Year-End Report

Bluestep Bank AB (publ)

2018

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Administration report

Bluestep Bank AB (publ), org no 556717-5129 with registered office in Stockholm, Sweden, hereby presents the interim accounts and group accounts for the period 2018-07-01—2018-12-31. The group accounts include the wholly owned subsidiaries Bluestep Finans Funding No 1 AB, org no 556791-6928 with registered office in Stockholm, Sweden, Bluestep Mortgage Securities No 2 Designated Activity Company, org no 522186 with registered office in Dublin, Ireland, Bluestep Mortgage Securities No 3 Designated Activity Company, org no 550839 with registered office in Dublin, Ireland, Bluestep Mortgage Securities No 4 Designated Activity Company, org no 596111 with registered office in Dublin, Ireland, and Bluestep Servicing AB, org no 556955-3927 with registered office in Stockholm, Sweden.

Organisation and operations

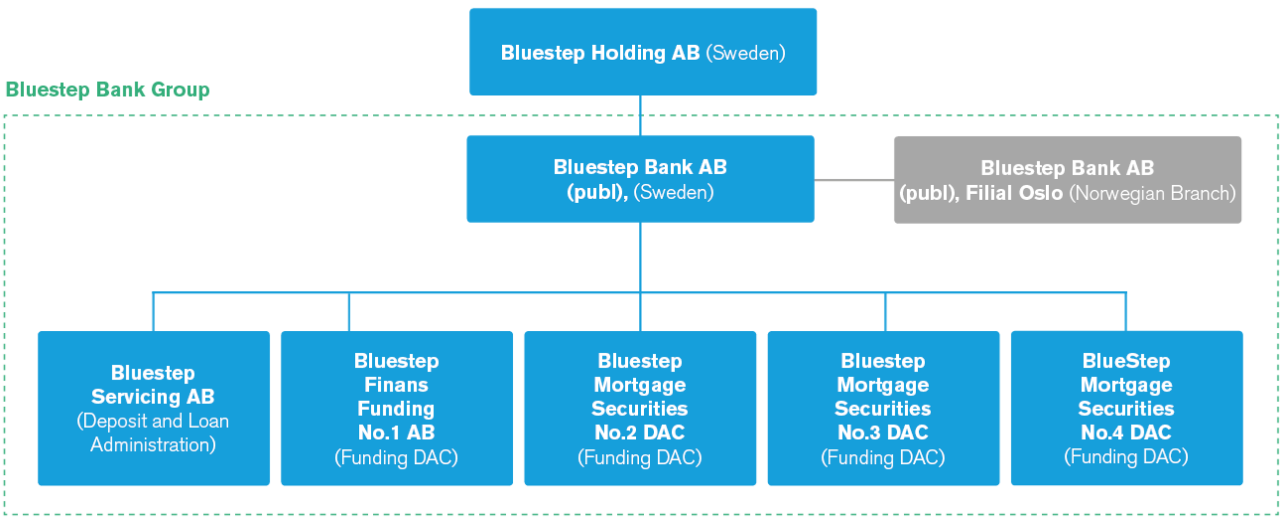
Bluestep Bank AB (publ), is a bank under the supervision of the Swedish Financial Supervisory Authority (the "Swedish FSA"). The company's principal place of business is located at Sveavägen 163, 104 35 Stockholm, Sweden.

Ownership and definitions

Bluestep Holding AB is owned by EQT VII since November 2017. 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 funding facility company and Funding DAC. Ownership 100%
- Bluestep Mortgage Securities No 2 Designated Activity Company ("Step 2")
  Funding DAC. Ownership 100%
- Bluestep Mortgage Securities No 3 Designated Activity Company ("Step 3")
  Funding DAC. Ownership 100%
- Bluestep Mortgage Securities No 4 Designated Activity Company ("Step 4")
  Funding DAC. Ownership 100%
- Bluestep Servicing AB ("BSAB")
  Deposit and Loan Administration. Ownership 100%

Bluestep operates in Sweden and Norway, where the Norwegian operation is run through the Branch. The Group is Sweden's and Norway's largest specialist residential mortgage lender in its niche and the core business is to engage in lending activities which are mainly funded by deposits from the public, equity, warehouse funding facility, issuance of asset backed securities within 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 is stated for the legal entity Bluestep Bank AB or the Financial Group, which is reported to the Swedish FSA. The Financial Group consists of; BHAB, The Bank, The Branch, BSAB, BFF1, Step 2, Step 3, and Step 4.

Significant events during the last six months of 2018

- BFF1 have, during the period, acquired mortgages from the Bank totaling a value of SEK 405m which were financed through internal loans from the Bank. BFF1 utilized an additional SEK 700m of the outstanding external warehouse funding facility of SEK 2 000m, which was fully utilized at year-end.
- During the period, extraordinary write-downs of intangible assets amounted to SEK 21.8m for the group, whereof SEK 21.3m was written down in the Bank specifically. The write-downs are related to; web-development of former web-site, the Bank´s loan administration system and a credit assessment system for personal loans.
- In September, Bluestep Holding AB merged through an absortion with the parent company Butterfly Bidco AB and acquired all assets previously held by Butterfly Bidco AB.
- In October Öyvind Thomassen resigned as CEO and Rolf Stub was appointed acting CEO.
- In November the Bank established an MTN-program, post approval by the Swedish FSA.
- In November, the Swedish FSA approved the Bank´s acquisition of Step 2´s entire mortgage portfolio, as the acquisition´s total value exceeded 25% of the Bank´s own funds.
- In November, the Bank submitted an application to the Swedish FSA to be licensed to issue covered bonds.
- In December the Bank issued SEK 200m senior unsecured bonds which were listed on Nasdaq Stockholm exchange.

Financial overview

The amounts within parenthesis refer to the financial position at December 31, 2017. All Income Statement items refer to same period the previous year.

