Capital adequacy analysis and liquidity risk

Q1 2015

This report includes information about capital adequacy and liquidity risk. The information is published on a quarterly basis at BlueStep website. In accordance to the Swedish FSA's regulations and general guidelines regarding prudential requirements and capital buffers (FFFS 2014:12), and general guidelines regarding management of liquidity in credit institutions and investment firms (FFFS 2010:7), BlueStep hereby publishes the information on capital adequacy and liquidity risk.

Information on the parent company and the consolidated situation

Bluestep Finans AB (publ) ("**BFAB**", reg. no 556717-5129), with domicile in Stockholm, Sweden, was established on the 13th December 2006. The top company in the financial group is Luxblue Holdings I Sarl. The following companies are also included in the consolidated financial group according to full IFRS and also for capital adequacy reporting purposes: Luxblue Holdings II Sarl, Engblue Holdings Ltd, Bluestep Capital Holdings Ltd, Bluestep Bostadslån AB, Bluestep Finans Funding No 1 AB, Bluestep Servicing AB, Bluestep Mortgage Securities No 2 Ltd (listed), and Bluestep Mortgage Securities No 3 Ltd (listed).

BFAB is a credit market company conducting business in Sweden and in Norway through its branch Bluestep Finans (publ), Filial Oslo.

In both, Sweden and Norway, BFAB conducts business in the retail market and provides lending to individuals, mainly as home mortgages, personal loans and deposits. Unsecured lending to private individuals is only conducted in Sweden.

The information is disclosed by BFAB on the basis of the consolidated situation of Luxblue Holdings I Sarl.

Capital Adequacy

In accordance with Regulation (EU) 575/2013 ("**CRR**") and also the Directive 2013/13/EU ("**CRD IV**"), on 1st January 2014, new EU capital adequacy regulation came into force. CRR includes requirements regarding capital, liquidity and leverage ratio while CRD IV contains new provisions on capital buffers, corporate governance, disclosure of information, the purposes of supervision and sanctions. CRD IV was transposed by Swedish law on 2nd August 2014 through a number of new and revised laws, ordinances and regulations.

Capital adequacy analysis

Own Funds (all amounts in thousand SEK, except %)	**Amount at 31-Mar-2015**
Common Equity Tier 1 (CET1) capital: instruments and reserves	
Capital instruments and the related share premium accounts	601,826
of which: instrument type 1	*601,826*
Retained earnings	220,798
Independently reviewed interim profits net of any foreseeable charge or dividend	30,750
Common Equity Tier 1 (CET 1) capital before regulatory adjustments	**853,375**
CET1 capital: regulatory adjustments	
Intangible assets (net of related tax liability) (-)	-209,921
Total regulatory adjustments to CET1	**-209,921**
CET1 capital	**643,455**
Additional Tier 1 (AT1) capital: instruments	
AT 1 capital before regulatory adjustments	0
AT1 capital: regulatory adjustments	
Total regulatory adjustments to AT1 capital	0
AT1 capital	0
Tier 1 capital (T1= CET1 + AT1)	**643,455**
Tier 2 (T2) capital: instruments and provisions	
T2 capital before regulatory adjustments	0
T2 capital: regulatory adjustments	
Total regulatory adjustments to T2 capital	0
Tier 2 capital	0
Total capital (TC = T1 + T2)	**643,455**
Total risk weighted assets	**4,660,757**
Capital ratios and buffers	
CET1 (as a % of total risk exposure amount)	*13.81%*
T1 (as a % of total risk exposure amount)	*13.81%*
TC (as a % of total risk exposure amount)	*13.81%*
Institution specific buffer requirement	*2.50%*
of which: capital conservation buffer requirement	*2.50%*
of which: countercyclical buffer requirement	
of which: systemic buffer requirement	
of which: G-SII or O-SII buffer	
CET1 available to meet buffers (as a % of risk exposure amount)	*5.81%*

Bluestep Finans AB • Box 23138 • SE-104 35 Stockholm • Tfn: 08 501 004 00 • Fax: 08 501 004 11
E-post: info@bluestep.se • www.bluestep.se • Org. nr: 556717-5129 • Styrelsens: Stockholm

Risk weighted exposure amount ('000 SEK)

