Bluestep.

Periodic Information Q2 2023 on Capital Adequacy and Liquidity

1. Introduction

1.1 Purpose and frequency of disclosure

The report provides information about capital adequacy and liquidity as of 30th of June 2023 for the consolidated situation (the "**Financial Group**") of Bluestep Bank AB (publ) ("**BBAB**" or the "**Bank**"). The information disclosed satisfies the regulatory requirements for disclosure, and allows market participants, including analysts, partner banks, investors, and customers, to assess the Bank from liquidity perspective. The report is published on the Bank's website http://www.bluestepbank.com.

1.2 Regulatory context

Together with information addressed in the Bank's Annual Report, the Bank's Interim Report, and the Bank's website, the report complies with the disclosure requirements for credit institutions set out in the Swedish Financial Supervisory Authority (the "**SFSA**") Regulations (FFFS 2014:12) regarding prudential requirements and capital buffers, the SFSA Regulations (FFFS 2010:7) regarding management of liquidity risk in credit institutions and investment firms, the Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and amending Regulation (EU) No 648/2012 ("**CRR**"), and the Commission Implementing Regulation (EU) 2021/637 laying down implementing technical standards with regard to public disclosures by institutions of the information referred to in Titles II and III of Part Eight of Regulation (EU) No 575/2013.

1.3 Scope of application

Bluestep Holding AB is the ultimate parent company of the Financial Group, and the information disclosed in the report is therefore on the basis of Bluestep Holding AB's consolidated situation. The Bank has a Norwegian branch Bluestep Bank AB (publ), filial Oslo and a Finnish branch Bluestep Bank AB (publ), filial i Finland. The following companies are included in the Financial Group: BBAB, Bluestep Servicing AB[1], Bluestep Finans Funding No 1 AB, Bluestep Mortgage Securities No 2 DAC[2], Bluestep Mortgage Securities No 3 DAC[3], and Bluestep Mortgage Securities No 4 DAC[4]. All entities are subject to full consolidation. On the 21st of June 2023, it was published that the Norwegian Bank2 ASA will be acquired[5]. After closing, Bank2 ASA will be consolidated as subsidiary.

The disclosures should be read on the basis that the Bank and the Financial Group is classified as a "small and non-complex institution" in accordance with point 145 of Article 4(1) of the CRR.

[1] The subsidiary Bluestep Servicing AB was disposed as of 30 June 2023.

[2] Since February 2019, Bluestep Mortgage Securities No 2 DAC is a dormant company with no activity and is under liquidation.

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

[4] Since May 2022, Bluestep Mortgage Securities No 4 DAC is a dormant company with no activity and is under liquidation.

[5] https://www.bluestepbank.com/press/regulatory-press-releases/2023/bluestep-bank-to-acquire-bank2-a-norwegian-specialist-mortgage-bank-and-refinancing-services-provider/

The Bank and the Financial Group have prior permission from the SFSA to include interim profits in Common Equity Tier 1 capital in accordance with Article 26(2) of the CRR.

For information on the legal structure, see the Interim Report 2023 and the corporate website http://www.bluestepbank.com.

1.4 Basis of preparation

The information in the report is prepared solely to meet the disclosure requirements, and to provide certain specified information about capital adequacy and liquidity risk, and for no other purpose. The disclosures do not constitute any form of financial statement relating to the Financial Group, or any form of contemporary or forward-looking record or opinion about the Financial Group.

The disclosures are subject to internal review, challenge and approval processes. An audit trail to support disclosures is maintained.

Wherever possible and relevant, there has been ensured consistency between the disclosures of the reporting under the Pillar I and Pillar II requirements, e.g., information about risk management practices and capital situation.

In order not to conflict with requirements under accounting standards, and to ease the validation process, the quantitative basis of the disclosures is extracted from the mandated set of reporting explaining the financial statements unless otherwise mentioned.