July 1- December 31, 2018

- Total operating income amounted to SEK 376.5m (SEK 356.7m)
- Total operating expenses amounted to SEK 258.2m (SEK 202.1m)
- Comprehensive profit amounted to SEK 60.2m (SEK 107.8m)
- Credit losses amounted to SEK 23.5m (SEK 12.4m)

January 1 – December 31, 2018

- Total operating income amounted to SEK 746.0m (SEK 675.3m)
- Total operating expenses amounted to SEK 483.6m (SEK 391.0m)
- Comprehensive profit amounted to SEK 161.7m (SEK 187.1m)
- Credit losses amounted to SEK 50.2m (SEK 33.5m)

The increase in income and credit losses are mainly due to the larger loan portfolio. Increased expenses are largely driven by investments in development of the web site, preparations for issuance of covered bonds, process development to increase digitalization as well as non-recurring write-downs of intangible assets.

Lending

The Group's total loan portfolio increased by 6.5% compared to December 2017. The loan portfolio, as of period end amounted to SEK 14,494m (SEK 13,610m). The lending in Norway increased by 20.7% compared to December 2017 and amounted to SEK 5,272m (SEK 4,368m) as of period end. The personal loans' portfolio decreased slightly compared to December 2017 and as of period end amounted to SEK 992m (SEK 1,054m).

Deposits

Deposits to the public as of end of period amounted to SEK 10,417m (SEK 10,419m) of which the balance in Norway amounted to SEK 5,884m (SEK 5,599m).

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 currently amounts to SEK 950,000. The Norwegian Branch is a member of Bankenes Sikringsfond (The Norwegian Banks' Guarantee Fund) meaning that deposits in Norway is guaranteed up to NOK 2,000,000.

Liquidity

As of period end, the Group's excess liquidity amounted to SEK 2,557m (SEK 2,595m). The amount consists of placements with credit institutions of SEK 1,864m (SEK 1,935m), placements in Swedish and Norwegian covered bonds of SEK 525m (SEK 492m), bonds issued by the Swedish and Norwegian government of SEK 167m (SEK 138m), and bonds issued by other European governments of SEK 1m (SEK 1m).

Staff

The average number of employees in the Group during the period amounted to 253 (231), whereof 58 (49) are employed by the Norwegian Branch. The increase in number of employees is mainly related to investments in process- and IT development in order to achieve efficiency improvements in the form of digitalization.

Key figures | the Group	2018 H2	2017 H2	2018	2017	2016	2015	2014
Net Profit after Tax (SEK m)	71.2	109.9	162.0	191.9	163.2	115.6	113.0
Gross Income / ANR[1]	7.7%	7.8%	7.5%	7.4%	7.4%	7.8%	7.8%
Cost of Funds / Funding balance[1]	-2.2%	-2.4%	-2.2%	-2.2%	-2.1%	-2.5%	-2.3%
Operating Income / ANR[1]	5.4%	5.7%	5.3%	5.3%	5.4%	5.3%	5.3%
Net Income Pre BDC / ANR[1]	1.7%	2.5%	1.9%	2.2%	2.2%	2.0%	1.5%
Net Income Post BDC / ANR[1]	1.3%	2.3%	1.5%	2.0%	2.0%	1.7%	1.9%
Return on Equity[1,3]	11.1%	22.9%	12.6%	18.9%	19.4%	16.8%	20.1%
Return on Assets[1]	1.1%	1.9%	1.2%	1.6%	1.6%	1.4%	1.5%
Liquidity Reserve (SEK m)	2,555.9	2,579.7	2,555.9	2,579.7	2,076.7	1,803.3	1,699.5
- whereof unutilized credit facility for BFF1	-	-	-	-	400.0	-	375.0
Deposits from the public (SEK m)	10,416.6	10,418.6	10,416.6	10,418.6	9,504.4	7,186.8	7,201.0
External Funding (SEK m)	5,432.6	4,831.3	5,432.6	4,831.3	3,404.0	3,675.6	1,971.7
Lending portfolio (SEK m)	14,494.1	13,609.7	14,494.1	13,609.7	12,068.6	9,692.1	8,307.9
Credit losses (SEK m)[2]	-23.5	-12.4	-50.2	-33.5	-27.6	-36.4	-27.2
Leverage Ratio	7.5%	6.4%	7.5%	6.4%	6.5%	6.3%	6.1%
Average number of employees	253	231	243	227	187	176	153

[1] Key figure related to H2 are recalculated to full year numbers

[2] Actuals impairment and recoveries

[3] During H1 2018, shareholder contributions amounted to SEK 200m which have resulted in a negative effect on Return on Equity

Branches in other countries

The Bank is active in Norway through its Norwegian branch. The Bank 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 deposits from the public in Norway and through own funds (equity). The Branch also have access to internal loans from the Bank.

Income Statement | Group

SEK Millions	Note	Jul-Dec 2018	Jul-Dec 2017	Annual 2018	Annual 2017
Operating income					
Interest income		542.5	489.6	1,064.3	957.4
Interest expense		-172.5	-166.0	-346.0	-323.8
Net interest income		**370.0**	**323.6**	**718.2**	**633.7**
Commission income		-	0.1	-	0.2
Net result of financial transactions		0.5	25.6	14.2	27.0
Other operating income		5.9	7.4	13.6	14.5
Total operating income		**376.5**	**356.7**	**746.0**	**675.3**
Operating expense					
General administration expenses		-223.2	-190.2	-435.9	-368.2
Depreciation on fixed assets		-35.0	-11.9	-47.6	-22.8
Total expenses		**-258.2**	**-202.1**	**-483.6**	**-391.0**
Result pre credit losses		**118.3**	**154.6**	**262.4**	**284.3**
Credit losses, net	4	-23.5	-12.4	-50.2	-33.5
Operating profit/loss		**94.8**	**142.1**	**212.2**	**250.8**
Tax		-23.6	-32.2	-50.2	-59.0
NET PROFIT/LOSS FOR THE PERIOD		**71.2**	**109.9**	**162.0**	**191.9**