	Exposure Amounts
TOTAL RISK EXPOSURE AMOUNT	**4,660,757**
RISK WEIGHTED EXPOSURE AMOUNTS FOR CREDIT, COUNTERPARTY CREDIT AND DILUTION RISKS AND FREE DELIVERIES	3,857,132
Standardised Approach (SA)	3,857,132
SA exposure classes excluding securitisation positions	*3,830,433*
Institutions	30,431
Corporates	4,395
Retail	431,548
Secured by mortgages on immovable property	2,826,733
Exposures in default	187,582
Covered bonds	44,568
Claims on institutions and corporates with a short-term credit assessment	216,434
Other items	88,743
Securitisation positions SA	*26,699*
TOTAL RISK EXPOSURE AMOUNT FOR POSITION, FOREIGN EXCHANGE AND COMMODITIES RISKS	2,616
Risk exposure amount for position, foreign exchange and commodities risks under standardised approaches (SA)	2,616
Foreign Exchange	2,616
TOTAL RISK EXPOSURE AMOUNT FOR OPERATIONAL RISK (OpR)	644,427
OpR Basic indicator Approach (BIA)	644,427
TOTAL RISK EXPOSURE AMOUNT FOR CREDIT VALUATION ADJUSTMENT	156,583
Standardised method	156,583

Capital needs including Pillar 2 risks ('000 SEK)

	Total capital needs
Credit risk and counterparty risk	364,424
- which concentration risk	43,327
- including risks associated with exposure to the Swedish mortgages	486,885
- of which reciprocity in other countries' demands	
Market risk	26,048
- including interest rate risk arising from non-trading book	25,839
Operational risk	51,554
Pension risk	
Other	26,295
Diversification effects	0
Total	468,322

Information on Liquidity Risk

Liquidity risk is the risk of not being able to meet payment obligations on their due dates without the cost of obtaining the funds increasing considerably. The extent of the risk depends on the "BFAB Financial Group" ability to rise necessary funding to meet its obligations.

The day to day handling of liquidity risk is managed through the Treasury function within BFAB. The BFAB Risk Manager acts as the central function for independent control of liquidity and reports to the Board and the CEO.

The liquidity risk appetite of the BFAB Financial Group shall be low and it will retain material amounts of excess liquidity in a liquidity reserve. The liquidity reserve will only be invested in highly rated and liquid investments according to the BFAB Liquidity Policy.

Measurement and reporting of liquidity risk is performed on a daily basis and reported to senior management. Liquidity risk is reported monthly to the Board. The reports show key figures on liquidity risk as liquidity reserve, liquidity coverage ratio and net stable funding ratio among others. Furthermore, liquidity risk is measured under different scenarios, including stress scenarios.

Liquidity Reserve ('000 SEK)

	Mar-15	Mar-14
Liquidity Reserve		
Cash and balances with central banks	7.8	8.6
Deposits in other banks	1,081,710.5	1,137,129.8
Securities issued or guaranteed by sovereigns, central banks or multinational development banks	30,523.9	0.0
Covered bonds	455,524.6	450,953.8
Issued by other institutions	455,524.6	450,953.8
Total	**1,567,766.9**	**1,588,092.2**

Maturity distribution and funding sources ('000 SEK)

	< 1m	1m - 3m	3m - 1Y	1Y - 5Y	> 5Y	No maturity	Total
Assets							
Cash and balances with central banks	7.8						7.8
Deposits in other banks	1,081,710.5						1,081,710.5
Loans to the public	238,991.6	454,934.6	1,788,527.1	5,251,942.0	1,189,461.8		8,923,857.1
Bonds and other interest bearing securities		11,597.5	35,187.5	439,263.6			486,048.6
Derivatives			229.7	734.6	53,250.4		54,214.7
Intangible fixed assets						45,146.0	45,146.0
Other assets			-76.2			113,726.1	113,649.9
Total	**1,320,709.9**	**466,532.1**	**1,823,868.0**	**5,691,940.1**	**1,242,712.3**	**158,872.1**	**10,704,634.5**
Liabilities							
Deposits and borrowing from the public	2,585,674.6	752,889.0	2,762,530.6	1,056,302.7	81,653.4		7,239,050.2
Debt securities issued		11,014.2	32,834.1	113,121.6	1,188,673.8		1,345,643.7
Derivatives	245.6	617.3	2,000.6	99,831.8			102,695.4
Other liabilities		47.8	-76.2			1,139,489.8	1,139,461.4
Equity						877,783.9	877,783.9
Total	**2,585,920.3**	**764,568.2**	**2,797,289.1**	**1,269,256.2**	**1,270,327.1**	**2,017,273.7**	**10,704,634.5**

Applied rules and regulations

Pillar I – Minimum capital requirement

Calculation of the minimum capital requirement according to Pillar I is performed in accordance with the Swedish FSA's regulations and general guidelines on prudential requirements and capital buffers.

