credit risk since initial recognition*

In order to determine whether a significant increase in credit risk has occurred, the Bank measures whether the lifetime PD has increased more than a pre-determined threshold (compared to the lifetime PD based on the PD at the time of issuance of the loan).

If the receivable's lifetime PD exceeds the pre-determined threshold, the receivable is considered to have a significant increase in credit risk and is moved to stage 2 where the expected credit losses are calculated for the receivable's expected lifetime. All receivables that are between 30-89 days past due are deemed as stage 2 (significant increase in credit risk) by the "backstop" that is suggested by the standard. The expected lifetime is determined by adjusting the receivable's remaining exposure by a factor representing the expected repayment rate (both contractual and prepayments).

The third stage consist of receivables where a default event has occurred (stage 3). This includes receivables that have been past due for more than 90 days. The expected credit loss is calculated as expected write-down after expected recovery over the reaminig lifetime of the receivable.

*Presentation of credit impairments*

For financial assets measured at amortised cost, credit impairment provisions are presented in the balance sheet as a reduction of the gross carrying amount of the assets. A write-off reduces the gross carrying amount of a financial asset.

Credit impairment losses and write-offs are presented as Credit losses in the income statement. Write-offs are recognised when the amount of loss is ultimately determined and represent the amount before the utilisation of any previous provisions. Any subsequent recoveries of write-offs or impairment provisions are recognised as gains within Credit losses.

### ***Financial instruments, hedge accounting***

The Group continues to apply hedge accounting in accordance with IAS 39. The accounting principles applied in this interim report are therefore the same as described in the annual report for 2017.

# **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 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. 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, to a certain extent, secured credit facilities. Consequently, the Bank is exposed to a number of risks, such as credit risk, liquidity risk, operational risks and other financial risks. The capital adequacy requirement is founded on three pillars: risks and capital needs are assessed in the first two pillars; and disclosure requirements are part of the third pillar:

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

2. Pillar II, supervisory review: provides a framework for dealing with the underestimations of those risks assessed under Pillar I and, additionally, interest rate risk of the loan book, systemic risk, pension risk, concentration risk, strategic risk, reputational risk, liquidity risk and legal risk. The process for the internal capital and liquidity adequacy assessment process ("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. For further information about its measurements, controls and mitigants, see Note 2 "Risk management" in the annual report for 2017.

