

Periodic Information Q2 2022 on Capital Adequacy and Liquidity

1. Introduction

1.1. Purpose and frequency of disclosure

The report provides information about capital adequacy and liquidity as of 30th of June 2022 for the consolidated situation (the “**Financial Group**”) of Bluestep Bank AB (publ) (“**BBAB**” or the “**Bank**”). The information disclosed satisfies the regulatory requirements for disclosure, and allows market participants, including analysts, partner banks, investors, and customers, to assess the Bank. The 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, the report complies with the disclosure requirements for credit institutions set out in the Swedish Financial Supervisory Authority (the “**SFSA**”) Regulations (FFFS 2014:12) regarding prudential requirements and capital buffers, the SFSA 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 and of the Council on prudential requirements for credit institutions and investment firms (the “**CRR**”), and the Commission Implementing Regulation (EU) 2021/637 laying down implementing technical standards with regard to public disclosures by institutions of the information referred to in Titles II and III of Part Eight of Regulation (EU) No 575/2013.

1.3. Scope of application

Bluestep Holding AB is the ultimate parent company of the Financial Group, and the information disclosed in the 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 DAC¹, Bluestep Mortgage Securities No 3 DAC², and Bluestep Mortgage Securities No 4 DAC³. All entities are subject to full consolidation.

The disclosures should be read on the basis that the Bank and the consolidated situation is classified as “small and non-complex institution” in accordance with point 145 of Article 4(1) of the CRR.

The Bank and the Financial Group have prior permission from the SFSA to include interim profits in Common Equity Tier 1 capital in accordance with Article 26(2) of the CRR.

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.

³ Since May 2022, Bluestep Mortgage Securities No 4 DAC is a dormant company with no activity and is under liquidation.

1.4. Exclusion of non-material, proprietary and confidential information

The information in the 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 financial statements unless otherwise mentioned.

In accordance with Article 432 in the CRR, the Board may choose to omit certain information from publication of the 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

2.1. Risk-based capital requirement

The risk-based Pillar I capital requirement is calculated based on the standardised approach for credit risk, market risk and credit valuation adjustment risk, while the alternative standardised approach is used for operational risk. The risk-based Pillar II capital requirements are, as part of the Internal Capital and Liquidity Adequacy Assessment Process ("ICLAAP"), assessed for concentration risk, interest rate risk, credit spread risk, credit risk, foreign exchange rate risk, liquidity risk, operational risk, business risk, strategic risk, environment, social and governance-related risk, and money laundering and terrorist financing risk. Methods from the SFSA are used for concentration risk, interest rate risk, and credit spread risk, and internal methods are used for the other risks. Combined buffer requirements are held to absorb losses in periods of financial stress, whereof the applicable countercyclical capital buffer ("CCyCB") factors as of reporting period are 0% in Sweden and Finland and 1.5% in Norway.

The risk-based capital requirements for the Financial Group are shown below.

Table 2.1 Risk-based capital requirements

Total capital requirements (M SEK)	30-Jun-22	31-Dec-21
Pillar I capital requirement	704	678
of which credit risk	585	570
of which market risk	46	40
of which operational risk	71	66
of which credit valuation adjustment risk	1	2
Pillar II capital requirement	100	102
of which concentration risk	82	79
of which interest rate risk arising from non-trading book	14	18
of which credit spread risk	4	4
Combined buffer requirement	275	247
of which capital conservation buffer	220	212
of which countercyclical capital buffer	55	35
Sum capital requirements	1,078	1,026

Total capital requirements (% RWA)	30-Jun-22	31-Dec-21
Pillar I capital requirement	8.0%	8.0%
Pillar II capital requirement	1.1%	1.2%
Combined buffer requirement	3.1%	2.9%
Sum capital requirements	12.3%	12.1%

After the reporting period, the final supervisory review and evaluation process (“SREP”) decision from the SFSA was received imposing a risk-based Pillar II capital requirement (“P2R”) of 1.20% of risk weighted assets (“RWAs”), and no Pillar II Guidance (“P2G”), for the Financial Group.

2.2. Leverage ratio requirement

The leverage ratio is a non-risk-based measure to limit build-up of leverage on the balance sheet, and is calculated as the ratio between Tier 1 capital and the leverage ratio exposure amount, comprising of on- and off-balance sheet exposures.

