Periodical information

Capital adequacy and liquidity risk Q3 2019

This report provides information about capital adequacy and liquidity for Bluestep Bank. The information published herein satisfies the regulatory requirements for disclosure applicable to Bluestep Bank and allows market participants, including analysts, partner banks, investors and customers to assess Bluestep Bank from a risk, capital and liquidity perspective.

Regulatory context

This report is made in accordance with the disclosure requirements for credit institutions and investment firms set out in Part Eight of the Capital Requirements Regulation ("**CRR**") along with provisions in the Swedish transposition of the Capital Requirements Directive ("**CRD IV**") and relevant rules issued by the Swedish Financial Supervisory Authority (the "**SFSA**").[1]

The CRR and the CRD IV are the legislative instruments by which the international Basel III framework has been implemented in the European Union. This framework consists of three "pillars":

Pillar I

Sets out minimum capital requirements, by providing rules for the measurement of credit risk, credit valuation adjustment risk, market and operational risks.

Pillar II

Establishes a process for assessing capital adequacy in relation to the Bank's actual risk profile and for determining whether additional capital is required to cover these risks. This is achieved through the Internal Capital and Liquidity Adequacy Assessment Process ("**ICLAAP**"), and the requirement for the SFSA to undertake a supervisory review to assess the robustness of the Bank's assessment and capabilities.

Pillar III

Supports market discipline with a comprehensive suite of disclosure requirements.

Scope of application

According to the CRR, Bluestep Bank AB (publ) ("**BBAB**" or the "**Bank**") is an institution conducting business in Sweden and in Norway through its branch Bluestep Bank AB (publ), Filial Oslo.

BBAB is included in a financial group (the "**Financial Group**") for prudential reporting purposes. Bluestep Holding AB is the ultimate parent company in the Financial Group and the information disclosed in this report is therefore on the basis of Bluestep Holding AB's consolidated situation. The following companies are included in the Financial Group: BBAB, Bluestep Finans Funding No 1 AB, Bluestep Servicing AB, Bluestep Mortgage Securities No 2 DAC (listed)[2], Bluestep Mortgage Securities

[1] Regulation (EU) No 575/2013, The special supervision of credit institutions and investment firms act (2014:968), Regulations (FFFS 2014:12) regarding supervisory requirements and capital buffers, Regulations (FFFS 2010:7) regarding management of liquidity risks in credit institutions and investment firms.

[2] Since February 2019, Bluestep Mortgage Securities NO 2 DAC (listed) is a dormant company with no activity and will be liquidated during 2019.

No 3 DAC (listed), and Bluestep Mortgage Securities No 4 DAC (listed). All entities are subject to full consolidation.

Date and frequency of disclosure

Pillar 3 disclosures are provided on a quarterly basis. This report reflects the situation of the Financial Group as of 30th September 2019.

This report is published on the Bank's website: www.bluestepbank.se

Bluestep.

Capital adequacy position

This section summarises the own funds and liquidity situation of the Financial Group, as well as information about the methodology, requirements and conclusions reported to the SFSA as part of the quarterly COREP reporting and the annual ICLAAP.

Own funds and capital adequacy as per 30 September 2019

Own funds and its composition as of the end of September 2019 and December 2018 are shown in the table below.