Statement of Comprehensive Income

Net income	**71.2**	**109.9**	**162.0**	**191.9**
Items that may be reclassified to the income statement				
Exchange differences, foreign operations	-11.0	-2.1	-0.3	-4.7
COMPREHENSIVE PROFIT/LOSS	**60.2**	**107.8**	**161.7**	**187.1**

Balance Sheet | Group

SEK Millions	Note	2018-12-31	2017-12-31
Assets			
Lending to credit institutions		1,862.8	1,935.5
Lending to the public	5	14,494.1	13,609.7
Derivatives		213.4	169.1
Bonds and other interest-bearing securities		693.1	644.2
Intangible assets		58.0	61.3
Tangible assets		8.3	9.3
Other assets		136.4	146.8
Prepaid expenses and accrued income		27.3	24.2
Income taxes recoverable		3.0	-
Total assets		**17,496.4**	**16,600.2**
Liabilities			
Liabilities to credit institutions		1,998.9	550.0
Issued bonds		3,433.7	4,281.3
Deposits from the public		10,416.6	10,418.6
Derivatives		38.1	56.0
Tax liabilities		-	29.1
Other liabilities		72.2	55.4
Accrued expenses and prepaid income		79.8	100.4
Total liabilities		**16,039.3**	**15,490.8**
Equity			
Share capital		100.0	100.0
Shareholder contributions received		563.7	363.7
Profit and loss account reserve brought forward		631.4	458.5
Result for this period		162.0	187.1
Total equity		**1,457.2**	**1,109.4**
Total equity and liabilities		**17,496.4**	**16,600.2**

Changes in Equity | Group

	Shareholders' equity		
	Restricted	Non restricted	
SEK Millions	Share capital	Retained earnings*	Total equity
Opening balance 2017-07-01	**100.0**	**901.6**	**1,001.6**
Result for the period reported via income statement		109.9	**109.9**
Exchange differences, foreign operations		-2.1	**-2.1**
Ending balance 2017-12-31	**100.0**	**1,009.4**	**1,109.4**
Opening balance 2017-07-01	**100.0**	**1,009.4**	**1,109.4**
Shareholder contributions**		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		162.0	**162.0**
Exchange differences, foreign operations		-0.3	**-0.3**
Ending balance 2017-12-31	**100.0**	**1,357.2**	**1,457.2**
Opening balance 2018-07-01	**100.0**	**1,297.0**	**1,397.0**
Result for the period reported via income statement		71.2	**71.2**
Exchange differences, foreign operations		-11.0	**-11.0**
Ending balance 2018-12-31	**100.0**	**1,357.2**	**1,457.2**

** Whereof total shareholder contributitons SEK 563.7m (SEK 363.7m)*

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

Cash Flow Statement | Group

SEK Millions	Note	2018	2017
Operating activities			
Pre tax income		212.2	142.1
		212.2	**142.1**
Adjustments for items not included in cash flow			
Depreciation		47.6	11.9
Unrealised changes in value		-14.2	-52.5
Credit losses excluding recoveries	4	95.9	29.0
Effect of transition to IFRS 9	11	-13.9	-
Total – Items not included in cash flow		**115.4**	**-11.6**
Taxes paid		-82.4	-28.6
Cash flow from current operations before changes to operating capital		**245.2**	**101.9**
Cash flow from changes to operating capital			
Increase (-)/decrease (+) of lending to the public		-980.3	-784.4
Increase (-)/decrease (+) of change in receivables		-37.0	-23.0
Increase (+)/decrease (-) of deposits from the public		-1.9	1,166.1
Increase (+)/decrease (-) of change in short term liabilities		-21.7	-35.0
Cash flow from operating activities		**-795.7**	**425.5**
Investing activities			
Investments in intangible assets		-41.0	-13.8
Acquisition of fixed assets		-2.3	-0.8
Increase (-)/decrease (+) of financial assets		-34.7	117.1
Cash flow from investing activities		**-78.0**	**102.5**
Financing activities			
Liabilities to credit institutions		1,448.9	550.0
Issued bonds		-847.6	-716.9
Shareholders' contribution		200.0	-
Cash flow from financing activities		**801.3**	**-166.9**
NET CASH FLOW FOR THIS PERIOD		**-72.3**	**361.1**
Liquid funds at beginning of year		**1,935.5**	**1,576.5**
Currency difference in liquidity		**-0.3**	**-2.1**
LIQUID FUNDS END OF PERIOD		**1,862.8**	**1,935.5**
Cash flow includes interest receipts of		**544.6**	**494.3**
Cash flow includes interest payments of		**-248.6**	**-221.3**

Income Statement | Parent

SEK Millions	Note	Jul-Dec 2018	Jul-Dec 2017	Annual 2018	Annual 2017
Operating income					
Interest income		499.4	502.0	1,004.9	964.7
Interest expense		-236.7	-264.2	-490.1	-515.6
Net interest income		**262.7**	**237.7**	**514.8**	**449.1**
Group contributions		20.0	-1.4	40.0	12.4
Commission income		-	0.1	-	0.2
Net result of financial transactions		15.9	16.5	-4.8	17.9
Other operating income		5.2	5.3	10.7	10.5
Total operating income		**303.8**	**258.2**	**560.7**	**490.1**
Operating expense					
General administration expenses		-167.5	-108.8	-308.4	-198.0
Depreciation on fixed assets		-31.8	-9.6	-41.9	-18.6
Total expenses		**-199.3**	**-118.4**	**-350.3**	**-216.6**
Result pre credit losses		**104.5**	**139.8**	**210.4**	**273.5**
Credit losses, net	4	-22.4	-12.1	-47.8	-31.9
Operating profit/loss		**82.1**	**127.7**	**162.6**	**241.6**
Tax		-23.6	-31.4	-50.2	-57.7
NET PROFIT/LOSS FOR THE PERIOD		**58.5**	**96.3**	**112.3**	**183.9**