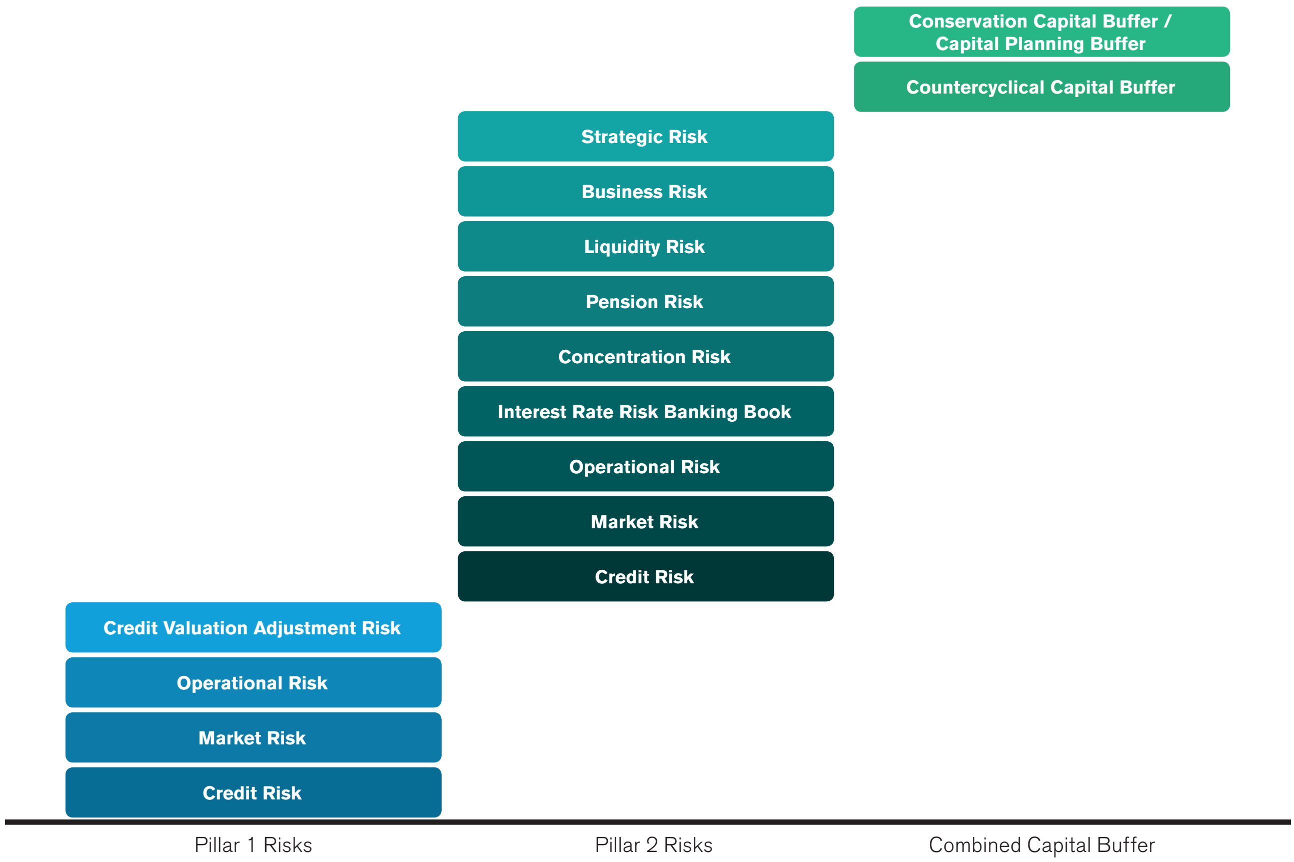



*Figure shows an overview of key identified risks and capital requirements. For further information about capital adequacy analysis and Pillar I and II, see Note 7.*

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, liquidity risk, and interest rate 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 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.

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

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

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

The risk management system is complemented by two CEO committees, namely the Risk and Compliance Committee ("RiCO") 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 work done by the RiCO is also complemented by the Bank's New Product Approval Process ("NPAP"), which 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.

For further information about the Company's risk management, see Note 2 "Risk management" in the annual report for 2017.

### Internal Capital and Liquidity Adequacy Assessment Process

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 the Company's ICLAAP the size and composition of the liquidity reserve is regularly analysed and assessed against estimated contingency needs which addresses liquidity shortfalls in emergency situations.

# Note 3 | Operating segments

| Income statement Jan-Jun 2018 | Group | | | | |
|---|---|---|---|---|---|
| | Mortgages | | Other | Eliminations, | |
| | Sweden | Norway | operations | reclassifications | Total |
| Interest income | 302.3 | 196.8 | 57.1 | -34.5 | 521.7 |
| Interest expense | -119.7 | -68.4 | -7.1 | 21.7 | -173.5 |
| **Net interest income** | **182.6** | **128.4** | **50.0** | **-12.8** | **348.2** |
| **Total operating income** | **202.1** | **130.7** | **50.0** | **-13.3** | **369.4** |
| **Total expenses** | **-118.4** | **-89.0** | **-31.2** | **13.3** | **-225.4** |
| **Result pre credit losses** | **83.7** | **41.7** | **18.7** | **0.0** | **144.1** |
| Credit losses, net | -6.0 | -1.4 | -19.3 | - | -26.7 |
| **Operating profit/loss** | **77.7** | **40.3** | **-0.6** | **0.0** | **117.4** |
| Allocated tax[1] | -15.8 | -10.1 | -0.7 | - | -26.6 |
| **NET PROFIT/LOSS FOR THE PERIOD** | **61.9** | **30.2** | **-1.3** | **0.0** | **90.8** |

| Income statement Jan-Jun 2017 | Group | | | | |
|---|---|---|---|---|---|
| | Mortgages | | Other | Eliminations, | |
| | Sweden | Norway | operations | reclassifications | Total |
| Interest income | 286.2 | 155.9 | 56.8 | -31.1 | 467.8 |
| Interest expense | -115.2 | -55.6 | -6.0 | 19.0 | -157.7 |
| **Net interest income** | **171.1** | **100.3** | **50.8** | **-12.1** | **310.1** |
| **Total operating income** | **178.4** | **102.6** | **50.8** | **-13.1** | **318.6** |
| **Total expenses** | **-113.7** | **-61.5** | **-26.8** | **13.1** | **-188.9** |
| **Result pre credit losses** | **64.7** | **41.1** | **24.0** | **-0.0** | **129.7** |
| Credit losses, net | -2.0 | -3.0 | -15.9 | - | -21.0 |
| **Operating profit/loss** | **62.6** | **38.0** | **8.0** | **-0.0** | **108.7** |
| Allocated tax[1] | -15.3 | -9.5 | -1.9 | - | -26.7 |
| **NET PROFIT/LOSS FOR THE PERIOD** | **47.4** | **28.5** | **6.1** | **-0.0** | **82.0** |

| Income statement Full year 2017 | Group | | | | |
|---|---|---|---|---|---|
| | Mortgages | | Other | Eliminations, | |
| | Sweden | Norway | operations | reclassifications | Total |
| Interest income | 581.3 | 324.9 | 115.5 | -64.3 | 957.4 |
| Interest expense | -233.8 | -118.1 | -12.7 | 40.8 | -323.8 |
| **Net interest income** | **347.5** | **206.9** | **102.8** | **-23.5** | **633.7** |
| **Total operating income** | **380.7** | **216.6** | **102.8** | **-24.8** | **675.3** |
| **Total expenses** | **-232.3** | **-129.7** | **-53.8** | **24.8** | **-391.0** |
| **Result pre credit losses** | **148.4** | **87.0** | **49.0** | **0** | **284.3** |
| Credit losses, net | -2.8 | -3.8 | -26.9 | - | -33.5 |
| **Operating profit/loss** | **145.6** | **83.2** | **22.1** | **0** | **250.8** |
| Allocated tax[1] | -31.1 | -22.8 | -5.0 | - | -59.0 |
| **NET PROFIT/LOSS FOR THE PERIOD** | **114.4** | **60.4** | **17.1** | **0** | **191.9** |

