

Capital adequacy analysis and liquidity risk

Q3 2018

This report includes information about capital adequacy and liquidity risk. The information is published on a quarterly basis at the BlueStep's website. In accordance to the Swedish Financial Supervisory Authority's ("**Swedish FSA**") regulations, general guidelines regarding prudential requirements, 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 BlueStep Holding AB. The following companies are also included in the consolidated Financial Group for capital adequacy reporting purposes: 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 based on the consolidated situation of BlueStep Holding AB (the "**Financial Group**").

Capital Adequacy

In accordance with the CRR and 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 several new and revised laws, ordinances and regulations.

Capital adequacy analysis

Own Funds (all amounts in thousand SEK, except %)	Amount at 30-Sep-2018	Amount at 31-Dec-2017
Common Equity Tier 1 (CET1) capital: instruments and reserves		
Capital instruments and the related share premium accounts	4,477,416	4,286,573
<i>of which: instrument type 1</i>	4,477,416	4,286,573
Retained earnings	-8,792	
Independently reviewed interim profits net of any foreseeable charge or dividend	58,174	9,724
Common Equity Tier 1 (CET 1) capital before regulatory adjustments	4,526,799	4,296,297
CET1 capital: regulatory adjustments		
Intangible assets (net of related tax liability) (-)	-3,239,466	-3,232,471
Total regulatory adjustments to CET1	-3,239,466	-3,232,471
CET1 capital	1,287,333	1,063,826
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)	1,287,333	1,063,826
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)	1,287,333	1,063,826
Total risk weighted assets	7,491,421	7,083,786
Capital ratios and buffers		
CET1 (as a % of total risk exposure amount)	17.18%	15.02%
T1 (as a % of total risk exposure amount)	17.18%	15.02%
TC (as a % of total risk exposure amount)	17.18%	15.02%
Institution specific buffer requirement	4.50%	4.50%
<i>of which: capital conservation buffer requirement</i>	2.50%	2.50%
<i>of which: countercyclical buffer requirement</i>	2.00%	2.00%
<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)	9.18%	7.02%

Risk weighted exposure amount ('000 SEK)

Risk Weighted Exposure Amount (all amounts in thousand SEK)	Exposure Amounts at 30-Sep 2018	Exposure Amounts at 31-Dec-2017
TOTAL RISK EXPOSURE AMOUNT	7 491 421	7 083 786
RISK WEIGHTED EXPOSURE AMOUNTS FOR CREDIT, COUNTERPARTY CREDIT AND DILUTION RISKS AND FREE DELIVERIES		
Standardised Approach (SA)	6 301 419	5 926 375
<i>SA exposure classes excluding securitisation positions</i>	6 301 419	5 926 375
Institutions	531 436	435 761
Corporates	0	0
Retail	760 137	796 391
Secured by mortgages on immovable property	4 681 741	4 417 086
Exposures in default	223 765	188 814
Covered bonds	54 419	49 448
Claims on institutions and corporates with a short-term credit assessment	0	0
Other items	49 921	38 875
<i>Securitisation positions SA</i>	<i>0</i>	<i>0</i>
TOTAL RISK EXPOSURE AMOUNT FOR POSITION, FOREIGN EXCHANGE AND COMMODITIES RISKS		
Risk exposure amount for position, foreign exchange and commodities risks under standardised approaches (SA)	143 722	104 328
Foreign Exchange	143 722	104 328
TOTAL RISK EXPOSURE AMOUNT FOR OPERATIONAL RISK (OpR)		
OpR Standardised (STA) / Alternative Standardised (ASA) approaches	880 826	773 948
TOTAL RISK EXPOSURE AMOUNT FOR CREDIT VALUATION ADJUSTMENT		
Standardised method	165 454	279 136

Capital needs including Pillar 2 risks ('000 SEK)

	Total capital needs
Credit risk and counterparty risk	590 381
- which concentration risk	73 031
- including risks associated with exposure to the Swedish mortgages	231 355
- of which reciprocity in other countries' demands	
Market risk	21 782
- including interest rate risk arising from non-trading book	10 285
Operational risk	70 466
Pension risk	
Other	337 114
Diversification effects	
Total	1 019 743

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 raise 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 daily 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 2018, the Financial Group had a liquidity coverage ratio of 342%, above the minimum LCR requirement of 100% as established in the CRR for 2018.

Liquidity Coverage Ratio ('000 SEK)	Sep-18	Dec-17
Liquidity Coverage Ratio	3,42	2,68
High quality liquid assets	697 865	578 584
Total Outflows	817 341	863 955
Outflows from retail deposits	816 879	762 079
Other outflows	461	101 876
Total inflows (Max 75% of total outflows)	613 006	647 966
Inflows from retail customers, lending activities	200 122	189 398
Other inflows	1 914 225	1 773 830

Liquidity Reserve ('000 SEK)

Liquidity Reserve	Sep-18	Dec-17
Cash and balances with central banks	59 964	42 151
Deposits in other banks	2 120 891	1 903 921
Securities issued or guaranteed by sovereigns, central banks or multinational development banks	177 733	154 335
Covered bonds	544 188	494 479
Issued by other institutions	544 188	494 479
Securities issued by financial corporates (excl. Covered bonds)	0	0
Total	2 902 776	2 594 885

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 combined buffer including a capital conservation buffer and a countercyclical capital buffer. The purpose of this buffer is to serve as a cushion to absorb losses in periods of stress. 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 and the countercyclical capital buffer are set at 2.5% and 2.0% of the risk-weighted exposure amounts, respectively. Both buffers shall be covered with CET1.