Periodical Information on Capital Adequacy and Liquidity Risk Q2 2021

1 Introduction

1.1 Purpose and frequency of disclosure

This report provides information about capital adequacy and liquidity risk as of 30th June 2021 for the consolidated financial group (the "**Financial Group**") of Bluestep Bank AB (publ) ("**BBAB**" or the "**Bank**"). The capital adequacy and liquidity information (**"Pillar III information"**) is disclosed on a quarterly basis, satisfies the regulatory requirements for disclosure, and allows market participants, including analysts, partner banks, investors, and customers, to assess the Bank from a risk, capital and liquidity perspective. This report is published on the Bank's website: www.bluestepbank.com

1.2 Regulatory context

Together with information presented in the Bank's Annual Report, the Bank's Interim Report, and the Bank's website (www.bluestepbank.com), this report complies with the disclosure requirements for credit institutions and investment firms set out in the Swedish banking and finance business Act (2004:297), the Act (2014:968) regarding special supervision of credit institutions and securities companies, the Regulation (2014:993) regarding special supervision and capital buffers, the Swedish Financial Supervisory Authority's (the "**SFSA**") Regulations (FFFS 2014:12) regarding prudential requirements and capital buffers, the SFSA's Regulations (FFFS 2010:7) regarding management of liquidity risk in credit institutions and investment firms, the Regulation (EU) No 575/2013 of the European Parliament of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending regulation (EU) No 648/2012 (the "**CRR**"), and the Commission Implementing Regulation (EU) No 1423/2013 laying down technical standards for the implementation of the capital adequacy requirements applicable to institutions under Regulation (EU) of the European Parliament of the council No 575/2013.

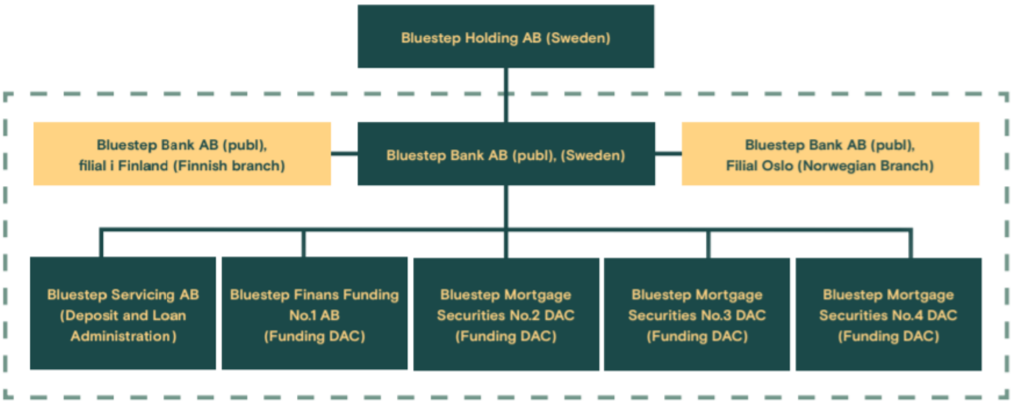
1.3 Scope of application

The Bank is a Nordic specialised mortgage bank conducting business in Sweden, in Norway through its branch Bluestep Bank AB (publ), filial Oslo, and in Finland through its branch Bluestep Bank AB (publ), filial i Finland. The Bank also offers savings accounts with attractive and competitive interest rates in Sweden and Norway. The Bank has no trading book.

BBAB is included in 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 Servicing AB, Bluestep Finans Funding No 1 AB, Bluestep Mortgage Securities No 2 DAC[1], Bluestep Mortgage Securities No 3 DAC[2], and Bluestep Mortgage Securities No 4 DAC (listed). All entities are subject to full consolidation.

The figure below shows the financial and bank group structure.

Figure 1.1 Financial and Bank Group structure



1.4 Exclusion of non-material, proprietary and confidential information

The information in this report is prepared solely to meet the disclosure requirements, and to provide certain specified information about capital adequacy and liquidity risk, and for no other purpose. The disclosures do not constitute any form of financial statements relating to the Financial Group, or any form of contemporary or forward-looking record or opinion about the Financial Group.

In order not to conflict with requirements under accounting standards, and to ease the validation process, the quantitative basis of the disclosures is extracted from the mandated set of reporting explaining the annual financial statements unless otherwise mentioned.