1.5 Exclusion of non-material, proprietary and confidential information

In accordance with Article 432 in the CRR, the Board may choose to omit certain information from publication of the report if the information is deemed immaterial, proprietary, or confidential. These conditions are specified in the regulation as;

- Information is regarded as material if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions.
- Information is regarded as proprietary if disclosing it to the public would undermine the Bank’s competitive position.
- Information is regarded as confidential if the Bank has obligations to customers or other counterparty relationships binding it to confidentiality.

If this is the case, the Bank will state the fact that the specific items of information are not disclosed.

2 Capital adequacy

This section addresses the capital adequacy for the Financial Group.

2.1 Risk-based capital requirements

The risk-based capital requirement is calculated in accordance with the CRR, Swedish Acts[6], and SFSA Regulations and General Guidelines. The risk-based capital requirements consist of the Pillar I minimum capital requirement, the Pillar II capital requirement (“**P2R**”), the combined buffer requirements, and the Pillar II guidance (“**P2G**”).

Overview of the methodologies used for calculating the risk-based capital requirement is shown below.

Table 2.1 Risk-based capital requirement methodology

Risk-based capital requirement		Methodology
Pillar I Capital Requirement		
Minimum Capital Requirement	Credit risk Counterparty credit risk CVA risk Market risk Operational risk	Standardised Approach Original Exposure Method Standardised Approach Standardised Approach Alternative Standardised Approach
Pillar II Capital Requirement		
Pillar II Requirement (“**P2R**”)	For material risks, internal methodologies have been applied. For the following risks, SFSA methodologies have been applied; - Interest Rate risk - Credit Spread risk - Concentration risk	
Combined Buffer Requirement		
Countercyclical Capital Buffer (“**CCyCB**”)	-	-
Capital Conservation Buffer (“**CCB**”)	-	-
Pillar II Guidance		
Pillar II Guidance (“**P2G**”)	-	-

Pillar I minimum capital requirement: The Pillar I capital requirement is calculated based on the standardised approach for credit risk, credit valuation adjustment risk and market risk, and original exposure method for the counterparty credit risk, while the alternative standardised approach is used for operational risk. The minimum capital requirement amounts to 8% of the risk weighted assets (“**RWAs**”).

P2R: The P2R is based on qualitative and quantitative assessment of material risks to determine whether additional capital is needed for risks not covered, or not sufficient covered, by the Pillar I minimum capital requirement. The P2R for material risks is assessed using internal methodologies, as well as methods from the SFSA for concentration risk, interest rate risk, and credit spread risk. The SFSA conducts a supervisory review and evaluation process (“**SREP**”) and makes formal decision regarding P2R. In accordance with the latest SFSA SREP decision, a risk-based P2R of 1.20% of the RWAs for the Financial Group and 1.10% of the RWAs for the Bank shall be met.

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

Combined buffer requirement: The combined capital buffers are regulatory buffers held to absorb losses in periods of financial stress. The applicable countercyclical capital buffer ("**CCyCB**") factors as of the reporting period are 2% in Sweden, 2.5% in Norway, and 0% in Finland.

P2G: The P2G level is notified by the SFSA as part of the SREP in addition to the other main components to cover risks and manage future financial stresses. The P2G applies if the SFSA considers the capital conservation buffer to be insufficient for covering risks the Bank might be exposed to. The SFSA has decided not to notify any P2G for the Financial Group or the Bank.

The Financial Group and the Bank shall at all times satisfy the Common Equity Tier 1 capital ("**CET1**") ratio of at least 4.5%, Tier 1 capital ratio of at least 6%, total capital ratio of at least 8%, and the institution-specific buffer requirements.

In addition, the Bank maintains an extra capital buffer to prevent violating external regulatory requirements or internally set capital limits in situations of financial stress and significant negative impact on the financial system. The Board has established a long-term target of Common Equity Tier 1 capital ratio of 16%, and a minimum Common Equity Tier 1 capital ratio of 15%.

The total risk-based capital requirements are shown below.

