Periodical information

Capital Adequacy and Liquidity Risk Q2 2020

This report provides information about capital adequacy and liquidity for Bluestep Bank AB (publ) ("**BBAB**" or the "**Bank**"). The information published herein satisfies the regulatory requirements for disclosure applicable to BBAB and allows market participants, including analysts, partner banks, investors and customers, to assess BBAB 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 risk and operational risk.

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, BBAB is a credit institute conducting business in Sweden, Norway and Finland through its branches Bluestep Bank AB (publ), Filial Oslo and Bluestep Bank AB (publ), Filial Finland.

BBAB is included in a financial group (the "**Financial Group**") for prudential reporting purposes. Bluestep Holding AB is the ultimate parent company of 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[2], Bluestep Mortgage Securities No 3

[1] Regulations (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 is a dormant company with no activity and is under liquidation.

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

Date and frequency of disclosure

Pillar III disclosures are provided on a quarterly basis. This report reflects the situation of the Financial Group as of 30th June 2020.

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

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 report.

Own funds and capital adequacy as per 30 June 2020

Own funds and its composition as of the end of June 2020 and December 2019 are shown in the table below.

Own funds at the Financial Group level

Own Funds (all amounts in thousand SEK, except %)	Amount at 30-Jun-2020	Amount at 31-Dec-2019
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	354,828	144,835
Independently reviewed interim profits net of any foreseeable charge or dividend	-219,712	209,993
Common Equity Tier 1 (CET 1) capital before regulatory adjustments	**4,612,532**	**4,832,244**
CET1 capital: regulatory adjustments		
Intangible assets (net of related tax liability) (-)	-3,083,992	-3,357,374
Total regulatory adjustments to CET1	**-3,083,992**	**-3,357,374**
CET1 capital	**1,528,540**	**1,474,870**
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)	**1,528,540**	**1,474,870**
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)	**1,528,540**	**1,474,870**
Total risk weighted assets	**7,888,420**	**8,252,345**
Capital ratios and buffers		
CET1 (as a % of total risk exposure amount)	*19.38%*	*17.87%*
T1 (as a % of total risk exposure amount)	*19.38%*	*17.87%*
TC (as a % of total risk exposure amount)	*19.38%*	*17.87%*
Institution specific buffer requirement	*2.88%*	*5.00%*
of which: capital conservation buffer requirement	*2.50%*	*2.50%*
of which: countercyclical buffer requirement	*0.38%*	*2.50%*
of which: systemic buffer requirement	-	-
of which: G-SII or O-SII buffer	-	-
CET1 available to meet buffers (as a % of risk exposure amount)	*11.38%*	*9.87%*

[3] Since May 2020, Bluestep Mortgage Securities NO 3 DAC is a dormant company with no activity and is under liquidation.

Capital requirements as per 30 June 2020

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 SFSA's regulations regarding 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 is 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. Since May 2020, the capital requirement for operational risks is calculated by using the alternative standardised approach. Previous, the standardised approach was used for calculating the capital requirement. Using the alternative standardised approach means that the capital requirement is 12% of the average of the relevant indicator for the last three fiscal years mapped under the retail banking activity.
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 requirement, credit institutions are expected to make their own assessments of their risks and capital requirements in the ICLAAP under Pillar II. Within the ICLAAP, BBAB performs stress tests to analyse the capital requirement 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.

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 review and evaluation process ("**SREP**").

Combined buffer requirements

In addition to the capital requirements under Pillar I and Pillar II, all credit institutions need to hold extra capital in form of a 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**"). 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 the Bank);

c) an O-SII buffer (not applicable to the Bank); and,

d) a systemic risk buffer (not applicable to the Bank).

As of the end of June of 2020, the Bank had relevant credit exposures in Sweden and Norway, and the CCyCB factors applied in the jurisdictions were 0.0% (Sweden), 1.0% (Norway) and 0.0% (Finland) 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	**227,411**
Capital conservation buffer	197,211
Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State	-
Institution specific countercyclical capital buffer	30,200
Systemic risk bı Sum of long and short positions of trading book exposures for standardised approaches	-
Global Systemi‹ Value of trading book exposures for internal models	-
Other Systemically Important Institution buffer	-

Combined capital requirements

Applying the methods described in the CRR, the capital requirements resulting from the risk exposures amounts (“**REAs**”) and Pillar II needs are shown in tables below.