1. BFAB uses the standardised approach in calculating the credit risk: credit risk is calculated on all asset items.
2. The capital requirement for foreign exchange risks cover all items on the balance sheet and translated to Swedish kronor at the exchange rate in effect on the balance sheet date. The capital requirement amounts to 8% of the total net position for the majority of the exposures; for closely correlated currencies a lower capital requirement of 4% applies.
3. The capital requirement for operational risks is calculated using the basic indicator approach, which entails that the capital requirement consist of 15% of average operating income for the last three financial years.
4. Capital requirements for credit valuation adjustment risk (CVA) is calculated using the standardized approach and relate to positions in OTC derivatives.

Pillar II – Rules for the supervisory authorities' overall capital assessment and Internal Capital Adequacy Assessment Process (ICAAP)

In addition to the statutory minimum capital requirement, credit institutions are expected to make their own assessments of their risks and capital requirements, the so called "Internal Capital Adequacy Assessment Process (ICAAP)" under Pillar II.

Pillar II is regulated by the special supervision of credit institutions and investment firms act (2014:968), the banking and financing business act (2004:297) and the regulation of prudential requirements and capital buffers (2014:993).

Within the ICAAP, stress tests are performed to analyse the capital requirement even for risks that are not included in the calculation of Pillar I requirements. Based on the outcome of the stress tests, an analysis is made of the institution's total capital requirements and a plan to maintain the capital level. Pillar II requirements will always be beyond Pillar I requirements and together they constitute the company's minimum capital requirement.

The SFSA reviews and evaluates risk management and performs controls to ensure that sufficient capital is held for the significant risks that BFAB is exposed to due to its annual review and evaluation process.

Pillar III – Disclosure of capital adequacy and liquidity

Pillar III relates to disclosure of information. Information regarding capital adequacy and liquidity must be submitted annually and quarterly in accordance with the SFSA's regulations and general guidelines regarding prudential requirements and capital buffers (FFFS 2014:12), the Commission's implementing regulation (EU) No 1423/2013 on implementing technical standards with respect to the disclosure requirements of capital for institutions according to the SFSA's regulations and general guidelines regarding management of liquidity in credit institutions and investment firms (2010:7).

Complete information is disclosed yearly and not later than in connection with publication of the annual report on Bluestep website.

Periodic information on capital adequacy is provided on Bluestep website for the periods ended 31 March, 30 June, 30 September and 31 December.

Buffer requirements

In addition to the capital requirements under Pillar I and Pillar II, all companies covered by the capital adequacy regulations since August 2, 2014 needs to hold extra capital in form of a capital conservation buffer. The purpose of this buffer is to serve as a cushion to absorb losses in bad times. The calculation is performed according to the capital buffers act (2014:966), implementing the capital buffers act (2014:967) and the SFSA's regulations and general guidelines regarding prudential requirements and capital buffers (FFFS 2014:12). The capital conservation buffer is 2.5% of the risk-weighted exposure amounts and shall be covered with CET1. If the buffer requirement is not fulfilled restrictions will follow for dividends and bonuses like among other things.

Effects of new capital adequacy rules

Capital needs

As of 13th September 2015 a new countercyclical buffer will be introduced. The level of the countercyclical buffer is determined quarterly by the Supervisory Authority and could amount to between 0% and 2.5% of the risk-weighted exposure amounts. The Supervisory Authority has through this buffer the opportunity to demand that banks maintain a countercyclical buffer during periods of expansionary lending or where there are other risks that could threaten the financial stability. The Swedish Financial Supervisory Authority has determined that the countercyclical buffer is to be activated from the 13th September 2015 and should amount to 1.0%. The Norwegian Financial Supervisory Authority will activate the countercyclical buffer at the same level as of June 30, 2015.

Leverage ratio

Requirements to report the leverage ratio to the SFSA was introduced January 1, 2014 but there is still no legal minimum. Unlike capital requirements it's under the Supervisory Authority a non-risk-weighted measure that puts a cap on banks' borrowing based on the custom size of their capital and non-weighted assets. The Basel Committee has proposed that a leverage ratio grade is calculated as the ratio of core Tier and total exposures, including off balance sheet items. The ratio is expressed in percentage.

Liquidity

New rules are introduced regarding quantitative measure of liquidity. The first requirement that will be introduced October 1, 2015, intends to show a short-term survival measurement, LCR (Liquidity Coverage Ratio), by putting highly liquid assets is relation to stressed outflows and inflows. The second requirement, introduced first January 1, 2018, refers to a long-term funding measure, the NSFR (Net Stable Funding Ratio), which shows the balance between long-term assets and financing.