Statement of Comprehensive Income

Net income		**58.5**	**96.3**	**112.3**	**183.9**
Items that may be reclassified to the income statement					
Exchange differences, foreign operations		-11.0	-2.1	-0.3	-4.7
COMPREHENSIVE PROFIT/LOSS		**47.4**	**94.2**	**112.0**	**179.2**

Balance Sheet | Parent

SEK Millions	Note	2018-12-31	2017-12-31
Assets			
Lending to credit institutions		1,261.9	1,386.4
Lending to the public	5	11,951.8	12,495.9
Derivatives		36.4	34.9
Bonds and other interest-bearing securities		693.1	644.2
Shares and participations in associated companies		4.7	4.7
Intangible assets		43.5	45.6
Tangible assets		7.3	7.8
Other assets		795.1	753.5
Prepaid expenses and accrued income		25.5	22.7
Total assets		**14,819.3**	**15,395.8**
Liabilities			
Liabilities to credit institutions		2,631.8	3,673.2
Derivatives		200.0	-
Deposits from the public		10,416.6	10,418.6
Derivatives		25.5	35.4
Tax liabilities		0.3	30.0
Other liabilities		82.1	58.0
Accrued expenses and prepaid income		51.5	70.5
Total liabilities		**13,407.8**	**14,285.8**
Equity			
Share capital		100.0	100.0
Shareholder contributions received		563.7	363.7
Profit and loss account reserve brought forward		635.4	462.4
Result for this period		112.3	183.9
Total equity		**1,411.5**	**1,110.0**
Total equity and liabilities		**14,819.3**	**15,395.8**

Changes in Equity | Parent

SEK Millions	Shareholders' equity: Restricted – Share capital	Shareholders' equity: Non restricted – Retained earnings*	Total equity
Opening balance 2017-07-01	**100.0**	**915.8**	**1,015.8**
Result for the period reported via income statement		96.3	**96.3**
Exchange differences, foreign operations		-2.1	**-2.1**
Ending balance 2017-12-31	**100.0**	**1,010.0**	**1,110.0**
Opening balance 2017-07-01	**100.0**	**1,010.0**	**1,110.0**
Shareholder contributions**		200.0	**200.0**
Effect of transition to IFRS 9		-13.5	**-13.5**
Tax effect due to transition to IFRS 9		3.0	**3.0**
Result for the period reported via income statement		112.3	**112.3**
Exchange differences, foreign operations		-0.3	**-0.3**
Ending balance 2017-12-31	**100.0**	**1,311.5**	**1,411.5**
Opening balance 2018-07-01	**100.0**	**1,264.1**	**1,364.1**
Result for the period reported via income statement		58.5	**58.5**
Exchange differences, foreign operations		-11.0	**-11.0**
Ending balance 2018-12-31	**100.0**	**1,311.5**	**1,411.5**

** Whereof total shareholder contributitons SEK 563.7m (SEK 363.7m)*

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

Cash Flow Statement | Parent

SEK Millions	Note	2018	2017
Operating activities			
Pre tax income		162.6	241.6
		162.6	**241.6**
Adjustments for items not included in cash flow			
Depreciation		41.9	18.6
Unrealised changes in value		4.8	-44.7
Credit losses excluding recoveries	4	93.5	68.7
Effect of transition to IFRS 9	11	-10.5	-
Total – Items not included in cash flow		**129.7**	**42.6**
Taxes paid		-79.9	-57.2
Cash flow from current operations before changes to operating capital		**212.4**	**227.0**
Cash flow from changes to operating capital			
Increase (-)/decrease (+) of lending to the public		450.6	-2,419.1
Increase (-)/decrease (+) of change in receivables		-45.9	787.6
Increase (+)/decrease (-) of deposits from the public		-1.9	914.2
Increase (+)/decrease (-) of change in short term liabilities		-4.9	-58.4
Cash flow from operating activities		**610.2**	**-548.8**
Investing activities			
Investments in intangible assets		-37.0	-17.6
Acquisition of fixed assets		-2.3	-0.5
Acquisition of financial assets		-53.7	245.7
Cash flow from investing activities		**-92.9**	**227.6**
Financing activities			
Liabilities to credit institutions		-841.4	1,233.0
Shareholders' contribution		200.0	-
Cash flow from financing activities		**-641.4**	**1,233.0**
NET CASH FLOW FOR THIS PERIOD		**-124.1**	**911.8**
Liquid funds at beginning of year		**1,386.4**	**479.3**
Currency difference in liquidity		**-0.3**	**-4.7**
LIQUID FUNDS END OF PERIOD		**1,261.9**	**1,386.4**
Cash flow includes interest receipts of		**1,006.3**	**970.3**
Cash flow includes interest payments of		**-566.2**	**-531.0**

Disclosures

All amounts in the notes are in millions of Swedish crowns (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.

IFRS 9 Financial instruments

The Group implemented IFRS 9 Financial instruments on January 1, 2018. The standard contains rules for accounting, classification, valuation, impairment, derecognition and hedge accounting and replaces IAS 39 Financial instruments entirety. The major changes are related to classification, impairment and hedge accounting. In December 2011, 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 valuation

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 valuated at fair value through profit or loss or amortised cost. No financial assets are valuated 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 valuation of the Bank’s financial assets compared to the valuation under IAS 39. The requirements for classification and valuation of financial liabilities are to a large extent the same as under IAS 39.

Financial assets valuated at amortised cost

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

Financial assets which are debt instruments are valuated at amortised cost if they are held within a business model with the objective to hold the financial assets 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 valuated at amortised cost. The amortised cost is the amount at which the financial asset is valuated 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 valuated at fair value through profit or loss

The Bank’s financial assets valuated at fair value through profit or loss consist of:

- Debt instruments that are mandatorily classified at fair value through profit or loss
- Derivatives

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 valuated 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 valuated at amortised cost
Financial liabilities valuated 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 valuated at amortised cost using the effective interest method.