Table 2.2 Total risk-based capital requirements

Total capital requirements (MSEK)	30-Jun-23	31-Dec-22
Pillar I capital requirement	784	766
Pillar II capital requirement	118	115
Combined buffer requirement	455	374
Sum capital requirements	**1,357**	**1,254**

Totalt capital requirements (% of RWAs)	30-Jun-23	31-Dec-22
Pillar I capital requirement	8.00%	8.00%
Pillar II capital requirement	1.20%	1.20%
Combined buffer requirement	4.65%	3.91%
Sum capital requirements	**13.85%**	**13.11%**

The own funds capital requirement is met for the Financial Group and the Bank.

2.2 Leverage ratio requirement

The leverage ratio is calculated in accordance with the CRR, Swedish Acts[7], and SFSAs Regulations and General Guidelines. The leverage ratio is a non-risk-based measure to limit build-up of leverage on the balance sheet, and is calculated as the ratio between Tier 1 capital and the leverage ratio exposure amount, comprising of on- and off-balance sheet exposures.

The leverage ratio capital requirement is calculated in accordance with the table below.

Table 2.3 Leverage ratio requirement methods

Leverage ratio requirement
Minimum Capital Requirement
Minimum Capital Requirement
Pillar II Capital Requirement
Pillar II Requirement (“**P2R**”)
Pillar II Guidance
Pillar II Guidance (“**P2G**”)

The minimum capital requirement for the leverage ratio is 3% of the leverage exposure amount, and additional 0.15% should be met for the Financial Group as P2G in accordance with the latest SFSA SREP decision.

The minimum and Pillar II leverage ratio requirements shall be met with Tier 1 capital, while P2G shall be met with CET1 capital.

The leverage ratio requirement is shown below.

Table 2.4 Leverage ratio requirement

Total capital requirements (MSEK)	30-Jun-23	31-Dec-22
Minimum capital requirement	685	714
Pillar II capital requirement	-	-
Pillar II guidance	34	36
Total Leverage ratio requirement and Pillar II Guidance	**719**	**750**

Totalt capital requirements (% of Exposure measure)	30-Jun-23	31-Dec-22
Minimum capital requirement	3.00%	3.00%
Pillar II capital requirement	-	-
Pillar II guidance	0.15%	0.15%
Total Leverage ratio requirement and Pillar II Guidance	**3.15%**	**3.15%**

The Financial Group and Bank are fulfilling the total leverage ratio requirement of 3.15% of the leverage exposure amount.

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

2.3 Key metrics

Key metrics are shown below.

Table 2.5 Key metrics (EU KM1)

Key Metrics (MSEK)		30-Jun-23	31-Dec-22	30-Jun-22
Available own funds (amounts)				
1	Common Equity Tier 1 (CET1) capital	1,731	1,624	1,493
2	Tier 1 capital	1,731	1,624	1,493
3	Total capital	1,731	1,624	1,493
Risk-weighted exposure amounts				
4	Total risk exposure amount	9,797	9,570	8,794
Capital ratios (as a percentage of risk-weighted exposure amount)				
5	Common Equity Tier 1 ratio (%)	17.67%	16.97%	16.97%
6	Tier 1 ratio (%)	17.67%	16.97%	16.97%
7	Total capital ratio (%)	17.67%	16.97%	16.97%
Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)				
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage (%)	1.20%	1.20%	
EU 7b	*of which: to be made up of CET1 capital (percentage points)*	0.68%	0.68%	
EU 7c	*of which: to be made up of Tier 1 capital (percentage points)*	0.90%	0.90%	
EU 7d	Total SREP own funds requirements (%)	9.20%	9.20%	8.00%
Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)				
8	Capital conservation buffer (%)	2.50%	2.50%	2.50%
EU 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)			
9	Institution specific countercyclical capital buffer (%)	2.15%	1.41%	0.62%
EU 9a	Systemic risk buffer (%)			
10	Global Systemically Important Institution buffer (%)			
EU 10a	Other Systemically Important Institution buffer (%)			
11	Combined buffer requirement (%)	4.65%	3.91%	3.12%
EU 11a	Overall capital requirements (%)	13.85%	13.11%	11.12%
12	CET1 available after meeting the total SREP own funds requirements (%)	8.47%	7.77%	8.97%
Leverage ratio				
13	Total exposure measure	22,830	23,805	21,776
14	Leverage ratio (%)	7.58%	6.82%	6.86%
Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)				
EU 14a	Additional own funds requirements to address the risk of excessive leverage (%)			
EU 14b	*of which: to be made up of CET1 capital (percentage points*			
EU 14c	Total SREP leverage ratio requirements (%)	3.00%	3.00%	3.00%
Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)				
EU 14d	Leverage ratio buffer requirement (%)			
EU 14e	Overall leverage ratio requirement (%)	3.00%	3.00%	3.00%
Liquidity Coverage Ratio				
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	955	1,297	1,261
EU 16a	Cash outflows - Total weighted value	1,146	1,098	937
EU 16b	Cash inflows - Total weighted value	1,222	2,033	1,390
16	Total net cash outflows (adjusted value)	286	275	234
17	Liquidity coverage ratio (%)	333.18%	472.43%	538.42%
Net Stable Funding Ratio				
18	Total available stable funding	19,751	19,726	17,941
19	Total required stable funding	14,474	14,936	14,467
20	NSFR ratio (%)	136.46%	132.07%	124.01%