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

| Balance sheet 2018-06-30 | Group | | | | |
|---|---|---|---|---|---|
| | Mortgages | | Other operations | Eliminations, reclassifications | Total |
| | Sweden | Norway | | | |
| Lending to credit institutions | 1,490.4 | 616.2 | - | - | 2,106.6 |
| Lending to the public | 8,214.7 | 5,110.8 | 1,010.1 | - | 14,335.6 |
| Deposits from the public | 4,824.0 | 6,153.1 | - | - | 10,977.1 |

| Balance sheet 2017-06-30 | Group | | | | |
|---|---|---|---|---|---|
| | Mortgages | | Other operations | Eliminations, reclassifications | Total |
| | Sweden | Norway | | | |
| Lending to credit institutions | 984.0 | 592.5 | - | - | 1,576.5 |
| Lending to the public | 8,032.2 | 3,800.5 | 1,021.5 | - | 12,854.2 |
| Deposits from the public | 4,232.9 | 5,019.6 | - | - | 9,252.5 |

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

The operating segment report is based on the Group's accounting policies, organisation and management accounting. Income that is not directly attributable to an operating segment is allocated to the segments using metrics deemed by the management to give a fair distribution. Cross border transfer pricing is applied in accordance with OECD transfer pricing guidelines.

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

Each COO controls their operations from 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 Company in Sweden.

# Note 4 | Credit losses, net

The Group started applying IFRS 9 on January 1, 2018 when the new standard came into force and replaced IAS 39. For effects of the transaition to IFRS 9, see Note 11. Provisions in accordance with IFRS 9 are calculated using quantitive 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 losses due to default in the next 12 months and expected credit losses during the remaining maturity of the asset

| | Group | | | Parent | | |
|---|---|---|---|---|---|---|
| **Credit impairments** | **2018-06-30** | **2017-06-30** | **2017-12-31** | **2018-06-30** | **2017-06-30** | **2017-12-31** |
| **Credit impairment provisions** | **-5.0** | **-5.3** | **-5.2** | **-3.8** | **-4.0** | **-3.6** |
| of which Stage 1 | -0.4 | - | - | -0.3 | - | - |
| of which Stage 2 | -3.1 | - | - | -2.3 | - | - |
| of which Stage 3 | -1.5 | - | - | -1.2 | - | - |
| **Credit impairments for off balance sheet exposures** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Write-offs** | | | | | | |
| Actual losses during the period | -45.9 | -36.0 | -65.1 | -45.9 | -36.0 | -65.1 |
| **Total** | **-45.9** | **-36.0** | **-65.1** | **-45.9** | **-36.0** | **-65.1** |
| **Recoveries** | **24.2** | **20.3** | **36.8** | **24.2** | **20.3** | **36.8** |
| **Credit losses, net** | **-26.7** | **-21.0** | **-33.5** | **-25.5** | **-19.8** | **-31.9** |

*Credit losses as of 2018-06-30 are calculated in accordance with IFRS 9, while credit losses as of 2017-06-30 and 2017-12-31 are calculated in accordance with IAS 39. Therefore, comparative figures are not specified per step.*

# Note 5 | Lending to the public

| | Group | | | Parent | | |
|---|---|---|---|---|---|---|
| | **2018-06-30** | **2017-06-30** | **2017-12-31** | **2018-06-30** | **2017-06-30** | **2017-12-31** |
| **Lending to the public, gross** | **14,386.7** | **12,883.0** | **13,638.3** | **11,830.3** | **12,883.0** | **12,523.9** |
| Stage 1 | 13,238.0 | - | - | 10,826.5 | - | - |
| Stage 2 | 889.1 | - | - | 754.6 | - | - |
| Stage 3 | 259.7 | - | - | 249.1 | - | - |
| **Total provisions** | **-51.1** | **-28.8** | **-28.6** | **-46.5** | **-28.8** | **-28.0** |
| Stage 1 | -13.8 | - | - | -12.6 | - | - |
| Stage 2 | -24.7 | - | - | -22.6 | - | - |
| Stage 3 | -12.6 | - | - | -11.4 | - | - |
| **Total** | **14,335.6** | **12,854.2** | **13,609.7** | **11,783.8** | **12,854.2** | **12,495.9** |

*Credit losses as of 2018-06-30 are calculated in accordance with IFRS 9, while credit losses as of 2017-06-30 and 2017-12-31 are calculated in accordance with IAS 39. Therefore, comparative figures are not specified per step.*

