

# Capital adequacy analysis and liquidity risk

## Q3 2015

This report includes information about capital adequacy and liquidity risk. The information is published on a quarterly basis at the BlueStep website. In accordance to the Swedish Financial Supervisory Authority's ("**Swedish FSA**") 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 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 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 (Sw: *Kreditmarknadsbolag*) conducting business in Sweden and in Norway through its branch Bluestep Finans AB (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 (the "**Financial Group**").

## Capital Adequacy

In accordance with Regulation (EU) 575/2013 (“**CRR**”) and also the Directive 2013/13/EU (“**CRD IV**”), on 1<sup>st</sup> 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 and the purposes of supervision and sanctions. CRD IV was transposed by Swedish law on 2<sup>nd</sup> August 2014 through a number of new and revised laws, ordinances and regulations.

### Capital adequacy analysis

<b>Own Funds</b> (all amounts in thousand SEK, except %)	<b>Amount at 30-Sep-2015</b>	<b>Amount at 31-Dec-2014</b>
<b>Common Equity Tier 1 (CET1) capital: instruments and reserves</b>		
Capital instruments and the related share premium accounts	601,826	522,073
<i>of which: instrument type 1</i>	601,826	522,073
Retained earnings	220,795	119,121
Independently reviewed interim profits net of any foreseeable charge or dividend	91,103	112,540
<b>Common Equity Tier 1 (CET1) capital before regulatory adjustments</b>	<b>913,724</b>	<b>753,735</b>
<b>CET1 capital: regulatory adjustments</b>		
Intangible assets (net of related tax liability) (-)	-203,443	-206,756
<b>Total regulatory adjustments to CET1</b>	<b>-203,443</b>	<b>-206,756</b>
<b>CET1 capital</b>	<b>710,280</b>	<b>546,979</b>
<b>Additional Tier 1 (AT1) capital: instruments</b>		
<b>AT 1 capital before regulatory adjustments</b>	0	0
<b>AT1 capital: regulatory adjustments</b>		
<b>Total regulatory adjustments to AT1 capital</b>	0	0
<b>AT1 capital</b>	0	0
<b>Tier 1 capital (T1= CET1 + AT1)</b>	<b>710,280</b>	<b>546,979</b>
<b>Tier 2 (T2) capital: instruments and provisions</b>		
<b>T2 capital before regulatory adjustments</b>	0	0
<b>T2 capital: regulatory adjustments</b>		
<b>Total regulatory adjustments to T2 capital</b>	0	0
<b>Tier 2 capital</b>	0	0
<b>Total capital (TC = T1 + T2)</b>	<b>710,280</b>	<b>546,979</b>
<b>Total risk weighted assets</b>	<b>4,940,365</b>	<b>4,458,280</b>
<b>Capital ratios and buffers</b>		
CET1 (as a % of total risk exposure amount)	14.38%	12.27%
T1 (as a % of total risk exposure amount)	14.38%	12.27%
TC (as a % of total risk exposure amount)	14.38%	12.27%
Institution specific buffer requirement	3.50%	2.50%
<i>of which: capital conservation buffer requirement</i>	2.50%	2.50%
<i>of which: countercyclical buffer requirement</i>	1.00%	
<i>of which: systemic buffer requirement</i>		
<i>of which: G-SII or O-SII buffer</i>		
CET1 available to meet buffers (as a % of risk exposure amount)	6.38%	4.27%

**Risk weighted exposure amount ('000 SEK)**

	Sep-15	Dec-14
	Exposure Amounts	Exposure Amounts
<b>TOTAL RISK EXPOSURE AMOUNT</b>	<b>4,940,365</b>	<b>4,458,280</b>
RISK WEIGHTED EXPOSURE AMOUNTS FOR CREDIT, COUNTERPARTY CREDIT AND DILUTION RISKS AND FREE DELIVERIES	4,113,406	3,681,239
Standardised Approach (SA)	4,113,406	3,681,239
SA exposure classes excluding securitisation positions	4,094,309	3,654,949
Institutions	46,773	35,139
Corporates	15,988	4,248
Retail	482,942	385,568
Secured by mortgages on immovable property	3,010,330	2,728,363
Exposures in default	143,431	185,191
Covered bonds	48,457	44,634
Claims on institutions and corporates with a short-term credit assessment	232,980	181,954
Other items	113,407	89,852
Securitisation positions SA	19,098	26,290
TOTAL RISK EXPOSURE AMOUNT FOR POSITION, FOREIGN EXCHANGE AND COMMODITIES RISKS	8,495	2,900
Risk exposure amount for position, foreign exchange and commodities risks under standardised approaches (SA)	8,495	2,900
Foreign Exchange	8,495	2,900
TOTAL RISK EXPOSURE AMOUNT FOR OPERATIONAL RISK (OpR)	644,427	533,869
OpR Basic indicator Approach (BIA)	644,427	533,869
TOTAL RISK EXPOSURE AMOUNT FOR CREDIT VALUATION ADJUSTMENT	174,037	240,272
Standardised method	174,037	240,272

**Capital needs including Pillar 2 risks ('000 SEK)**

	Total capital needs
Credit risk and counterparty risk	385,945
- which concentration risk	42,949
- including risks associated with exposure to the Swedish mortgages	186,195
- of which reciprocity in other countries' demands	
Market risk	11,054
- including interest rate risk arising from non-trading book	10,375
Operational risk	51,554
Pension risk	
Other	182,835
Diversification effects	
<b>Total</b>	<b>631,388</b>

## 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 Financial Group ability to raise 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 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.

As of the end of September 2015, the Financial Group had a liquidity coverage ratio of 1.54.

### Liquidity Reserve ('000 SEK)

	Sep-15	Sep-14
<b>Liquidity Reserve</b>		
Cash and balances with central banks	8	8
Deposits in other banks	1,164,286	1,135,305
Securities issued or guaranteed by sovereigns, central banks or multinational development banks	94,958	0
Covered bonds	491,297	453,067
Issued by other institutions	444,670	453,067
<b>Total</b>	<b>1,750,549</b>	<b>1,588,379</b>

## 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 Swedish FSA 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 Swedish FSA'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 Swedish FSA'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 the 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 Swedish FSA'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.