In accordance with Article 432 in the CRR, the Board may choose to omit certain information from publication of this report if the information is deemed immaterial, proprietary, or confidential. These conditions are specified in the regulation as:

- Information is regarded as material if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions.
- Information is regarded as proprietary if disclosing it to the public would undermine the Bank's competitive positions.
- Information is regarded as confidential if the Bank has obligations to customers or other counterparty relationships binding it to confidentiality.

If this would be the case, the Bank will state the fact that the specific items of information are not disclosed.

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

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

2 Capital adequacy position

This section addresses the own funds and capital adequacy 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.

2.1 Own funds

BBAB and the Financial Group shall at all times satisfy Common Equity Tier 1 capital ("**CET1**") ratio of at least 4.5%, Tier 1 capital ratio of at least 6%, total capital ratio of at least 8%, and the institution-specific buffer requirements.

Own funds and its composition as of the 30th of June 2021 and 31st of December 2020 are shown in the table below.

Table 2.1 Own funds for the Financial Group

Own Funds (M SEK)	30-Jun-21	31-Dec-20
Common Equity Tier 1 (CET1) capital: instruments and reserves		
Capital instruments and the related share premium accounts	4,477	4,477
of which: instrument type 1	*4,477*	*4,477*
Retained earnings	229	350
Accumulated other comprehensive income (and other reserves)	-9	-17
Independently reviewed interim profits net of any foreseeable charge or dividend	136	-121
CET 1 capital before regulatory adjustments	**4,834**	**4,689**
CET1 capital regulatory adjustments		***-3,072***
Additional value adjustments (negative amount)	-1	-1
Intangible assets (net of related tax liability) (negative amount)	-3,070	-3,071
CET1 capital	**1,763**	**1,617**
Tier 1 capital (T1= CET1 + AT1)	**1,763**	**1,617**
Total capital (TC = T1 + T2)	**1,763**	**1,617**
Total risk weighted assets	**8,052**	**8,223**
Capital ratios and buffers		
CET1 (as a % of total risk exposure amount)	*21.9%*	*19.7%*
T1 (as a % of total risk exposure amount)	*21.9%*	*19.7%*
TC (as a % of total risk exposure amount)	*21.9%*	*19.7%*
Institution specific buffer requirement	*2.9%*	*2.9%*
of which capital conservation buffer requirement	*2.5%*	*2.5%*
of which countercyclical buffer requirement	*0.4%*	*0.4%*
CET1 available to meet buffers (as a % of risk exposure amount)	*13.9%*	*11.7%*

2.2 Capital requirements

Capital requirements are calculated as risk-based capital requirements, and leverage ratio requirements.

2.2.1 Risk-based capital requirements

The risk-based capital requirements are calculated in accordance with the Swedish Acts, the SFSA Regulations and General Guidelines, and the CRR. The risk-based capital requirements consist of the Pillar I minimum capital requirements, the Pillar II capital requirements, and the combined buffer requirements.

The table below gives an overview of methods used for calculating the risk-based capital requirement.

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Table 2.2 Methods for calculating risk-based capital requirement

Risk-based capital requirement		Method
Pillar I Capital Requirement Minimum Capital Requirement	Credit risk	Standardised Approach
	CVA risk	Standardised Approach
	Market risk	Standardised Approach
	Operational risk	Alternative Standardised Approach
Pillar II Capital Requirement Specific Own Funds Requirement	Concentration risk	SFSA Method
	Interest Rate risk	SFSA Method
	Credit Spread risk	SFSA Method
	Credit risk	Internal Method
	Foreign Exchange Rate risk	Internal Method
	Liquidity risk	Internal Method
	Operational risk	Internal Method
	Business risk	Internal Method
	Strategic risk	Internal Method
Combined Buffer Requirement	Counter-Cyclical Capital Buffer	
	Capital Conservation buffer	

Pillar I minimum capital requirement: The minimum capital requirements for capital adequacy under Pillar I is that own funds shall constitute of at least 8% of the risk weighted assets ("**RWAs**"). The capital adequacy regulations specify a minimum own funds requirement based on RWAs for credit risk, credit valuation adjustment, market risk (foreign exchange risk), and operational risk.

Pillar II capital requirement: Under Pillar II, a process is established for assessing capital adequacy in relation to the risk profile, and for determining whether additional capital is required to cover these risks. As part of the Internal Capital and Liquidity Adequacy Assessment Process ("**ICLAAP**"), material risks are assessed in quantitative as well as qualitative terms, to determine the Pillar II capital requirement. The Pillar II requirement is additional to Pillar I requirement.

Combined buffer requirement: Additional capital buffers is held to absorb losses in periods of financial stress, and shall be met with CET1 capital.