**Lending to the public (IFRS 9) - changes in credit impairment provisions**

| | Not credit impaired | | Credit impaired | |
|---|---|---|---|---|
| **Group** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| **Credit impairment provisions as of Januari 1, 2018** | **13.3** | **21.4** | **10.9** | **45.6** |
| New financial assets | 2.7 | 1.9 | 0.5 | 5.1 |
| Stage transfers | | | | |
| from 1 to 2 | -1.1 | 13.8 | - | 12.8 |
| from 1 to 3 | -0.1 | - | 4.0 | 3.9 |
| from 2 to 1 | 0.4 | -3.4 | - | -3.0 |
| from 2 to 3 | - | -1.8 | 4.3 | 2.5 |
| from 3 to 1 | 0.0 | - | -0.5 | -0.5 |
| from 3 to 2 | - | 0.2 | -1.0 | -0.8 |
| Changes in PD/LGD/EAD | 0.5 | 0.7 | 0.0 | 1.3 |
| Write-offs and redemptions | -2.0 | -8.1 | -5.6 | -15.8 |
| **Credit impairment provisions as of June 30, 2018** | **13.8** | **24.7** | **12.6** | **51.1** |

| | Not credit impaired | | Credit impaired | |
|---|---|---|---|---|
| **Parent** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| **Credit impairment provisions as of Januari 1, 2018** | **12.7** | **20.5** | **10.9** | **44.1** |
| New financial assets | 2.3 | 1.8 | 0.5 | 4.6 |
| Stage transfers | | | | |
| from 1 to 2 | -1.0 | 12.9 | - | 11.9 |
| from 1 to 3 | -0.1 | - | 3.8 | 3.7 |
| from 2 to 1 | 0.4 | -3.2 | - | -2.8 |
| from 2 to 3 | - | -1.6 | 3.6 | 2.0 |
| from 3 to 1 | 0.0 | - | -0.5 | -0.5 |
| from 3 to 2 | - | 0.2 | -1.0 | -0.8 |
| Changes in PD/LGD/EAD | 0.5 | 0.7 | 0.0 | 1.2 |
| Write-offs and redemptions | -2.0 | -8.0 | -5.6 | -15.6 |
| **Credit impairment provisions as of June 30, 2018** | **12.9** | **23.2** | **11.7** | **47.9** |

*Comparatives 2017 not applicable.*

# **Not 6** | Calculation of fair value

## Financial assets at fair value

The methods for determining the value of all financial assets and liability within the Group adhere to a hierarchy. This hierarchy reflect observable prices or other information used in the valuation methods. A judgment is made each quarter to determine if valuations refer to noted prices representing actual and regularly occurring transactions or not. Transactions between different levels in the hierarchy may happen when there are indications that the market conditions, e.g. liquidity, have changed. No reclassifications have occurred during the first half year of 2017.

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

| | Group | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2018-06-30 | | | | 2017-06-30 | | | | 2017-12-31 | | | |
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| **Assets** | | | | | | | | | | | | |
| Derivatives | - | 303.0 | - | 303.0 | - | 112.5 | - | 112.5 | - | 169.1 | - | 169.1 |
| Bonds / other interest-bearing securities | 724.4 | - | - | 724.4 | 708.8 | - | - | 708.8 | 644.2 | - | - | 644.2 |
| **Liabilities** | | | | | | | | | | | | |
| Derivatives | - | 42.3 | - | 42.3 | - | 62.5 | - | 62.5 | - | 56.0 | - | 56.0 |

| | Parent | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2018-06-30 | | | | 2017-06-30 | | | | 2017-12-31 | | | |
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| **Assets** | | | | | | | | | | | | |
| Derivatives | - | 37.1 | - | 37.1 | - | 31.4 | - | 31.4 | - | 34.9 | - | 34.9 |
| Bonds / other interest-bearing securities | 724.4 | - | - | 724.4 | 708.8 | - | - | 708.8 | 644.2 | - | - | 644.2 |
| **Liabilities** | | | | | | | | | | | | |
| Derivatives | - | 50.2 | - | 50.2 | - | 43.9 | - | 43.9 | - | 35.4 | - | 35.4 |

| | Group | | | | |
|---|---|---|---|---|---|
| | Financial assets and liabilities | Loans and receivables | Other financial liabilities | Non financial assets and liabilities | Carrying value |
| **2018-06-30** | Fair value | Amortised cost | Amortised cost | Carrying value | Carrying value |
| **Assets** | | | | | |
| Lending to credit institutions | - | 2,106.6 | - | - | 2,106.6 |
| Lending to the public | - | 14,335.6 | - | - | 14,335.6 |
| Derivatives | 303.0 | - | - | - | 303.0 |
| Bonds and other interest-bearing securities | 724.4 | - | - | - | 724.4 |
| Intangible assets | - | - | - | 65.1 | 65.1 |
| Tangible assets | - | - | - | 8.7 | 8.7 |
| Other assets | - | 60.8 | - | 105.9 | 166.7 |
| Prepaid expenses and accrued income | - | 12.2 | - | 25.9 | 38.1 |
| **Total** | **1,027.4** | **16,515.2** | **-** | **205.6** | **17,748.2** |
| | | | | | |
| **Liabilities** | | | | | |
| Liabilities to credit institutions | - | - | 1,297.2 | - | 1,297.2 |
| Issued bonds | - | - | 3,857.0 | - | 3,857.0 |
| Deposits from the public | - | - | 10,977.1 | - | 10,977.1 |
| Derivatives | 42.3 | - | - | - | 42.3 |
| Tax liabilities | - | - | - | 7.5 | 7.5 |
| Other liabilities | - | - | 64.4 | 15.0 | 79.3 |
| Accrued expenses and prepaid income | - | - | 90.8 | - | 90.8 |
| **Total** | **42.3** | **-** | **16,286.4** | **22.5** | **16,351.2** |