Own funds at the Financial Group level

Own Funds (all amounts in thousand SEK, except %)	Amount at 30-Sep-2019	Amount at 31-Dec-2018
Common Equity Tier 1 (CET1) capital: instruments and reserves		
Capital instruments and the related share premium accounts	4,477,416	4,477,416
of which: instrument type 1	*4,477,416*	*4,477,416*
Retained earnings	144,835	-4,069
Independently reviewed interim profits net of any foreseeable charge or dividend	117,481	148,904
Common Equity Tier 1 (CET 1) capital before regulatory adjustments	**4,739,732**	**4,622,251**
CET1 capital: regulatory adjustments		
Intangible assets (net of related tax liability) (-)	-3,346,176	-3,319,201
Total regulatory adjustments to CET1	**-3,346,176**	**-3,319,201**
CET1 capital	**1,393,556**	**1,303,050**
Additional Tier 1 (AT1) capital: instruments		
AT 1 capital before regulatory adjustments	-	-
AT1 capital: regulatory adjustments		
Total regulatory adjustments to AT1 capital	-	-
AT1 capital	-	-
Tier 1 capital (T1= CET1 + AT1)	**1,393,556**	**1,303,050**
Tier 2 (T2) capital: instruments and provisions		
T2 capital before regulatory adjustments	-	-
T2 capital: regulatory adjustments		
Total regulatory adjustments to T2 capital	-	-
Tier 2 capital	-	-
Total capital (TC = T1 + T2)	**1,393,556**	**1,303,050**
Total risk weighted assets	**8,232,740**	**7,466,357**
Capital ratios and buffers		
CET1 (as a % of total risk exposure amount)	*16.93%*	*17.45%*
T1 (as a % of total risk exposure amount)	*16.93%*	*17.45%*
TC (as a % of total risk exposure amount)	*16.93%*	*17.45%*
Institution specific buffer requirement	*4.81%*	*4.50%*
of which: capital conservation buffer requirement	*2.50%*	*2.50%*
of which: countercyclical buffer requirement	*2.31%*	*2.00%*
of which: systemic buffer requirement	-	-
of which: G-SII or O-SII buffer	-	-
CET1 available to meet buffers (as a % of risk exposure amount)	*8.93%*	*9.45%*

Capital requirements as per 30 September 2019

The Financial Group's total capital requirements consist of three elements:

Pillar I minimum capital requirements

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

1. BBAB uses the standardised approach in calculating the credit risk exposures and capital requirements. Credit risk is calculated on all assets items.

2. The capital requirements 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 requirements for operational risks are calculated using the standardised approach.
4. Capital requirements for credit valuation adjustment risk ("**CVA**") are calculated using the standardised approach and relate to positions in OTC derivatives.

Additional requirements under Pillar II

In addition to the statutory minimum capital requirements, credit institutions are expected to make their own assessments of their risks and capital requirements, the so called ICLAAP. Within the ICLAAP, stress tests are performed to analyse the capital requirements 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 requirements.

The SFSA 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 ("**SREP**").

Combined buffer requirements

In addition to the capital requirements under Pillar I and Pillar II, all institutions covered by the CRR/CRD IV need to hold extra capital in form of a combined capital buffer. The purpose of this buffer is to serve as a cushion to absorb losses in periods of financial stress. 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 combined buffer requirement shall be met with Common Equity Tier 1 ("**CET1**") capital. If the buffer requirement is not fulfilled restrictions apply on payment of dividends and bonuses.

The combined buffer requirement refers to total CET1 capital required to meet the requirement for the capital conservation buffer ("**CCB**") extended by the following, as applicable:

a) an institution-specific countercyclical capital buffer ("**CCyCB**");

b) a G-SII buffer, not applicable to Bluestep;

c) an O-SII buffer, not applicable to Bluestep; and,

d) a systemic risk buffer, not applicable to Bluestep.

As of the end of September of 2019, Bluestep had relevant credit exposures in Sweden and Norway, and the CCyCB factors applied in the jurisdictions were 2.5% (Sweden) and 2.0% (Norway) respectively of the risk exposures amounts. The table below shows the combined buffer requirement at Financial Group level.

Combined buffers requirement at Financial Group level

Capital buffers requirement (all amounts in thousand SEK)	Amount
Combined buffer requirement	**395,862**
Capital conservation buffer	205,818
Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State	-
Institution specific countercyclical capital buffer	190,043
Systemic risk Sum of long and short positions of trading book exposures for standardised approaches	-
Global Syster Value of trading book exposures for internal models	-
Other Systemically Important Institution buffer	-

Combined capital requirements

As a result of applying the methods described in the CRR, the risk weighted exposures amounts ("**REAs**") are those shown in tables below, Capital requirements resulting from these REAs and Pillar 2 needs.

