Periodical Information on Capital Adequacy and Liquidity Risk Q1 2021

1 Introduction

1.1 Purpose

This report provides information about capital adequacy and liquidity risk for the consolidated financial group (“**Financial Group**”) of Bluestep Bank AB (publ) (“**BBAB**” or the “**Bank**”). The information published herein 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.

1.2 Regulatory context

This report complies with the disclosure requirements for credit institutions and investment firms set out in the Act (2014:968) regarding special supervision of credit institutions and securities companies; the Swedish Financial Supervisory Authority’s (“**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 (“**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.

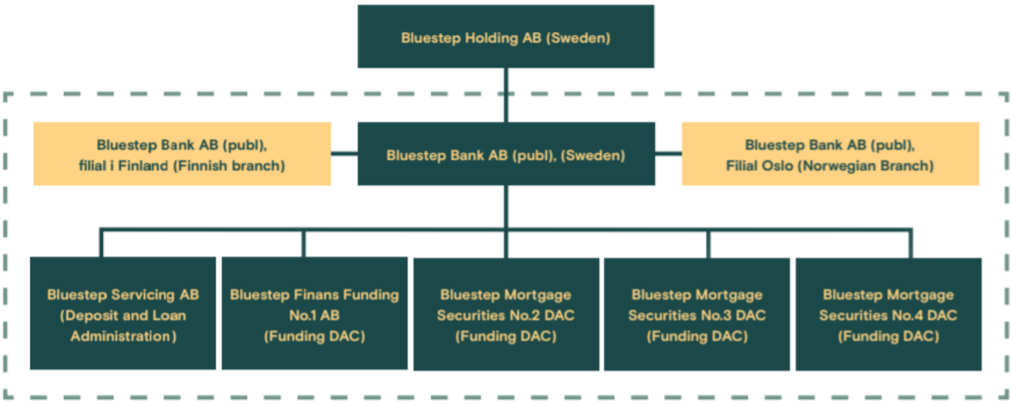
BBAB is included in the Financial Group for prudential reporting purposes. Bluestep Holding AB is the ultimate parent company of the Financial Group, and the information disclosed in this report is therefore on the basis of Bluestep Holding AB’s consolidated situation. The following companies are included 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.

[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.

Figure 1.1 Financial and Bank Group structure



1.4 Date and frequency of disclosure

Pillar III disclosures are provided on a quarterly basis. This report reflects the situation of the Financial Group as of31st March 2021.

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

1.5 Exclusion of non-material, proprietary and confidential information

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.

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. The elements of the own funds shall be classified in accordance with the Supervisory Act, the SFSA's FFFS 2014:12, and the CRR.

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Own funds and its composition as of the 31st of March 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)	31-Mar-21	31-Dec-20
Common Equity Tier 1 (CET1) capital: instruments and reserves	***4,706***	***4,689***
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)	0	-17
Independently reviewed interim profits net of any foreseeable charge or dividend	-	-121
CET1 capital regulatory adjustments	***-3,070***	***-3,072***
Additional value adjustments (negative amount)	-1	-1
Intangible assets (net of related tax liability) (negative amount)	-3,069	-3,071
CET1 capital	**1,636**	**1,617**
Tier 1 capital (T1= CET1 + AT1)	**1,636**	**1,617**
Total capital (TC = T1 + T2)	**1,636**	**1,617**
Total risk weighted assets	**7,916**	**8,223**
Capital ratios and buffers		
CET1 (as a % of total risk exposure amount)	*20.7%*	*19.7%*
T1 (as a % of total risk exposure amount)	*20.7%*	*19.7%*
TC (as a % of total risk exposure amount)	*20.7%*	*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)	*12.7%*	*11.7%*

2.2 Capital requirements

2.2.1 Risk-based capital requirements

2.2.1.1 General

The risk-based capital requirements are calculated in accordance with the Swedish Acts, the SFSAs Regulations, 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 requirements.