| | Group | | | | |
|---|---|---|---|---|---|
| | Financial assets and liabilities | Loans and receivables | Other financial liabilities | Non financial assets and liabilities | Carrying value |
| **2017-06-30** | Fair value | Amortised cost | Amortised cost | Carrying value | Carrying value |
| **Assets** | | | | | |
| Lending to credit institutions | - | 1,576.5 | - | - | 1,576.5 |
| Lending to the public | - | 12,854.2 | - | - | 12,854.2 |
| Derivatives | 112.5 | - | - | - | 112.5 |
| Bonds and other interest-bearing securities | 708.8 | - | - | - | 708.8 |
| Intangible assets | - | - | - | 57.7 | 57.7 |
| Tangible assets | - | - | - | 10.2 | 10.2 |
| Other assets | - | 38.9 | - | 125.9 | 164.8 |
| Prepaid expenses and accrued income | - | 13.8 | - | 26.0 | 39.8 |
| **Total** | **821.3** | **14,483.4** | **-** | **219.8** | **15,524.6** |
| | | | | | |
| **Liabilities** | | | | | |
| Liabilities to credit institutions | - | - | - | - | - |
| Issued bonds | - | - | 4,998.2 | - | 4,998.2 |
| Deposits from the public | - | - | 9,252.5 | - | 9,252.5 |
| Derivatives | 62.5 | - | - | - | 62.5 |
| Tax liabilities | - | - | - | 25.5 | 25.5 |
| Other liabilities | - | - | 61.4 | 26.9 | 88.3 |
| Accrued expenses and prepaid income | - | - | 96.0 | - | 96.0 |
| **Total** | **62.5** | **-** | **14,408.0** | **52.4** | **14,522.9** |

| | Group | | | | |
|---|---|---|---|---|---|
| | Financial assets and liabilities | Loans and receivables | Other financial liabilities | Non financial assets and liabilities | Carrying value |
| **2017-12-31** | Fair value | Amortised cost | Amortised cost | Carrying value | Carrying value |
| **Assets** | | | | | |
| Lending to credit institutions | - | 1,935.5 | - | - | 1,935.5 |
| Lending to the public | - | 13,609.7 | - | - | 13,609.7 |
| Derivatives | 169.1 | - | - | - | 169.1 |
| Bonds and other interest-bearing securities | 644.2 | - | - | - | 644.2 |
| Intangible assets | - | - | - | 61.3 | 61.3 |
| Tangible assets | - | - | - | 9.3 | 9.3 |
| Other assets | - | 37.6 | - | 109.2 | 146.8 |
| Prepaid expenses and accrued income | - | 13.3 | - | 10.9 | 24.2 |
| **Total** | **813.3** | **15,596.1** | **-** | **190.8** | **16,600.2** |
| | | | | | |
| **Liabilities** | | | | | |
| Liabilities to credit institutions | - | - | 550.0 | - | 550.0 |
| Issued bonds | - | - | 4,281.3 | - | 4,281.3 |
| Deposits from the public | - | - | 10,418.6 | - | 10,418.6 |
| Derivatives | 56.0 | - | - | - | 56.0 |
| Tax liabilities | - | - | - | 29.1 | 29.1 |
| Other liabilities | - | - | 43.4 | 12.0 | 55.4 |
| Accrued expenses and prepaid income | - | - | 100.4 | - | 100.4 |
| **Total** | **56.0** | **-** | **15,393.7** | **41.1** | **15,490.8** |

| | Parent | | | | |
|---|---|---|---|---|---|
| | **Financial assets and liabilities** | **Loans and receivables** | **Other financial liabilities** | **Non financial assets and liabilities** | **Carrying value** |
| **2018-06-30** | Fair value | Amortised cost | Amortised cost | Carrying value | Carrying value |
| **Assets** | | | | | |
| Lending to credit institutions | - | 1,501.1 | - | - | 1,501.1 |
| Lending to the public | - | 11,783.8 | - | - | 11,783.8 |
| Derivatives | 37.1 | - | - | - | 37.1 |
| Bonds and other interest-bearing securities | 724.4 | - | - | - | 724.4 |
| Shares and participations in associated companies | - | - | - | 4.7 | 4.7 |
| Intangible assets | - | - | - | 49.1 | 49.1 |
| Tangible assets | - | - | - | 7.4 | 7.4 |
| Other assets | - | 1,408.6 | - | 105.9 | 1,514.4 |
| Prepaid expenses and accrued income | - | 12.2 | - | 23.8 | 36.0 |
| **Total** | **761.5** | **14,705.6** | **-** | **190.8** | **15,657.9** |
| | | | | | |
| **Liabilities** | | | | | |
| Liabilities to credit institutions | - | - | 3,121.9 | - | 3,121.9 |
| Deposits from the public | - | - | 10,977.1 | - | 10,977.1 |
| Derivatives | 50.2 | - | - | - | 50.2 |
| Tax liabilities | - | - | - | 9.7 | 9.7 |
| Other liabilities | - | - | 67.5 | 14.3 | 81.7 |
| Accrued expenses and prepaid income | - | - | 53.2 | - | 53.2 |
| **Total** | **50.2** | **-** | **14,219.7** | **24.0** | **14,293.9** |