Financial liabilities at fair value through profit or loss
Financial liabilities valuated 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 valuated 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 valuated 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 impairment 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 valuated 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 impairment 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 impairment 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 impairment, using several input models to estimate the expected credit impairment in the portfolio at a given time of calculation, within 12 months as well as the asset’s remaining lifetime.

Valuation of expected credit impairment
Expected credit impairment are valuated 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, considering scheduled repayments of principal and interest, and expected further drawdowns on irrevocable facilities. The LGD represents the expected loss on a defaulted exposure, considering factors such as counterparty characteristics, collateral and product type. Expected credit impairment 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 impairment, which are discounted back to the reporting date using the original effective interest rate and summed. The sum of all monthly expected credit impairment over the remaining calculated lifetime results in the lifetime expected credit impairment and the sum of expcted credit impairment due to default within the next 12 months results in the 12-month expected credit impairment. When estimating expected credit impairment, 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 impairment for the Swedish mortgage loans are interest rates and house price index. For the Norwegian mortgage loans house index are used.

The calculation is different for mortgage loans compared to personal loans. Expected credit impairment for mortgage loans are calculated as write-offs minus expected recoveries (after a cure rate has been applied). For personal loans the expected credit impairments 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 impairment which affects both the identification of a significant increase in credit risk and the valuation of the expected credit impairment. 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 enough 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

To determine whether a significant increase in credit risk has occurred, the Bank valuates 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 impairment is 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 valuated 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 and write-offs are presented as credit impairment 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 impairment.

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.

IFRS 16 Leasing

IFRS 16 leasing agreements replaces IAS 17 leasing agreements and its previous interpretations. The standard shall be implemented on January 1, 2019 and approved by the EU. IFRS 16 is implemented on the consolidated situation for the financial group, BHAB, and will not be instigated by the Bank.

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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. 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), secured credit facilities and senior unsecured bonds. 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 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.

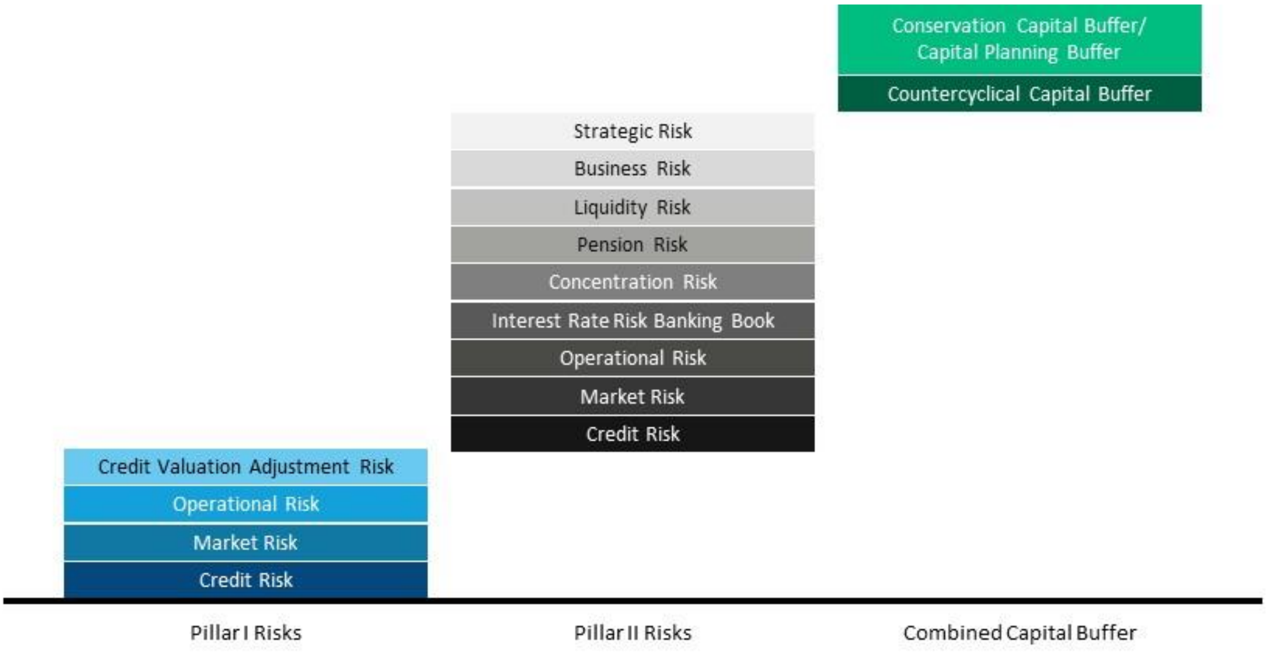

Figure shows an overview of key identified risks and capital requirements.

For more information regarding the analysis of capital requirements and Pillar I and 11, see note 7.

To manage identified risks, the Bank has created a framework for managing risk and capital through principles, organisational structures, 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 valuation 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 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 are 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 Jul-Dec 2018	Group				
	Mortgages		Other	Eliminations,	
	Sweden	Norway	operations	reclassifications	Total
Interest income	306.5	214.6	55.6	-34.2	542.5
Interest expense	-122.3	-65.5	-7.1	22.4	-172.5
Net interest income	**184.2**	**149.2**	**48.5**	**-11.9**	**370.0**
Total operating income	**192.9**	**149.0**	**48.5**	**-14.0**	**376.5**
Total expenses	**-131.1**	**-106.6**	**-34.4**	**14.0**	**-258.2**
Result pre credit losses	**61.8**	**42.4**	**14.2**	**-0.0**	**118.3**
Credit losses, net	-6.3	-2.1	-15.1	-	-23.5
Operating profit/loss	**55.5**	**40.3**	**-1.0**	**-0.0**	**94.8**
Allocated tax	-11.4	-12.0	-0.3	-	-23.6
NET PROFIT/LOSS FOR THE PERIOD	**44.1**	**28.3**	**-1.2**	**-0.0**	**71.2**