3 Liquidity

The section addresses the liquidity situation, and the size and composition of the external funding sources.

3.1 Liquidity situation

The liquidity coverage ratio (“**LCR**”) is shown in the table below.

Table 3.1 Liquidity coverage ratio

Liquidity Coverage Ratio (MSEK)	30-Jun-23	31-Dec-22
Liquidity Coverage Ratio	**333.18%**	**472.43%**
High quality liquid assets	955	1,297
Total Outflows	1,146	1,098
Outflows from retail deposits	*813*	*815*
Other outflows	*333*	*283*
Total inflows (Max 75% of total outflows)	859	824
Inflows from retail customers, lending activities	*235*	*227*
Other inflows	*987*	*1,807*
Net outflows	286	275

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

Table 3.2 Liquidity reserve

Liquidity Reserve (MSEK)	30-Jun-23	31-Dec-22
Cash and balances with central banks	142	502
Deposits in other banks	804	1,702
Securities issued or guaranteed by sovereigns, central banks or multinational development banks	664	641
Covered bonds	203	208
Issued by other institutions	*203*	*208*
Securities issued by financial corporates (excl. Covered bonds)	-	-
Total	**1,812**	**3,053**

The net stable funding ratio (“**NSFR**”) with available and required stable funding is shown in the table below.

Table 3.3 Net stable funding ratio

Net stable funding ratio (M SEK)	30-Jun-23	31-Dec-22
Net stable funding ratio	**136.46%**	**132.07%**
Available stable funding	19,751	19,726
Required stable funding	14,474	14,936

The average LCR, average liquidity outflows, inflows and net outflows, and average total liquid assets after applying the relevant haircuts based on end-of-month observations over the preceding 12 months, are shown in the table below.

Table 3.4 Average liquidity coverage ratio and average liquidity outflows, inflows and net liquidity outflows

Liquidity coverage ratio averages over the preceding 12 months (M SE	30-Jun-23
Liquidity coverage ratio	**408.43%**
Total liquid assets (after haircuts)	1,238
Net liquidity outflows	340
Liquidity outflows	*1,279*
Liquidity inflows (before cap, max 75% of outflows)	*1,644*

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

3.2 External funding sources

The aim is to have a diversified funding structure in order to limit refinancing risks. The external funding sources, volumes and relative shares are shown in the table below.

Table 3.5 External funding sources, volumes and relative shares

External funding sources (M SEK)	30-Jun-23	Share (%)
Senior unsecured bonds	2,131	11%
Covered bonds	4,108	20%
Deposits from the public	13,877	69%
Total	**20,117**	**100%**