| | Parent | | | | |
|---|---|---|---|---|---|
| | **Financial assets and liabilities** | **Loans and receivables** | **Other financial liabilities** | **Non financial assets and liabilities** | **Carrying value** |
| **2017-06-30** | Fair value | Amortised cost | Amortised cost | Carrying value | Carrying value |
| **Assets** | | | | | |
| Lending to credit institutions | - | 887.9 | - | - | 887.9 |
| Lending to the public | - | 12,854.2 | - | - | 12,854.2 |
| Derivatives | 31.4 | - | - | - | 31.4 |
| Bonds and other interest-bearing securities | 708.8 | - | - | - | 708.8 |
| Shares and participations in associated companies | - | - | - | 8.7 | 8.7 |
| Intangible assets | - | - | - | 42.2 | 42.2 |
| Tangible assets | - | - | - | 8.5 | 8.5 |
| Other assets | - | 50.4 | - | 126.6 | 177.1 |
| Prepaid expenses and accrued income | - | 13.8 | - | 24.0 | 37.8 |
| **Total** | **740.2** | **13,806.4** | **-** | **210.0** | **14,756.6** |
| | | | | | |
| **Liabilities** | | | | | |
| Liabilities to credit institutions | - | - | 4,266.0 | - | 4,266.0 |
| Deposits from the public | - | - | 9,252.5 | - | 9,252.5 |
| Derivatives | 43.9 | - | - | - | 43.9 |
| Tax liabilities | - | - | - | 26.8 | 26.8 |
| Other liabilities | - | - | 62.7 | 26.5 | 89.2 |
| Accrued expenses and prepaid income | - | - | 62.3 | - | 62.3 |
| **Total** | **43.9** | **-** | **13,643.5** | **53.3** | **13,740.8** |

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

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

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

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

# **Note 7** | 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 Administration Report.

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

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

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

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

| | Consolidated situation | | | Parent | | |
|---|---|---|---|---|---|---|
| **Capital Adequacy** | **2018-06-30** | **2017-06-30** | **2017-12-31** | **2018-06-30** | **2017-06-30** | **2017-12-31** |
| **Total capital base** | **1,299.6** | **967.3** | **1,063.8** | **1,280.3** | **973.6** | **1,064.4** |
| **Common Equity Tier 1 (CET1) capital** | **1,299.6** | **967.3** | **1,063.8** | **1,280.3** | **973.6** | **1,064.4** |
| Capital instruments and the related share premium accounts | 4,486.6 | 601.8 | 4,286.6 | 663.7 | 463.7 | 463.7 |
| Retained earnings | 49.2 | 588.0 | 9.7 | 665.7 | 552.1 | 646.3 |
| Accumulated other comprenhensive income | - | 0.0 | - | - | - | - |
| Intangible assets (net of related tax liability) | -3,236.2 | -222.5 | -3,232.5 | -49.1 | -42.2 | -45.6 |
| **Additional Tier 1 capital** | | | | | | |
| **Tier 2 Capital** | | | | | | |
| **Risk Exposure Amount** | **7,481.8** | **6,668.3** | **7,083.8** | **6,118.2** | **6,228.7** | **6,239.7** |
| Risk exposure amount credit risk | 6,333.4 | 5,579.5 | 5,926.4 | 5,183.2 | 5,420.7 | 5,388.5 |
| Risk exposure amount market risk | 97.3 | 66.0 | 104.3 | 59.4 | 67.1 | 104.3 |
| Risk exposure amount operational risk | 880.8 | 773.9 | 773.9 | 874.6 | 719.2 | 719.2 |
| Risk exposure amount credit valuation adjustment risk | 170.3 | 248.8 | 279.1 | 0.9 | 21.6 | 27.7 |
| **CET 1 capital ratio, %** | **17.37%** | **14.51%** | **15.02%** | **20.93%** | **15.63%** | **17.06%** |
| **Tier 1 capital ratio, %** | **17.37%** | **14.51%** | **15.02%** | **20.93%** | **15.63%** | **17.06%** |
| **Total capital ratio, %** | **17.37%** | **14.51%** | **15.02%** | **20.93%** | **15.63%** | **17.06%** |

| Capital Buffer Requirements % | Consolidated situation 2018-06-30 | Consolidated situation 2017-06-30 | Consolidated situation 2017-12-31 | Parent 2018-06-30 | Parent 2017-06-30 | Parent 2017-12-31 |
|---|---|---|---|---|---|---|
| Institution specific buffert requirement | 4.50% | 4.36% | 4.50% | 4.50% | 4.36% | 4.50% |
| of which capital conservation buffer | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% |
| of which countercyclical capital buffer | 2.00% | 1.86% | 2.00% | 2.00% | 1.86% | 2.00% |
| of which systemic risk buffer | - | - | - | - | - | - |
| of which: G-SII or O-SII buffer | - | - | - | - | - | - |
| CET1 available to meet buffers | 9.37% | 6.51% | 7.02% | 12.93% | 7.63% | 9.06% |