Income statement Jul-Dec 2017	Group				
	Mortgages		Other	Eliminations,	
	Sweden	Norway	operations	reclassifications	Total
Interest income	295.1	169.0	58.7	-33.2	489.6
Interest expense	-118.7	-62.5	-6.7	21.8	-166.0
Net interest income	**176.4**	**106.5**	**52.0**	**-11.4**	**323.6**
Total operating income	**202.3**	**114.1**	**52.0**	**-11.7**	**356.7**
Total expenses	**-118.6**	**-68.2**	**-27.0**	**11.7**	**-202.1**
Result pre credit losses	**83.7**	**45.9**	**25.0**	**0.0**	**154.6**
Credit losses, net	-0.8	-0.7	-10.9	-	-12.4
Operating profit/loss	**82.9**	**45.2**	**14.1**	**0.0**	**142.1**
Allocated tax	-15.9	-13.3	-3.1	-	-32.2
NET PROFIT/LOSS FOR THE PERIOD	**67.1**	**31.9**	**11.0**	**0.0**	**109.9**

Income statement Annual 2018	Group				
	Mortgages		Other	Eliminations,	
	Sweden	Norway	operations	reclassifications	Total
Interest income	608.8	411.5	112.7	-68.7	1,064.3
Interest expense	-242.0	-133.9	-14.2	44.1	-346.0
Net interest income	**366.8**	**277.5**	**98.5**	**-24.7**	**718.2**
Total operating income	**395.0**	**279.7**	**98.5**	**-27.3**	**746.0**
Total expenses	**-249.6**	**-195.7**	**-65.6**	**27.3**	**-483.6**
Result pre credit losses	**145.5**	**84.0**	**32.9**	**0.0**	**262.4**
Credit losses, net	-12.3	-3.4	-34.5	-	-50.2
Operating profit/loss	**133.2**	**80.6**	**-1.6**	**0.0**	**212.2**
Allocated tax	-27.2	-22.1	-1.0	-	-50.2
NET PROFIT/LOSS FOR THE PERIOD	**106.0**	**58.5**	**-2.5**	**0.0**	**162.0**

Income statement Annual 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	-31.1	-22.8	-5.0	-	-59.0
NET PROFIT/LOSS FOR THE PERIOD	**114.4**	**60.4**	**17.1**	**0**	**191.9**

Balance sheet 2018-12-31	Group				
	Mortgages		Other	Eliminations,	
	Sweden	Norway	operations	reclassifications	Total
Lending to credit institutions	1,366.4	496.4	-	-	1,862.8
Lending to the public	8,229.7	5,272.0	992.4	-	14,494.1
Deposits from the public	4,532.6	5,884.1	-	-	10,416.6

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

The operating segment report is based on the Group’s accounting policies, organisation and management 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, COO Norway and the Head of Personal Loans report to the CEO. COO Sweden’s responsibilities include mortgages in Sweden, which is one operating segment. COO Norway’s responsibilities include mortgages in Norway, which is one operating segment. The Head of Personal Loans’ responsibilities include personal loans in Sweden, which is included under other operations.

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 private loans, which are managed within the Bank in Sweden.

Note 4 | Net credit impairments

The Group implemented IFRS 9 on January 1, 2018 when the new standard came into force and replaced IAS 39. For effects of the transaition to IFRS 9, see Note 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 maturity of the asset

	Group		Parent	
Credit impairments	2018-12-31	2017-12-31	2018-12-31	2017-12-31
Credit impairment provisions	**-0.3**	**0.1**	**0.7**	**0.4**
of which Stage 1	-0.1	-	-0.4	-
of which Stage 2	-1.0	-	0.5	-
of which Stage 3	0.7	-	0.6	-
Credit impairments for off balance sheet exposures	-	-	-	-
Write-offs				
Actual losses during the period	-44.7	-29.1	-44.6	-29.1
Total	**-44.7**	**-29.1**	**-44.6**	**-29.1**
Recoveries	**21.5**	**16.5**	**21.5**	**16.5**
Credit losses, net	**-23.5**	**-12.4**	**-22.4**	**-12.1**

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

Note 5 | Lending to the public

	Group		Parent	
	2018-12-31	2017-12-31	2018-12-31	2017-12-31
Lending to the public, gross	**14,545.2**	**13,638.3**	**11,997.0**	**12,523.9**
Stage 1	13,401.0	-	11,035.2	-
Stage 2	908.7	-	738.1	-
Stage 3	235.4	-	223.8	-
Total provisions	**-51.0**	**-28.6**	**-45.2**	**-28.0**
Stage 1	-13.9	-	-12.6	-
Stage 2	-25.7	-	-22.2	-
Stage 3	-11.4	-	-10.4	-
Total	**14,494.1**	**13,609.7**	**11,951.8**	**12,495.9**

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

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

Group	Stage 1	Stage 2	Stage 3	Total
Credit impairment provisions as of July 1, 2018	**13.8**	**24.7**	**12.6**	**51.1**
New financial assets	3.1	2.3	0.4	5.9
Stage transfers				
from 1 to 2	-1.0	13.7	-	12.7
from 1 to 3	-0.1	-	3.6	3.5
from 2 to 1	0.6	-4.4	-	-3.8
from 2 to 3	-	-1.5	3.2	1.8
from 3 to 1	0.0	-	-0.2	-0.2
from 3 to 2	-	0.3	-1.1	-0.8
Changes in PD/LGD/EAD	-0.3	0.0	-0.4	-0.6
Write-offs and redemptions	-2.1	-9.5	-6.8	-18.5
Credit impairment provisions as of December 31, 2018	**13.9**	**25.7**	**11.4**	**51.0**

Parent				
Credit impairment provisions as of July 1, 2018	**12.4**	**22.7**	**11.5**	**46.5**
New financial assets	2.9	2.3	0.4	5.7
Stage transfers				
from 1 to 2	-0.9	11.6	-	10.7
from 1 to 3	-0.1	-	3.4	3.3
from 2 to 1	0.5	-4.1	-	-3.6
from 2 to 3	-	-1.3	2.8	1.4
from 3 to 1	0.0	-	-0.2	-0.2
from 3 to 2	-	0.3	-0.7	-0.4
Changes in PD/LGD/EAD	-0.4	0.2	-0.3	-0.5
Write-offs and redemptions	-1.8	-9.4	-6.5	-17.7
Credit impairment provisions as of December 31, 2018	**12.6**	**22.2**	**10.4**	**45.2**

Comparatives 2017 not applicable.