After the reporting period, the final SREP decision from the SFSA was received introducing an additional 0.15% of the leverage exposure amount as P2G for the Financial Group.

3. Liquidity

The section addresses the liquidity situation of the Financial Group.

Table 3.1 Liquidity coverage ratio

Liquidity Coverage Ratio (M SEK)	30-Jun-22	31-Dec-21
Liquidity Coverage Ratio	538%	496%
High quality liquid assets	1 261	1 140
Total Outflows	937	919
Outflows from retail deposits	694	761
Other outflows	279	157
Total inflows (Max 75% of total outflows)	703	689
Inflows from retail customers, lending activities	217	180
Other inflows	1 173	1 027

The table below shows the composition of the liquidity reserve.

Table 3.2 Liquidity reserve

Liquidity Reserve (M SEK)	30-Jun-22	31-Dec-21
Cash and balances with central banks	474	356
Deposits in other banks	1 171	1 164
Securities issued or guaranteed by sovereigns, central banks or multinational development banks	631	552
Covered bonds	205	284
Issued by other institutions	205	284
Securities issued by financial corporates (excl. Covered bonds)	-	-
Total	2 481	2 356

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-22	31-Dec-21
Net stable funding ratio	124.0%	129.6%
Available stable funding	17 941	18 227
Required stable funding	14 467	14 068

The table below shows average LCR, the average liquidity outflows, inflows and net outflows, and the average total liquid assets after applying the relevant haircuts based on end-of-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	441.2%
Total liquid assets (after haircuts)	1 131
Net liquidity outflows	267
liquidity outflows	1 069
liquidity inflows (before cap, max 75% of outflows)	1 376

The LCR for the Financial Group is well above the regulatory minimum LCR requirement of 100%.

4. External funding sources

The section addresses the size and composition of the Financial Group's external funding sources.

The Financial Group aims to have a diversified funding structure in order to limit refinancing risks.

Table 4.1 External funding sources, volumes and relative shares

External funding sources (M SEK)	30-Jun-22	Share (%)
Senior unsecured bonds	2 625	13%
Covered bonds	6 015	31%
Deposits from the public	10 855	56%
Total	19 495	100%

5. Key metrics

Key metrics (EU KM1) is shown below.

The increase in own funds and leverage ratio as of Q2 2022 compared to year-end 2021 is attributable to profits and with the implementation of prudential treatment of capitalised software assets.

Table 5.1 Key metrics (EU KM1)

Key Metrics (SEK M)	30 Jun 2022	31 Mar 2022	31 Dec 2021	30 Sep 2021	30 Jun 2021
Available own funds (amounts)					
1 Common Equity Tier 1 (CET1) capital	1,493	1,515	1,390	1,766	1,763
2 Tier 1 capital	1,493	1,515	1,390	1,766	1,763
3 Total capital	1,493	1,515	1,390	1,766	1,763
Risk-weighted exposure amounts					
4 Total risk exposure amount	8,794	8,874	8,471	8,271	8,052
Capital ratios (as a percentage of risk-weighted exposure amount)					
5 Common Equity Tier 1 ratio (%)	16.97%	17.07%	16.41%	21.35%	21.89%
6 Tier 1 ratio (%)	16.97%	17.07%	16.41%	21.35%	21.89%
7 Total capital ratio (%)	16.97%	17.07%	16.41%	21.35%	21.89%
Additional own funds requirements to address risks other than the risk of excessive leverage					
EU 7a Additional own funds requirements to address risks other than the risk of excessive leverage (%)					
EU 7b of which: to be made up of CET1 capital (percentage points)					
EU 7c of which: to be made up of Tier 1 capital (percentage points)					
EU 7d Total SREP own funds requirements (%)	8.00%	8.00%	8.00%	8.00%	8.00%
Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure)					
8 Capital conservation buffer (%)	2.50%	2.50%	2.50%	2.50%	2.50%
EU 8a Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)					
9 Institution specific countercyclical capital buffer (%)	0.62%	0.42%	0.41%	0.42%	0.42%
EU 9a Systemic risk buffer (%)					
10 Global Systemically Important Institution buffer (%)					
EU 10a Other Systemically Important Institution buffer (%)					
11 Combined buffer requirement (%)	3.12%	2.92%	2.91%	2.92%	2.92%
EU 11a Overall capital requirements (%)	11.12%	10.92%	10.91%	10.92%	10.92%
12 CET1 available after meeting the total SREP own funds requirements (%)	8.97%	9.07%	8.41%	13.35%	13.89%
Leverage ratio					
13 Total exposure measure	21,776	21,900	21,107	20,631	20,095
14 Leverage ratio (%)	6.86%	6.92%	6.59%	8.56%	8.77%
Additional own funds requirements to address the risk of excessive leverage (as a percentage)					
EU 14a Additional own funds requirements to address the risk of excessive leverage (%)					
EU 14b of which: to be made up of CET1 capital (percentage points)					
EU 14c Total SREP leverage ratio requirements (%)	3.00%	3.00%	3.00%	3.00%	3.00%
Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total)					
EU 14d Leverage ratio buffer requirement (%)					
EU 14e Overall leverage ratio requirement (%)	3.00%	3.00%	3.00%	3.00%	3.00%
Liquidity Coverage Ratio					
15 Total high-quality liquid assets (HQLA) (Weighted value -average)	1,261	1,196	1,140	1,046	1,002
EU 16a Cash outflows - Total weighted value	937	949	919	941	866
EU 16b Cash inflows - Total weighted value	1,390	1,355	1,206	1,474	1,396
16 Total net cash outflows (adjusted value)	234	237	230	235	216
17 Liquidity coverage ratio (%)	538.42%	503.91%	496.28%	444.52%	462.65%
Net Stable Funding Ratio					
18 Total available stable funding	17,941	18,474	18,227	17,277	17,420
19 Total required stable funding	14,467	14,744	14,068	13,991	13,670
20 NSFR ratio (%)	124.01%	125.29%	129.56%	123.49%	127.43%