## Capital requirement for credit risk

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

**Consolidated situation**

| | 2018-06-30 | | | | 2017-06-30 | 2017-12-31 |
|---|---|---|---|---|---|---|
| Exposure class | Exposed amount | Risk weight | Risk weighted amount | Capital requirement | Capital requirement | Capital requirement |
| Governments or central banks | 258.5 | 0% | - | - | - | - |
| Exposures to institutions | 2,659.3 | 20% | 532.3 | 42.6 | 28.7 | 34.9 |
| Exposures to corporates | - | 0% | - | - | 0.0 | - |
| Retail exposures | 1,015.2 | 75% | 761.4 | 60.9 | 61.8 | 63.7 |
| Exposures to mortgages | 13,084.0 | 36% | 4,651.7 | 372.1 | 334.2 | 353.4 |
| Exposures in default | 256.5 | 101% | 259.2 | 20.7 | 12.5 | 15.1 |
| Exposures in the form of covered bonds | 548.3 | 10% | 54.8 | 4.4 | 4.5 | 4.0 |
| Claims on institutions and corporates with a short-term credit assessment | - | - | - | - | - | - |
| Equity exposures | - | - | - | - | - | - |
| Other exposures | 74.0 | 100% | 74.0 | 5.9 | 4.6 | 3.1 |
| Securitisations | - | - | - | - | - | - |
| **Total capital requirement for credit risk** | **17,895.7** | | **6,333.4** | **506.7** | **446.3** | **474.1** |

**Parent**

| | 2018-06-30 | | | | 2017-06-30 | 2017-12-31 |
|---|---|---|---|---|---|---|
| Exposure class | Exposed amount | Risk weight | Risk weighted amount | Capital requirement | Capital requirement | Capital requirement |
| Governments or central banks | 255.2 | 0% | - | - | - | - |
| Exposures to institutions | 1,577.1 | 20% | 315.9 | 25.3 | 15.6 | 23.8 |
| Exposures to corporates | 1,369.6 | 1% | 7.7 | 0.6 | 0.4 | 0.2 |
| Retail exposures | 1,015.2 | 75% | 761.4 | 60.9 | 61.8 | 63.7 |
| Exposures to mortgages | 10,545.5 | 35% | 3,738.3 | 299.1 | 334.4 | 321.5 |
| Exposures in default | 247.3 | 101% | 249.9 | 20.0 | 12.5 | 15.1 |
| Exposures in the form of covered bonds | 548.3 | 10% | 54.8 | 4.4 | 4.5 | 4.0 |
| Claims on institutions and corporates with a short-term credit assessment | - | - | - | - | - | - |
| Equity exposures | 4.7 | 100% | 4.7 | 0.4 | 0.7 | 0.4 |
| Other exposures | 50.6 | 100% | 50.6 | 4.0 | 3.7 | 2.5 |
| Securitisations | - | - | - | - | - | - |
| **Total capital requirement for credit risk** | **15,613.4** | | **5,183.2** | **414.7** | **433.6** | **431.1** |

### Capital requirement for operational risk

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

| | Consolidated situation | | | Parent | | |
|---|---|---|---|---|---|---|
| | 2018-06-30 | 2017-06-30 | 2017-12-31 | 2018-06-30 | 2017-06-30 | 2017-12-31 |
| Relevant indicator | 587.2 | 516.0 | 516.0 | 583.1 | 479.5 | 479.5 |
| of which 12% (business line retail banking) | 70.5 | 61.9 | 61.9 | 70.0 | 57.5 | 57.5 |
| **Total capital requirement for operational risk** | **70.5** | **61.9** | **61.9** | **70.0** | **57.5** | **57.5** |

### Capital requirement for market risk

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

| | Consolidated situation | | | Parent | | |
|---|---|---|---|---|---|---|
| | 2018-06-30 | 2017-06-30 | 2017-12-31 | 2018-06-30 | 2017-06-30 | 2017-12-31 |
| Capital requirement for currency risks | 7.8 | 5.3 | 8.3 | 4.7 | 5.4 | 8.3 |
| **Total capital requirement for market risk** | **7.8** | **5.3** | **8.3** | **4.7** | **5.4** | **8.3** |

### Capital requirements for credit valuation adjustment risk

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

| | Consolidated situation | | | Parent | | |
|---|---|---|---|---|---|---|
| | 2018-06-30 | 2017-06-30 | 2017-12-31 | 2018-06-30 | 2017-06-30 | 2017-12-31 |
| Capital requirements for credit valuation adjustment risk | 13.6 | 19.9 | 22.3 | 0.1 | 1.7 | 2.2 |
| **Total capital requirement for credit valuation adjustment risk** | **13.6** | **19.9** | **22.3** | **0.1** | **1.7** | **2.2** |
| **Total Pillar 1 capital requirement** | **598.5** | **533.4** | **566.7** | **489.5** | **498.2** | **499.2** |

