Capital adequacy analysis and liquidity risk

Q1 2017

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 Bank AB (publ) ("**BBAB**", reg. no 556717-5129), with domicile in Stockholm, Sweden, was established in 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 Holding AB, BlueStep Finans Funding No 1 AB, BlueStep Servicing AB, BlueStep Mortgage Securities No 2 DAC (listed), BlueStep Mortgage Securities No 3 DAC (listed), and BlueStep Mortgage Securities No 4 DAC (listed).

According to European Regulation (EU) 575/2013 on prudential requirements for credit institutions and investment firms ("**CRR**"), BBAB is an institution conducting business in Sweden and in Norway through its branch BlueStep Bank AB (publ), Filial Oslo.

In both Sweden and Norway, BBAB 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 BBAB on the basis of the consolidated situation of Luxblue Holdings I Sarl (the "**Financial Group**").

Capital Adequacy

In accordance with the 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 and 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-2017**	**Amount at 31-Dec-2016**
Common Equity Tier 1 (CET1) capital: instruments and reserves		
Capital instruments and the related share premium accounts	601,826	601,826
of which: instrument type 1	*601,826*	*601,826*
Retained earnings	534,147	350,992
Independently reviewed interim profits net of any foreseeable charge or dividend	36,758	180,591
Common Equity Tier 1 (CET 1) capital before regulatory adjustments	**1,172,731**	**1,133,409**
CET1 capital: regulatory adjustments		
Intangible assets (net of related tax liability) (-)	-221,726	-218,693
Total regulatory adjustments to CET1	**-221,726**	**-218,693**
CET1 capital	**951,005**	**914,716**
Additional Tier 1 (AT1) capital: instruments		
AT 1 capital before regulatory adjustments	0	0
AT1 capital: regulatory adjustments		
Total regulatory adjustments to AT1 capital	0	0
AT1 capital	0	0
Tier 1 capital (T1= CET1 + AT1)	**951,005**	**914,716**
Tier 2 (T2) capital: instruments and provisions		
T2 capital before regulatory adjustments	0	0
T2 capital: regulatory adjustments		
Total regulatory adjustments to T2 capital	0	0
Tier 2 capital	0	0
Total capital (TC = T1 + T2)	**951,005**	**914,716**
Total risk weighted assets	**6,814,375**	**6,098,588**
Capital ratios and buffers		
CET1 (as a % of total risk exposure amount)	*13.96%*	*15.00%*
T1 (as a % of total risk exposure amount)	*13.96%*	*15.00%*
TC (as a % of total risk exposure amount)	*13.96%*	*15.00%*
Institution specific buffer requirement	*4.37%*	*4.00%*
of which: capital conservation buffer requirement	*2.50%*	*2.50%*
of which: countercyclical buffer requirement	*1.87%*	*1.50%*
of which: systemic buffer requirement		
of which: G-SII or O-SII buffer		
CET1 available to meet buffers (as a % of risk exposure amount)	*5.96%*	*7.00%*

Risk weighted exposure amount ('000 SEK)

Risk Weighted Exposure Amount (all amounts in thousand SEK)	Exposure Amounts at 31-Mar-2017	Exposure Amounts at 31-Dec-2016
TOTAL RISK EXPOSURE AMOUNT	**6,814,375**	**6,098,588**
RISK WEIGHTED EXPOSURE AMOUNTS FOR CREDIT, COUNTERPARTY CREDIT AND DILUTION RISKS AND FREE DELIVERIES	5,743,637	5,122,600
Standardised Approach (SA)	5,743,637	5,122,600
SA exposure classes excluding securitisation positions	*5,743,637*	*5,122,600*
Institutions	626,407	214,674
Corporates	0	19
Retail	747,492	705,446
Secured by mortgages on immovable property	4,069,830	3,942,350
Exposures in default	150,233	137,677
Covered bonds	71,438	71,079
Claims on institutions and corporates with a short-term credit assessment	0	0
Other items	78,237	51,355
Securitisation positions SA	*0*	*0*
TOTAL RISK EXPOSURE AMOUNT FOR POSITION, FOREIGN EXCHANGE AND COMMODITIES RISKS	45,961	34,639
Risk exposure amount for position, foreign exchange and commodities risks under standardised approaches (SA)	45,961	34,639
Foreign Exchange	45,961	34,639
TOTAL RISK EXPOSURE AMOUNT FOR OPERATIONAL RISK (OpR)	773,948	661,021
OpR Standardised (STA) / Alternative Standardised (ASA) approaches	773,948	661,021
TOTAL RISK EXPOSURE AMOUNT FOR CREDIT VALUATION ADJUSTMENT	250,830	280,328
Standardised method	250,830	280,328

Capital needs including Pillar 2 risks ('000 SEK)

	Total capital needs
Credit risk and counterparty risk	546,152
- which concentration risk	66,595
- including risks associated with exposure to the Swedish mortgages	224,973
- of which reciprocity in other countries' demands	
Market risk	10,934
- including interest rate risk arising from non-trading book	7,258
Operational risk	61,916
Pension risk	
Other	298,832
Diversification effects	
Total	917,835

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's ability to rise necessary funding to meet its obligations.

The day to day handling of liquidity risk is managed through the Treasury function within BBAB. The BBAB 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 BBAB 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 March 2017, the Financial Group had a liquidity coverage ratio of 286%, above the minimum LCR requirement of 80% as established in the CRR for 2017.

Liquidity Coverage Ratio ('000 SEK)	Mar-17	Dec-16
Liquidity Coverage Ratio	**2.86**	**2.63**
High quality liquid assets	708,518	568,963
Total Outflows	991,661	864,778
Outflows from retail deposits	725,679	647,130
Other outflows	265,982	217,648
Total inflows (Max 75% of total outflows)	743,746	648,583
Inflows from retail customers, lending activities	201,785	168,132
Other inflows	2,972,826	919,910

Liquidity Reserve ('000 SEK)

Liquidity Reserve	Mar-17	Dec-16
Cash and balances with central banks	9	9
Deposits in other banks	2,982,547	897,186
Securities issued or guaranteed by sovereigns, central banks or multinational development banks	150,113	140,252
Covered bonds	714,381	710,716
Issued by other institutions	714,381	710,716
Securities issued by financial corporates (excl. Covered bonds)	0	52,899
Total	**3,847,051**	**1,748,164**

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. BBAB 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 standardised approach, in which a different factor is applied to each one of the company's business lines.
4. Capital requirements for credit valuation adjustment risk (CVA) is calculated using the standardised approach and relate to positions in OTC derivatives.

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

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 and Liquidity Adequacy Assessment Process ("**ICLAAP**")" 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 ICLAAP, 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 BBAB 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.