Composition of regulatory own funds (EU CC1) is shown below.

Table 5.2 Composition of regulatory own funds (EU CC1)

<i>Composition of regulatory own funds (SEK M)</i>		30 Jun 2022	31 Dec 2021
Common Equity Tier 1 (CET1) capital: instruments and reserves			
1	Capital instruments and the related share premium accounts <i>of which: Instrument type 1</i> <i>of which: Instrument type 2</i> <i>of which: Instrument type 3</i>	4,451	4,451
2	Retained earnings	-69	-69
3	Accumulated other comprehensive income (and other reserves)	25	28
EU-3a	Funds for general banking risk		
EU-5a	Independently reviewed interim profits net of any foreseeable charge or dividend	72	0
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	4,480	4,410
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	-2	-2
8	Intangible assets (net of related tax liability) (negative amount)	-2,985	-3,019
9	Not applicable		
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	-2,987	-3,020
29	Common Equity Tier 1 (CET1) capital	1,493	1,390
Additional Tier 1 (AT1) capital: instruments			
36	Additional Tier 1 (AT1) capital before regulatory adjustments		
Additional Tier 1 (AT1) capital: regulatory adjustments			
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital		
44	Additional Tier 1 (AT1) capital		
45	Tier 1 capital (T1 = CET1 + AT1)	1,493	1,390
Tier 2 (T2) capital: instruments			
51	Tier 2 (T2) capital before regulatory adjustments		
Tier 2 (T2) capital: regulatory adjustments			
57	Total regulatory adjustments to Tier 2 (T2) capital		
58	Tier 2 (T2) capital		
59	Total capital (TC = T1 + T2)	1,493	1,390
60	Total risk exposure amount	8,794	8,471
Capital ratios and requirements including buffers			
61	Common Equity Tier 1	16.97%	16.41%
62	Tier 1	16.97%	16.41%
63	Total capital	16.97%	16.41%
64	Institution CET1 overall capital requirements	7.62%	7.62%
65	<i>of which: capital conservation buffer requirement</i>	2.50%	2.50%
66	<i>of which: countercyclical capital buffer requirement</i>	0.62%	0.62%
67	<i>of which: systemic risk buffer requirement</i>		
EU-67a	<i>of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer requirement</i>		
EU-67b	<i>of which: additional own funds requirements to address the risks other than the risk of excessive leverage</i>		
68	Common Equity Tier 1 capital (as a percentage of risk exposure amount) available after meeting the minimum capital requirements	8.97%	8.41%