# Periodical information

# Capital Adequacy and Liquidity Risk Q3 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 the Bank and allows market participants, including analysts, partner banks, investors and customers, to assess the 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.

The 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 and evaluation of the robustness of the Bank's assessment and capabilities.

Pillar III

Supports market discipline with a comprehensive suite of disclosure requirements.

## Scope of application

BBAB is a credit institute conducting business in Sweden, Norway and Finland through its branches Bluestep Bank AB, filial Oslo and Bluestep Bank AB, filial i Finland.

BBAB is included in a financial group (the "**Financial Group**"). 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

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

Mortgage Securities No 2 DAC[2], Bluestep Mortgage Securities No 3 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 September 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 September 2020

Own funds and its composition as of the end of September 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-Sep-20 | Amount at 31-Dec-19 |
|---|---|---|
| **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 | -174,393 | 209,993 |
| **Common Equity Tier 1 (CET 1) capital before regulatory adjustments** | **4,657,851** | **4,832,244** |
| **CET1 capital: regulatory adjustments** | | |
| Intangible assets (net of related tax liability) (-) | -3,082,053 | -3,357,374 |
| **Total regulatory adjustments to CET1** | **-3,083,165** | **-3,357,374** |
| **CET1 capital** | **1,574,686** | **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)** | **1,574,686** | **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)** | **1,574,686** | **1,474,870** |
| **Total risk weighted assets** | **8,454,634** | **8,252,345** |
| **Capital ratios and buffers** | | |
| CET1 (as a % of total risk exposure amount) | *18.63%* | *17.87%* |
| T1 (as a % of total risk exposure amount) | *18.63%* | *17.87%* |
| TC (as a % of total risk exposure amount) | *18.63%* | *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) | *10.63%* | *9.87%* |

### Capital requirements as per 30 September 2020

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

[2] Since February 2019, Bluestep Mortgage Securities NO 2 DAC is a dormant company with no activity and is under liquidation.

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

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## Pillar I minimum capital requirements

The calculation of the minimum capital requirements is performed based on the following:

- For credit risk, the standardised approach is used and covers all asset items.
- For foreign exchange risk, the standardised approach is used. This covers 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.
- For operational risk, the alternative standardised approach is used since May 2020. 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.
- For credit valuation adjustment risk ("**CVA**"), the standardised approach is used and relates to positions in OTC derivatives.

## Additional requirements under Pillar II

In addition to the statutory minimum capital requirement, the Bank make its own assessments of the risks and capital requirements in the ICLAAP under Pillar II. Within the ICLAAP, stress tests are performed 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, analyses are made of the Bank's total capital requirements and a plan to maintain the desired capital level.

The SFSA reviews and evaluates the risk management and performs controls to ensure that sufficient capital is held for the significant risks that the Bank 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, the Bank holds extra capital in form of capital buffer. The purpose of this buffer is to serve as a cushion to absorb losses in periods of financial stress. 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 September 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** | **243,136** |
| Capital conservation buffer | 211,366 |
| Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State | - |
| Institution specific countercyclical capital buffer | 31,771 |
| 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

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-Sep-20 | Exposure Amounts at 31-Dec-19 |
|---|---|---|
| **TOTAL RISK EXPOSURE AMOUNT** | **8,454,634** | **8,252,345** |
| RISK WEIGHTED EXPOSURE AMOUNTS FOR CREDIT, COUNTERPARTY CREDIT AND DILUTION RISKS AND FREE DELIVERIES | 7,289,594 | 6,889,128 |
| Standardised Approach (SA) | 7,289,594 | 6,889,128 |
| *SA exposure classes excluding securitisation positions* | *7,289,594* | *6,889,128* |
| Institutions | 776,054 | 403,432 |
| Corporates | - | - |
| Retail | 592,863 | 769,658 |
| Secured by mortgages on immovable property | 5,457,170 | 5,260,721 |
| Exposures in default | 330,342 | 306,754 |
| Covered bonds | 35,376 | 53,406 |
| Claims on institutions and corporates with a short-term credit assessment | - | - |
| Equity | 10,750 | - |
| Other items | 87,039 | 95,156 |
| *Securitisation positions SA* | - | - |
| TOTAL RISK EXPOSURE AMOUNT FOR POSITION, FOREIGN EXCHANGE AND COMMODITIES RISKS | 338,388 | 259,647 |
| Risk exposure amount for position, foreign exchange and commodities risks under standardised approaches (SA) | 338,388 | 259,647 |
| Foreign Exchange | 338,388 | 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 | 52,079 | 67,439 |
| Standardised method | 52,079 | 67,439 |

Capital needs including Pillar II risks for the Financial Group

| | Total capital needs ('000 SEK) | % of RWA |
|---|---|---|
| **Credit risk and counterparty risk** | 669,460 | 7.9% |
| - of which concentration risk | 82,126 | 1.0% |
| - of which risks associated with exposure to Swedish mortgages | 254,288 | 3.0% |
| - of which reciprocity of other countries' demands | - | - |
| **Market risk** | 54,603 | 0.6% |
| - of which interest rate risk arising from operations from non-trading book | 27,532 | 0.3% |
| **Operational risk** | 61,966 | 0.7% |
| **Pension risk** | - | - |
| **Other** | 244,008 | 2.9% |
| **Diversification effects** | - | - |
| **Total** | **1,030,037** | **12.2%** |

## 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 | 21,475,220 |
| **Capital** | |
| Tier 1 capital | 1,574,686 |
| **Leverage Ratio** | |
| Leverage Ratio | 7.33% |

## 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. 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 Liquidity and Finance Policy.

Measurement and reporting of liquidity risk are performed on a daily basis and reported to the 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

Different scenarios are run 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 the Bank to a shortage of liquidity breaching the limits imposed in the liquidity indicators.

### Liquidity metrics per 30 September 2020

As of the end of September 2020, as shown in the table below, the Financial Group had an LCR of 341%, which is well above the minimum LCR requirement of 100% established in the CRR for 2020.

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### Liquidity coverage ratio at Financial Group level

| Liquidity Coverage Ratio ('000 SEK) | 30-Sep-20 | 31-Dec-19 |
|---|---|---|
| **Liquidity Coverage Ratio** | **341%** | **361%** |
| High quality liquid assets | 989,991 | 926,911 |
| Total Outflows | 1,160,966 | 1,028,068 |
| Outflows from retail deposits | 1,121,159 | 918,162 |
| Other outflows | 39,807 | 109,906 |
| Total inflows (Max 75% of total outflows) | 870,724 | 771,051 |
| Inflows from retail customers, lending activities | 190,463 | 218,025 |
| Other inflows | 3,315,630 | 1,560,479 |

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

### Liquidity reserve at Financial Group level

| Liquidity Reserve | 30-Sep-20 | 31-Dec-19 |
|---|---|---|
| Cash and balances with central banks | 263,449 | 266,018 |
| Deposits in other banks | 3,556,968 | 1,681,714 |
| Securities issued or guaranteed by sovereigns, central banks or multinational development banks | 430,275 | 209,405 |
| Covered bonds | 353,760 | 534,058 |
| Issued by other institutions | 353,760 | 534,058 |
| Securities issued by financial corporates (excl. Covered bonds) | - | - |
| **Total** | **4,604,452** | **2,691,195** |