Risk weighted exposure amounts for the Financial Group

Risk Weighted Exposure Amount (all amounts in thousand SEK)	Exposure Amounts at 30-Jun-2020	Exposure Amounts at 31-Dec-2019
TOTAL RISK EXPOSURE AMOUNT	**7,888,420**	**8,252,345**
RISK WEIGHTED EXPOSURE AMOUNTS FOR CREDIT, COUNTERPARTY CREDIT AND DILUTION RISKS AND FREE DELIVERIES	6,990,552	6,889,128
Standardised Approach (SA)	6,990,552	6,889,128
SA exposure classes excluding securitisation positions	*6,990,552*	*6,889,128*
Institutions	530,541	403,432
Corporates	-	-
Retail	658,040	769,658
Secured by mortgages on immovable property	5,346,932	5,260,721
Exposures in default	315,783	306,754
Covered bonds	35,587	53,406
Claims on institutions and corporates with a short-term credit assessment	-	-
Equity	10,750	-
Other items	92,919	95,156
Securitisation positions SA	-	-
TOTAL RISK EXPOSURE AMOUNT FOR POSITION, FOREIGN EXCHANGE AND COMMODITIES RISKS	71,100	259,647
Risk exposure amount for position, foreign exchange and commodities risks under standardised approaches (SA)	71,100	259,647
Foreign Exchange	71,100	259,647
TOTAL RISK EXPOSURE AMOUNT FOR OPERATIONAL RISK (OpR)	774,574	1,036,132
OpR Standardised (STA) / Alternative Standardised (ASA) approaches	774,574	1,036,132
TOTAL RISK EXPOSURE AMOUNT FOR CREDIT VALUATION ADJUSTMENT	52,194	67,439
Standardised method	52,194	67,439

Capital needs including Pillar II risks for the Financial Group

	Total capital needs ('000 SEK)
Credit risk and counterparty risk	640,195
- of which concentration risk	76,775
- of which risks associated with exposure to Swedish mortgages	249,030
- of which reciprocity of other countries' demands	-
Market risk	25,895
- of which interest rate risk arising from operations from non-trading book	20,207
Operational risk	61,966
Pension risk	-
Other	225,098
Diversification effects	-
Total	**953,154**

Leverage ratio

The leverage ratio is a key ratio that assesses the ability of the Bank to meets its financial obligations. The table below shows information about the leverage ratio which 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	19,977,465
Capital	
Tier 1 capital	1,528,540
Leverage Ratio	
Leverage Ratio	7.65%

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 Risk Management function performs 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 and Finance 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 and Finance 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 BBAB to a shortage of liquidity breaching the limits imposed in the liquidity indicators.

Liquidity metrics per 30 June 2020

As of the end of June 2020, as shown in the table below, the Financial Group had an LCR of 338%, above the minimum LCR requirement of 100% as established in the CRR for 2020.

Liquidity coverage ratio at Financial Group level

Liquidity Coverage Ratio ('000 SEK)	Jun-20	Dec-19
Liquidity Coverage Ratio	**338%**	**361%**
High quality liquid assets	939,495	926,911
Total Outflows	1,112,042	1,028,068
Outflows from retail deposits	955,603	918,162
Other outflows	156,438	109,906
Total inflows (Max 75% of total outflows)	834,031	771,051
Inflows from retail customers, lending activities	190,655	218,025
Other inflows	1,924,727	1,560,479

The table below shows the composition of the liquidity reserve as of the end of June 2020.

Liquidity reserve at Financial Group level

Liquidity Reserve	Jun-20	Dec-19
Cash and balances with central banks	308,789	266,018
Deposits in other banks	2,323,427	1,681,714
Securities issued or guaranteed by sovereigns, central banks or multinational development banks	330,337	209,405
Covered bonds	355,873	534,058
Issued by other institutions	355,873	534,058
Securities issued by financial corporates (excl. Covered bonds)	-	-
Total	**3,318,426**	**2,691,195**