Note 6 | Measurement 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 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. 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 second half year of 2018.

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							
	2018-12-31				2017-12-31			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Derivatives	-	213.4	-	213.4	-	169.1	-	169.1
Bonds / other interest-bearing securities	693.1	-	-	693.1	644.2	-	-	644.2
Liabilities								
Derivatives	-	38.1	-	38.1	-	56.0	-	56.0

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

2018-12-31	Group Valued at fair value through profit and loss	Amortised cost	Amortised cost	Non financial assets and liabilities	Carrying value
Assets					
Lending to credit institutions	-	1,862.8	-	-	**1,862.8**
Lending to the public	-	14,494.1	-	-	**14,494.1**
Derivatives	213.4	-	-	-	**213.4**
Bonds and other interest-bearing securities	693.1	-	-	-	**693.1**
Intangible assets	-	-	-	58.0	**58.0**
Tangible assets	-	-	-	8.3	**8.3**
Other assets	-	44.2	-	92.2	**136.4**
Prepaid expenses and accrued income	-	13.0	-	14.3	**27.3**
Income taxes recoverable	-	-	-	3.0	**3.0**
Total	**906.5**	**16,414.1**	**-**	**172.8**	**17,496.4**
Liabilities					
Liabilities to credit institutions	-	-	1,998.9	-	**1,998.9**
Issued bonds	-	-	3,433.7	-	**3,433.7**
Deposits from the public	-	-	10,416.6	-	**10,416.6**
Derivatives	38.1	-	-	-	**38.1**
Tax liabilities	-	-	-	-	**-**
Other liabilities	-	-	58.2	13.9	**72.2**
Accrued expenses and prepaid income	-	-	79.8	-	**79.8**
Total	**38.1**	**-**	**15,987.3**	**13.9**	**16,039.3**

	Group **Financial assets and liabilities**	**Loans and receivables**	**Other financial liabilities**	**Non financial assets and liabilities**	**Total 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**

2018-12-31	Parent				
	Valued at fair value through profit and loss	*Amortised cost*	*Amortised cost*	*Non financial assets and liabilities*	***Carrying value***
Assets					
Lending to credit institutions	-	1,261.9	-	-	**1,261.9**
Lending to the public	-	11,951.8	-	-	**11,951.8**
Derivatives	36.4	-	-	-	**36.4**
Bonds and other interest-bearing securities	693.1	-	-	-	**693.1**
Shares and participations in associated companies	-	-	-	4.7	**4.7**
Intangible assets	-	-	-	43.5	**43.5**
Tangible assets	-	-	-	7.3	**7.3**
Other assets	-	702.9	-	92.1	**795.1**
Prepaid expenses and accrued income	-	13.0	-	12.6	**25.5**
Total	**729.5**	**13,929.7**	**-**	**160.1**	**14,819.3**
Liabilities					
Liabilities to credit institutions	-	-	2,631.8	-	**2,631.8**
Deposits from the public	-	-	10,416.6	-	**10,416.6**
Derivatives	25.5	-	-	-	**25.5**
Bonds and other interest-bearing securities	200.0	-	-	-	**200.0**
Tax liabilities	-	-	-	0.3	**0.3**
Other liabilities	-	-	68.9	13.2	**82.1**
Accrued expenses and prepaid income	-	-	51.5	-	**51.5**
Total	**225.5**	**-**	**13,168.8**	**13.5**	**13,407.8**

2017-12-31	Parent				
	Financial assets and liabilities	**Loans and receivables**	**Other financial liabilities**	**Non financial assets and liabilities**	**Total Carrying value**
	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 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 item 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 Financial Group

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 should include the estimated capital requirements for additional risks identified in the activity in accordance with the Bank's ICLAAP.

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

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

- the Bank's risk profile
- identified risks in terms of probability and financial impact
- stress tests and scenario analysis
- the expected expansion of lending and financing opportunities
- 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 considered 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 575/2013 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 regarding disclosure of own funds requirements for institutions.

Capital Adequacy	Financial Group 2018-12-31	Financial Group 2017-12-31	Parent 2018-12-31	Parent 2017-12-31
Total capital base	**1,303.0**	**1,063.8**	**1,368.0**	**1,064.4**
Common Equity Tier 1 (CET1) capital	**1,303.0**	**1,063.8**	**1,368.0**	**1,064.4**
Capital instruments and the related share premium accounts	4,451.4	4,286.6	663.7	463.7
Retained earnings	144.8	9.7	747.8	646.3
Accumulated other comprenhensive income	26.0	-	-	-
Intangible assets (net of related tax liability)	-3,319.2	-3,232.5	-43.5	-45.6
Additional Tier 1 capital				
Tier 2 Capital				
Risk Exposure Amount	**7,466.4**	**7,083.8**	**6,198.6**	**6,239.7**
Risk exposure amount credit risk	6,266.4	5,926.4	5,166.2	5,388.5
Risk exposure amount market risk	157.8	104.3	157.8	104.3
Risk exposure amount operational risk	880.8	773.9	874.6	719.2
Risk exposure amount credit valuation adjustment risk	161.3	279.1	-	27.7
CET 1 capital ratio, %	**17.45%**	**15.02%**	**22.07%**	**17.06%**
Tier 1 capital ratio, %	**17.45%**	**15.02%**	**22.07%**	**17.06%**
Total capital ratio, %	**17.45%**	**15.02%**	**22.07%**	**17.06%**

Capital Buffer Requirements %	Financial Group 2018-12-31	Financial Group 2017-12-31	Parent 2018-12-31	Parent 2017-12-31
Institution specific buffert requirement	4.50%	4.50%	4.50%	4.50%
of which capital conservation buffer	2.50%	2.50%	2.50%	2.50%
of which countercyclical capital buffer	2.00%	2.00%	2.00%	2.00%
of which systemic risk buffer	-	-	-	-
of which: G-SII or O-SII buffer	-	-	-	-
CET1 available to meet buffers	9.45%	7.02%	14.07%	9.06%

The contrercyclical capital buffer is to increase to 2.50% in September 2019.