Risk weighted exposure amounts for the Financial Group

Risk Weighted Exposure Amount (all amounts in thousand SEK)	Exposure Amounts at 30-Sep-2019	Exposure Amounts at 31-Dec-2018
TOTAL RISK EXPOSURE AMOUNT	**8,232,740**	**7,466,357**
RISK WEIGHTED EXPOSURE AMOUNTS FOR CREDIT, COUNTERPARTY CREDIT AND DILUTION RISKS AND FREE DELIVERIES	6,895,068	6,266,447
Standardised Approach (SA)	6,895,068	6,266,447
SA exposure classes excluding securitisation positions	*6,895,068*	*6,266,447*
Institutions	543,355	459,049
Corporates	-	-
Retail	782,112	748,765
Secured by mortgages on immovable property	5,160,466	4,730,365
Exposures in default	273,328	236,054
Covered bonds	54,030	52,672
Claims on institutions and corporates with a short-term credit assessment	-	-
Other items	81,776	39,541
Securitisation positions SA	-	-
TOTAL RISK EXPOSURE AMOUNT FOR POSITION, FOREIGN EXCHANGE AND COMMODITIES RISKS	233,685	157,784
Risk exposure amount for position, foreign exchange and commodities risks under standardised approaches (SA)	233,685	157,784
Foreign Exchange	233,685	157,784
TOTAL RISK EXPOSURE AMOUNT FOR OPERATIONAL RISK (OpR)	1,036,132	880,826
OpR Standardised (STA) / Alternative Standardised (ASA) approaches	1,036,132	880,826
TOTAL RISK EXPOSURE AMOUNT FOR CREDIT VALUATION ADJUSTMENT	67,855	161,301
Standardised method	67,855	161,301

Capital needs including Pillar 2 risks for the Financial Group

	Total capital needs ('000 SEK)
Credit risk and counterparty risk	631,672
- which concentration risk	74,638
- including risks associated with exposure to the Swedish mortgages	237,416
- of which reciprocity in other countries' demands	-
Market risk	31,822
- including interest rate risk arising from non-trading book	13,127
Operational risk	82,891
Pension risk	-
Other	398,817
Diversification effects	-
Total	**1,145,202**

Leverage ratio

The leverage ratio is a key ratio that assesses the ability of BBAB to meets its financial obligations. The table below shows information about the leverage ratio. BBAB shows a healthy leverage ratio level.

Leverage ratio calculation at Financial Group level

Leverage ratio calculation (all amounts in thousand SEK)	
Exposure Values	**Amount / Ratio**
Total Leverage Ratio exposure	16,512,882
Capital	
Tier 1 capital	1,393,556
Leverage Ratio	
Leverage Ratio	8.44%

Liquidity Position

Liquidity risk management

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 are 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 ("**LCR**") and net stable funding ratio ("**NSFR**") among others. Furthermore, liquidity risk is measured under different scenarios, including stress scenarios.

Liquidity planning

BBAB runs different scenarios in order to present and better understand liquidity risk. These scenarios include a base case scenario and four stress scenarios which assume that inflow from deposits ceases. The four stress scenarios apply different assumptions on withdrawal of instant access deposits.

The Liquidity Risk policy also includes a liquidity contingency funding plan in which available funding sources are analysed depending on the severity of the events that can drive the company to a shortage of liquidity breaching the limits imposed in the liquidity indicators.

Liquidity metrics per 30 September 2019

As of the end of September 2019, as shown in the table below, the Financial Group had an LCR of 293%, above the minimum LCR requirement of 100% as established in the CRR for 2018.

Liquidity coverage ratio at Financial Group level

Liquidity Coverage Ratio ('000 SEK)	Sep-19	Dec-18
Liquidity Coverage Ratio	**293%**	**324%**
High quality liquid assets	785,815	673,152
Total Outflows	1,071,506	832,043
Outflows from retail deposits	962,750	831,406
Other outflows	108,756	637
Total inflows (Max 75% of total outflows)	803,630	624,032
Inflows from retail customers, lending activities	211,374	200,663
Other inflows	2,091,637	1,520,989

The table below shows the composition of the liquidity reserve as of the end of September 2019.

Liquidity reserve at Financial Group level

Liquidity Reserve ('000 SEK)	Sep-19	Dec-18
Cash and balances with central banks	114,167	57,432
Deposits in other banks	2,319,591	1,806,381
Securities issued or guaranteed by sovereigns, central banks or multinational development banks	215,172	170,729
Covered bonds	540,305	526,721
Issued by other institutions	540,305	526,721
Securities issued by financial corporates (excl. Covered bonds)	-	-
Total	**3,189,234**	**2,561,262**