Table 2.2 Methods for calculating capital requirements

Risk-based capital requirements		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 risk	Internal Method
	Market (FX) 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	
	Capital Planning Buffer	

Pillar I minimum capital requirements

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 requirements

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. This is achieved through the Internal Capital and Liquidity Adequacy Assessment Process ("**ICLAAP**"). Within the ICLAAP, material risks are assessed in quantitative as well as qualitative terms to determine the Pillar II capital requirements. Pillar II requirements is additional to Pillar I requirements.

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

Combined buffer requirements

Additional capital buffers shall be held to absorb losses in periods of financial stress, and shall be met with CET1 capital. If the buffer requirement is not fulfilled, restrictions apply on payment of dividends and bonuses.

As of the 31st of March of 2021, the Bank had relevant credit exposures in Sweden, Norway and Finland. The Countercyclical capital buffer ("**CCyCB**") factors applied in the jurisdictions were 0.0% in Sweden, 1.0% in Norway and 0.0% in Finland respectively of the risk exposures amounts.

2.2.1.2 Outcome

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)	31-Mar-21	31-Dec-20
TOTAL RISK WEIGHTED ASSETS	**7,916**	**8,223**
RISK WEIGHTED EXPOSURE AMOUNTS FOR CREDIT, COUNTERPARTY CREDIT AND DILUTION RISKS AND FREE DELIVERIES	**6,658**	**7,087**
Institutions	323	444
Corporates	0	-
Retail	27	558
Secured by mortgages on immovable property	5,858	5,638
Exposures in default	318	324
Covered bonds	30	29
Claims on institutions and corporates with a short-term credit assessment	0	-
Equity	11	11
Other items	91	84
TOTAL RISK EXPOSURE AMOUNT FOR POSITION, FOREIGN EXCHANGE AND COMMODITIES RISKS	**375**	**310**
Foreign Exchange	375	310
TOTAL RISK EXPOSURE AMOUNT FOR OPERATIONAL RISK	**831**	**775**
TOTAL RISK EXPOSURE AMOUNT FOR CREDIT VALUATION ADJUSTMENT	**52**	**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)	31-Mar-21	31-Dec-20
Pillar I capital requirement	**633**	**658**
Pillar II capital requirement	**78**	**80**
of which concentration risk	68	73
of which interest rate risk arising from non-trading book	10	7
Combined capital buffer	**231**	**237**
of which capital concervation buffer	198	206
of which countercyclical capital buffer	33	31
Sum capital requirements	**942**	**975**

Totalt capital requirements (% RWA)	31-Mar-21	31-Dec-20
Pillar I capital requirement	**8.0%**	**8.0%**
Pillar II capital requirement	**1.0%**	**1.0%**
Combined capital buffer	**2.9%**	**2.9%**
Sum capital requirements	**11.9%**	**11.9%**

2.2.2 Leverage ratio

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 healthy leverage ratio level.

Table 2.5 Leverage ratio for the Financial Group

Leverage ratio calculation (M SEK)	31-Mar-21	31-Dec-20
Total Leverage Ratio exposure	19,637	20,375
Tier 1 Capital	1,636	1,617
Leverage Ratio	**8.3%**	**7.9%**
Leverage Ratio Requirement (SEK)	*589*	*611*
Leverage Ratio Requirement (%)	*3.0%*	*3.0%*

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 per 31 March 2021

As of the 31st of March 2021, as shown in the table below, the Financial Group had an LCR of 452%, which 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)	31-Mar-21	31-Dec-20
Liquidity Coverage Ratio	**452%**	**439%**
High quality liquid assets	1,047	1,076
Total Outflows	928	981
Outflows from retail deposits	885	940
Other outflows	43	41
Total inflows (Max 75% of total outflows)	696	736
Inflows from retail customers, lending activities	196	211
Other inflows	1,055	1,700

The table below shows the composition of the liquidity reserve as of the 31st of March 2021.

Table 3.2 Liquidity reserve at Financial Group level

Liquidity Reserve (M SEK)	31-Mar-21	31-Dec-20
Cash and balances with central banks	350	402
Deposits in other banks	1,356	1,945
Securities issued or guaranteed by sovereigns, central banks or multinational development banks	452	438
Covered bonds	301	288
Issued by other institutions	301	288
Securities issued by financial corporates (excl. Covered bonds)	-	-
Total	**2,460**	**3,074**