

# Climate report 2021

In accordance with TCFD recommendations

**Bluestep Bank.**

A modern mortgage bank.

## Content

Introduction	1
About TCFD (Task Force on Climate Related Financial Disclosures)	2
The TCFD Framework applied	3
Inclusive banking	3
Governance	3
Strategy	4
Risk management	5
Metrics and target	

# Introduction

TCFD stands for Taskforce on Climate-related Financial Disclosure and is a framework that guides organizations in identifying their climate-related financial risks and opportunities.

The framework focuses on how climate change affects operations, unlike most other standards related to the climate issue which instead highlight the impact of the business on the climate. The TCFD recommendations are based on governance, strategy, risk management, targets and metrics. In these areas, questions are raised about how the business manages and evaluates its climate-related financial risks, both physical and transition risks.

This report focuses on the environmental climate effect on Bluestep Bank AB (publ) ("BBAB" or the "Bank"). The environmental climate-related factors are governed and managed as part of the broader ESG and Sustainability framework at BBAB, and thereby integrated in the overall governance framework.

## The year in brief

To expand our understanding of the financial implications of climate change on Bluestep Bank's operations, Bluestep Bank aims for gradual implementation of the TCFD recommendations and as of April 2021 Bluestep Bank formally signed up as supporters.

In 2021, Bluestep Bank performed its first scenario analysis on the Swedish credit portfolio. The ambition is to in the future to extend the analysis to more geographies and several physical factors.

### Bluestep Bank's climate ambition:

Bluestep Bank strives to align the business strategy to be consistent with and contribute to the Paris Climate Agreement and relevant national frameworks.

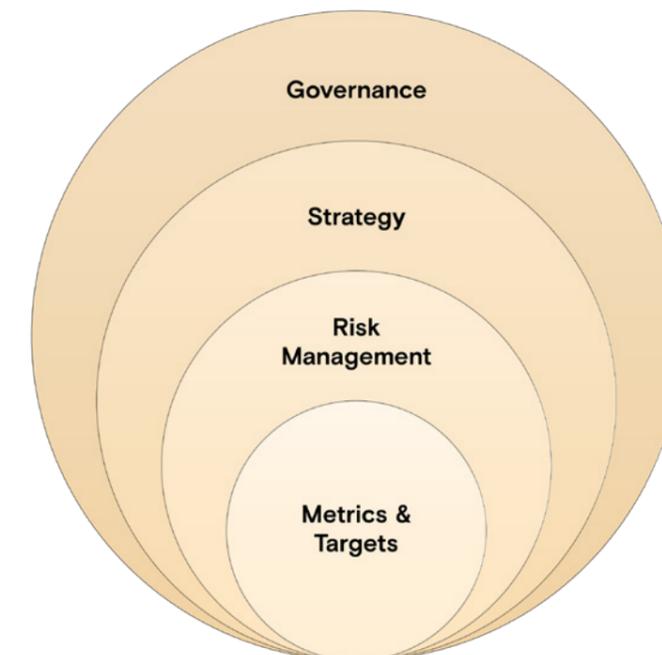
The ambition is to set climate goals in accordance with the methodology for Science based targets [work in progress].

# About TCFD

In December 2015, the Financial Stability Board (FSB) established the industry-led Task Force on Climate-related Financial Disclosures (TCFD or Task Force) to develop climate-related disclosures that "could promote more informed investment, credit [or lending], and insurance underwriting decisions" and, in turn, "would enable stakeholders to understand better the concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks."

TCFD's recommendations are based on four areas that describe how an organization and its activities works:

- Governance - aims to describe the board's and management's overview of climate-related risks and opportunities.
- Strategy - how the organization's strategy and, for example, financial planning can be affected by climate-related risks and opportunities, as well as how the organization works with scenario analyzes.
- Risk management - how the organization's risk management system identifies climate-related risks, and how the organisation handles them.
- Metrics and Targets - which goals and key figures the organization uses of linked to climate-related risks and opportunities, as well as the organisation's climate footprint.



# The TCFD Framework applied

## GOVERNANCE

The section on governance includes describing the organisation governance of climate-related risks and opportunities.