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

# Note 8 | Related parties

| | Group | | | Parent | | |
|---|---|---|---|---|---|---|
| **Assets and liabilities** | 2018-06-30 | 2017-06-30 | 2017-12-31 | 2018-06-30 | 2017-06-30 | 2017-12-31 |
| Intercompany receivables | - | 0.2 | 0.0 | 1,369.6 | 18.7 | 612.5 |
| Intercompany payables | 12.4 | 12.4 | 12.4 | 17.6 | 14.8 | 17.8 |

| | Group | | | Parent | | |
|---|---|---|---|---|---|---|
| **Revenue and cost** | Jan-Jun 2018 | Jan-Jun 2017 | Full year 2017 | Jan-Jun 2018 | Jan-Jun 2017 | Full year 2017 |
| Interest and Commission income | - | 0.4 | 0.6 | 100.2 | 109.9 | 219.3 |
| Financial expense | - | - | - | -10.8 | -9.6 | -20.0 |

*Related parties*

Related parties for the group refers to:

- Butterfly Bidco AB, organizational number 559118-8437, with domicile in Stockholm, and
- Bluestep Holding AB, organizational number 556668-9575, with domicile in Stockholm.

Related parties for the Bank refers to:

- Butterfly Bidco AB, organizational number 559118-8437, with domicile in Stockholm,
- 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 in 2017 annual report. No remuneration with senior officials have occurred during the fiscal year.

*Interest income*

The interest income relates to interest income on an internal loan between the Bank and the subsidiaries in the Group.

*Commission income*

Commission income concerns revenues during 2017 from the former Group company Bluestep Capital Holdings Limited and Bluestep Servicing AB.

# Note 9 | Pledged assets, contingent liabilities and commitments

| | Group | | | Parent | | |
|---|---|---|---|---|---|---|
| | 2018-06-30 | 2017-06-30 | 2017-12-31 | 2018-06-30 | 2017-06-30 | 2017-12-31 |
| **Pledged assets for own liabilities** | | | | | | |
| Shares and participations in associated companies[1] | None | None | None | 0.0 | 0.0 | 0.0 |
| Assets in Bluestep Mortgage Securities No 2 | 1,282.1 | 1,461.1 | 1,373.2 | None | None | None |
| Assets in Bluestep Mortgage Securities No 3 | 2,027.9 | 2,347.2 | 2,158.6 | None | None | None |
| Assets in Bluestep Mortgage Securities No 4 | 2,331.6 | 3,197.5 | 2,674.7 | None | None | None |
| Assets in Bluestep Finans Funding No 1 AB | 2,680.0 | 14.6 | 1,167.4 | None | None | None |
| **Other assets pledged and pledged collateral** | | | | | | |
| Assets pledged for financial instruments | 80.5 | 88.0 | 82.5 | 80.5 | 88.0 | 82.5 |
| **Contingent liabilities** | | | | | | |
| Contingent liabilities | None | None | None | None | None | None |
| Commitments | None | None | None | None | None | None |

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

# Note 10 | Parent company information

Bluestep Bank AB is a wholly owned subsidiary of Bluestep Holding AB, 556668-9575, with registered office in Stockholm, where consolidated group accounts are prepared. Bluestep Holding AB is a part of a group where Butterfly Bidco, 559118-8437, with registered office in Stockholm, is the parent company.

# **Note 11** | Effects of changed accounting policies, IFRS 9

### Change in balance sheet from IAS 39 to IFRS 9

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

| | Classification IAS 39 | Classification IFRS 9 | Book value in accordance with IAS 39 | Book value in accordance with IFRS 9 | Effect on equity |
|---|---|---|---|---|---|
| | 2017-12-31 | 2018-01-01 | 2017-12-31 | 2018-01-01 | 2018-01-01 |
| **Financial assets** | | | | | |
| Lending to credit institutions | Loans and receivables | Amortised cost | 1,935.5 | 1,935.5 | - |
| Lending to the public | Loans and receivables | Amortised cost | 13,609.7 | 13,623.7 | 13.9 |
| Derivatives | Financial assets at fair value through P&L | Fair value through P&L | 169.1 | 169.1 | - |
| Bonds and other interest-bearing securities | Financial assets at fair value through P&L | Fair value through P&L | 644.2 | 644.2 | - |
| **Total financial assets** | | | **16,358.5** | **16,372.4** | **13.9** |
| **Financial liabilities** | | | | | |
| Issued bonds | Other financial liabilities | Other financial liabilities | 4,281.3 | 4,281.3 | - |
| Deposits from the public | Other financial liabilities | Other financial liabilities | 10,418.6 | 10,418.6 | - |
| Derivatives | Other financial liabilities | Other financial liabilities | 56.0 | 56.0 | - |
| **Total financial liabilities** | | | **14,755.8** | **14,755.8** | **-** |

[1] *Inklusive skatteeffekt*

### Provisions according to IAS 39 compared to IFRS 9

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

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

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

The bank has not identified any items off-balance sheet. Provisions in accordance with IAS 39, as a whole, refer to reserves for financial assets classified as loan receivables and accounts receivable.

# Note 12 | Subsequent events

In July 2018, BFF1 utilized an additional SEK 100m of the outstanding credit facility. In August 2018, Bluestep Holding AB was approved to implement a merger during the fall through its parent company Butterfly Bidco AB, where all its assets will be taken over.

BlueStep Bank

www.bluestep.se

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ORGANISATIONAL NUMBER 556717-5129 | DOMICILE: STOCKHOLM