Capital requirement for credit risk

Capital requirement for credit risk is calculated according to the standardized method.

Balance sheet items	Parent 2018-12-31 Exposed amount	Risk weight	Risk weighted amount	Capital require-ment	2017-12-31 Capital require-ment
Governments or central banks	251.2	0%	-	-	-
Exposures to institutions	1,318.3	20%	264.0	21.1	23.8
Exposures to corporates	664.6	2%	14.2	1.1	0.2
Retail exposures	998.4	75%	748.8	59.9	63.7
Exposures to mortgages	10,756.3	36%	3,823.6	305.9	321.5
Exposures in default	222.3	101%	224.9	18.0	15.1
Exposures in the form of covered bonds	526.7	10%	52.7	4.2	4.0
Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-
Equity exposures	4.7	100%	4.7	0.4	0.4
Other exposures	33.4	100%	33.4	2.7	2.5
Securitisations	-	-	-	-	-
Total capital requirement for credit risk	**14,775.8**		**5,166.2**	**413.3**	**431.1**

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

Capital requirement for operational risk

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

	Financial Group 2018-12-31	Financial Group 2017-12-31	Parent 2018-12-31	Parent 2017-12-31
Relevant indicator	587.2	516.0	583.1	479.5
of which 12%	70.5	61.9	70.0	57.5
Total capital requirement for operational risk	**70.5**	**61.9**	**70.0**	**57.5**

Capital requirement for market risk

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

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

Capital requirements for credit valuation adjustment risk

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

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

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

Note 8 | Related parties

Assets and liabilities	Group 2018-12-31	Group 2017-12-31	Parent 2018-12-31	Parent 2017-12-31
Intercompany receivables	-	0.0	664.6	612.5
Intercompany payables	12.4	12.4	24.4	17.8

	Group Jul-Dec 2018	Group Jul-Dec 2017	Parent Jul-Dec 2018	Parent Jul-Dec 2017
Interest and Commission income	-	0.3	94.3	109.3
Financial expense	-	-	-16.9	-10.4
Total	**-**	**0.3**	**77.5**	**98.9**

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 refers to:

- Bluestep Holding AB, organiational 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

Information regarding salaries and renumeration will be disclosed in the annual report 2018. No remuneration with senior officials has occurred except these.

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	
	2018-12-31	2017-12-31	2018-12-31	2017-12-31
Pledged assets for own liabilities				
Shares and participations in associated companies*	None	None	0.0	0.0
Assets in Bluestep Mortgage Securities No 2**	1,205.3	1,373.2	None	None
Assets in Bluestep Mortgage Securities No 3**	1,877.9	2,158.6	None	None
Assets in Bluestep Mortgage Securities No 4**	2,039.0	2,674.7	None	None
Assets in Bluestep Finans Funding No 1 AB	2,705.7	1,167.4	None	None
Other assets pledged and pledged collateral				
Assets pledged for financial instruments	68.8	82.5	68.8	82.5
Contingent liabilities				
Contingent liabilities	None	None	None	None
Commitments	None	None	None	None

* The Bank has pledged all shares in its subsidiary Step 2, Step 3 and Step 4 as collateral for loans from credit institutions
** Designated Activity Company (DAC)

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.

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 impairment. The Bank has not made any reclassifications that have had any impact on the valuation of financial instruments.

	Classification IAS 39 2017-12-31	Classification IFRS 9 2018-01-01	Book value in accordance with IAS 39 2017-12-31	Book value in accordance with IFRS 9 2018-01-01	Effect on equity* 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	13,595.8	-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	-
			16,358.5	**16,344.5**	**-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	-
			14,755.8	**14,755.8**	**-**

** Including tax-effect*

Provisions according to IAS 39 compared to IFRS 9

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

Provisions IAS 39	**2017-12-31**
Specific provisions for individually assessed loans	28.6
Total provisions IAS 39	**28.6**
Provisions IFRS 9	**2018-01-01**
Financial assets measured at amortised cost	**45.8**
Stage 1	13.5
Stage 2	21.4
Stage 3	10.9
Income taxes remeasurement due to transition to IFRS 9	-3.3
Total provisions IFRS 9	**42.6**
Total transition effect	**-13.9**

Note 12 | Subsequent events

Harry Klagsbrun stepped down from the board during January 2019, whereby the number of board members decreased from 8 to 7. Noteholders of Step 2 were informed, on January 21st, 2019, that redemption will take place on February 11, 2019. The Bank will thereafter initiate a voluntary liquidation of Step 2. Step 2 was redeemed on February 11, 2019.

Financial calendar

The annual report will be published on the website calendar week 18, 2019.

Affirmation by the Board

The Year-End Report has not been reviewed by the Bank´s auditor.

The Board of Directors affirms that the Year-End Report 2018 provides a fair overview of the Company's and the Group´s operations, financial position and results and describes material risks and uncertainties facing the Company and the Group.

Stockholm February 28, 2019

Rolf Stub CEO	Per-Arne Blomquist Chairman of Board	Lars Wollung Board Member
Göran Bronner Board Member	Sofia Arhall Bergendorff Board Member	Toby Franklin Board Member
Albert Gustafsson Board Member	Andreas Pettersson Rohman Board Member	