The applicable countercyclical capital buffer ("**CCyCB**") factors are 0% in Sweden and Finland, and 1% in Norway.

The risk-based capital requirement is calculated based on the RWAs. The table below shows the break-down of the RWAs for the Financial Group.

The Bank does not apply credit risk mitigation techniques.

Table 2.3 Risk weighted exposure amounts for the Financial Group

Risk Weighted Assets (M SEK)	30-Jun-21	31-Dec-20
TOTAL RISK WEIGHTED ASSETS	**8,052**	**8,223**
RISK WEIGHTED EXPOSURE AMOUNTS FOR CREDIT, COUNTERPARTY CREDIT AND DILUTION RISKS AND FREE DELIVERIES	**6,795**	**7,087**
Institutions	342	444
Corporates	0	-
Retail	33	558
Secured by mortgages on immovable property	5,953	5,638
Exposures in default	349	324
Covered bonds	25	29
Claims on institutions and corporates with a short-term credit assessment	0	-
Equity	11	11
Other items	82	84
TOTAL RISK EXPOSURE AMOUNT FOR POSITION, FOREIGN EXCHANGE AND COMMODITIES RISKS	**405**	**310**
Foreign Exchange	405	310
TOTAL RISK EXPOSURE AMOUNT FOR OPERATIONAL RISK	**831**	**775**
TOTAL RISK EXPOSURE AMOUNT FOR CREDIT VALUATION ADJUSTMENT	**21**	**52**

The total capital requirements for the Financial Group are shown in the table below.

Table 2.4 Total capital requirements for the Financial Group

Total capital requirements (M SEK)	30-jun-21	31-dec-20
Pillar I capital requirement	**644**	**658**
Pillar II capital requirement	**87**	**82**
of which concentration risk	73	75
of which interest rate risk arising from non-trading book	11	7
of which credit spread risk	3	-
Combined buffer requirement	**235**	**237**
of which capital concervation buffer	201	206
of which countercyclical capital buffer	34	31
Sum capital requirements	**967**	**977**

Totalt capital requirements (% RWA)	30-jun-21	31-dec-20
Pillar I capital requirement	**8,0%**	**8,0%**
Pillar II capital requirement	**1,1%**	**1,0%**
Combined buffer requirement	**2,9%**	**2,9%**
Sum capital requirements	**12,0%**	**11,9%**

It should be noted that compared to the 2020 Annual Report, the Pillar II capital requirement for concentrations risk as of year-end 2020 has been adjusted, resulting in approximately SEK 2m increase of capital requirement.

2.2.2 Leverage ratio requirements

The leverage ratio requirements are calculated in accordance with the Swedish Acts, the SFSAs Regulations and General Guidelines, and the CRR. The leverage ratio is a non-risk-based measure to limit build-up of leverage on the balance sheet. The leverage ratio is calculated as the ratio between Tier 1 capital and the leverage ratio exposure amount, comprising of on- and off-balance sheet exposures.

The table below shows the leverage ratio for the Financial Group, and indicates a sound leverage ratio level.

Table 2.5 Leverage ratio for the Financial Group

Leverage ratio calculation (M SEK)	30-jun-21	31-dec-20
Total Leverage Ratio exposure	20 095	20 375
Tier 1 Capital	1 763	1 617
Leverage Ratio	**8,8%**	**7,9%**

The Bank shall meet a minimum leverage ratio requirement of 3% under the CRR II as of 28 June 2021. The leverage ratio has increased during H1 2021, mainly driven by increased Tier 1 capital, and further enhanced by divestment of the Personal loan portfolio, and lower cash exposure with other credit institutions.

3 Liquidity Position

This section addresses the liquidity situation of the Financial Group.

3.1 Liquidity risk management

The liquidity risk management is based on having sufficient available liquidity and a strong funding base, and the liquidity strategy supports this by having sufficient liquidity reserve (“**LR**”) at all times.

The liquidity risk management strategy specifies how liquidity risks should be managed to not exceed the set risk appetite, risk tolerance and risk limits. The fundamental objective of the liquidity strategy is to ensure that surplus funds should be invested securely in highly liquid instruments. Liquidity is invested in assets compliant under the Liquidity Coverage Ratio (“**LCR**”) definitions at the time of acquisition.

The Head of Treasury is responsible for the day-to-day management of liquidity risk, and identifies, assesses, manages, monitors, controls, and reports liquidity risks for all relevant counterparties, investments and/or funding sources.

Despite the fact that the Bank operates in several countries, the liquidity decisions are cost-based, and the costs are calculated for liquidity and taken into account in the internal pricing and performance measures. The costs for liquidity reflect the current cost of refinancing and the cost incurred to maintain a liquidity reserve.

Assets and liabilities (for on- and off-balance sheet items) are placed into different time-horizons, from one day up to over 18 months. When calculating the efficiency of the liquidity reserve, all net cash outflows are calculated and the cumulative calculated net cash flow value over time determine the maximum time horizon the liquidity buffer could cover such outflows (i.e. survival horizon).

Identified liquidity risks are continuously monitored to ensure that the management and controls of risks are effective, and that the risks and risk profile are within set risk appetite, risk tolerance, and risk limits. The monitoring is mainly performed by daily monitoring of key risk indicators (e.g. LR ratios in relation to retail deposits or total liabilities, deposit in- and outflows etc.) in the Treasury function’s internal models and planning tools and the treasury system. If any of the liquidity ratios falls to a stressed level, the Contingency Funding Team will be notified, the underlying reason for the stressed level identified and appropriate responses implemented as needed.

Control of liquidity risk ensures a sound liquidity risk management. The Treasury function performs own risk controls, and the Risk Management function performs independent controls of liquidity risk including the liquidity risk level and validation of models for liquidity risk.

Sensitivity analysis, stress tests and scenario analysis are performed to manage liquidity under abnormal conditions. Under the stress tests, it is assumed no access to unsecured market financing, and that the general public will make substantial deposit withdrawals. If existing credit facilities are utilised as a part of the funding, undrawn portions of them shall be excluded from the final liquidity calculation. The stress tests are based on the current risk profile, varying degrees of stress and duration and take into consideration both firm-specific and market-related stresses, scenarios should be tested both individually and in combination, and take into consideration intraday liquidity and the need for liquidity for time-critical payments.

3.2 Liquidity planning

The liquidity contingency planning enables rapid responses to mitigate the risks related to the size of liquidity reserve, and addresses the range from low-impact to high-impact events as well as outlining the response to unforeseen liquidity shortfalls. The aim is to enable to take advantage of the most economical funding sources as appropriate to manage the interest rate risk, FX risk and funding costs.

Available funding sources that could be used are, for example, share capital/shareholders contributions, Tier 1 and Tier 2 instruments, retail deposits, issuing covered bonds or senior preferred bonds, contracted credit facilities in secured or unsecured form, placing senior notes (e.g. RMBS) to investors, excess liquidity reserve, and selling alternative assets that the Bank owns.

3.3 Liquidity metrics

The LCR for the Financial Group is shown in the table below, and is well above the regulatory minimum LCR requirement of 100%.

Table 3.1 Liquidity coverage ratio for the Financial Group

Liquidity Coverage Ratio (M SEK)	30-Jun-21	31-Dec-20
Liquidity Coverage Ratio	**463%**	**439%**
High quality liquid assets	1,002	1,076
Total Outflows	866	981
Outflows from retail deposits	822	940
Other outflows	44	41
Total inflows (Max 75% of total outflows)	649	736
Inflows from retail customers, lending activities	199	211
Other inflows	1,197	1,700

The table below shows the composition of the liquidity reserve.

Table 3.2 Liquidity reserve at Financial Group level

Liquidity Reserve (M SEK)	30-Jun-21	31-Dec-20
Cash and balances with central banks	350	402
Deposits in other banks	1,498	1,945
Securities issued or guaranteed by sovereigns, central banks or multinational development banks	445	438
Covered bonds	253	288
Issued by other institutions	253	288
Securities issued by financial corporates (excl. Covered bonds)	-	-
Total	**2,546**	**3,074**

The table below shows the net stable funding ratio ("**NSFR**") with available and required stable funding.

Table 3.3 Net stable funding ratio

Net stable funding ratio (M SEK)	30-Jun-21	31-Dec-20
Net stable funding ratio	**127.4%**	**132.9%**
Available stable funding	17,420	18,268
Required stable funding	13,670	13,745

The table below shows average of LCR, the average of liquidity outflows, inflows and net outflows, and the average total liquid assets after applying the relevant haircuts based on end-of-the month observations over the preceding 12 months.

Table 3.4 Average liquidity coverage ratio and average liquidity outflows, inflows and net liquidity outflows

Liquidity coverage ratio averages over the preceding 12 months (M SEK)	
Liquidity coverage ratio	**413.8%**
Total liquid assets (after haircuts)	1,025
Net liquidity outflows	251
liquidity outflows	1,006
liquidity inflows (before cap, max 75% of outflows)	2,236

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