### The Board's oversight of climate-related risks and opportunities.

Within BBAB, the Board is ultimately responsible for ensuring that active and long-term work for sustainable development is conducted within the business. The Board decides on strategy and goals and follows up and evaluates BBAB's sustainability work.

The Bank's sustainability efforts, including ESG risks, are disclosed in the Annual and Sustainability Report, and the Risk Management function is internally reporting ESG risks to the Senior Management Team, the CEO, and the Board, and their respective committees.

### Management's role in assessing and managing climate-related risks and opportunities.

The CEO shall guide and decide on priorities and strategic choices in the sustainability work in accordance with decided business strategy. The CEO ensure that the sustainability work is supported via the appropriate organization and arrangements and will commit the resources necessary to achieve its aims.

The Head of Valuation and Sustainability will lead and coordinate the sustainability work within BBAB. The Head of Valuation and Sustainability will actively work on

BBAB's strategic sustainability work with the CEO and the Board.

In order to best integrate and focus on the sustainability work, BBAB has a Sustainability Forum that meets regularly. The Sustainability Forum assists the Head of Valuation and Sustainability in coordinating, directing and leading the sustainability work within BBAB. The members of the Sustainability Forum are appointed by the Head of Valuation and Sustainability.

However, all persons in senior positions have a responsibility to consider the climate in relation to their different roles.

## STRATEGY

The section on strategy includes describing the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.

Global warming and its effects will most likely worsen over time, which increases the risks for, among other things, the housing stock and the housing financing system and thus Bluestep Bank as a pure mortgage lender with underlying collateral consisting of single-family homes and flats.

As a mortgage lender, Bluestep Bank is primarily exposed to physical risk and some of the most important risks are floods and extreme rainfall. These events are some of the most common natural disasters

affecting homes and some residential areas can eventually become very expensive or non-insurable due to worsening floods and rising sea levels. In recent years, we have seen several examples where the municipal infrastructure is deficient and large costs have arisen as a consequence in extreme weather. New homes in locations close to the beach and a lack of green spaces in cities are increasing the number of homeowners in areas at risk.

An important part of the company's strategy is to measure exposure to climate change and adopt mitigation strategies. The assessment is primarily an impact on LGD (loss-given-default) in the long term in the form of lower market values and a possible impact on PD (probability of default) in the form of higher maintenance and insurance costs.

### Resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

In 2021, Bluestep Bank performed a scenario analysis on the Swedish credit portfolio.

### Methodology

Coordinates were used to pinpoint the properties geographically and then the properties were marked with polygons from MSB's flood portal. Most watercourses from MSB's flood portal contain maximum flow (roughly estimated a 10,000-year flow), 200-year flow and 100-year flow. 200-year flow means that it is the highest



expected flow during a 200-year period. Upperudälven lacks a high flow. Göta älv is based on the flow scenario. Mälaren and the coast are based on rising water levels.

### Result

A total of 338 (3.3%) of the properties are in the highest flow level for their watercourse. The highest flow level for the coast is that the sea level rises 5 meters. For most watercourses, the highest flow level is a roughly estimated 10,000-year flow (ie the highest expected flow over a 10,000-year period). 216 (2.1%) of the properties are at risk of coastal flooding.

The watercourses that have the greatest risks are Helge å, where 25 properties would be affected by the 10,000-year flow, at Svartån, Ljusnan and Dalälven 10 properties would be affected and at Fyriskan 9 properties.

## RISK MANAGEMENT

The section on Risk management includes describing how the organization identifies, assesses, and manages climate-related risks.

### ESG risk management framework

ESG supports the implementation and performance of the business strategy, as well as supports and facilitates the operations, and therefore are considered paramount for to conduct the business.

The ESG risk management aims to ensure that taking of ESG risk is consistent with set risk management strategies, and is integrated into the overall governance, internal control and risk management frameworks. The ESG risk management covers ESG risks the Bank is, or might be, exposed to in the business and the organization in its efforts to achieve set goals for growth, profitability and financial stability. ESG risks are characterized in the context of the business and support functions and the other risk categories in the Bluestep Bank risk universe.

The Bank defines Environmental risk as the risk of economic loss, negative change in earnings or material change in risk profile due to external and internal contribution to climate change, natural resources, pollution and waste.

Environmental risk, as part of the risk universe, is identified, assessed, managed, monitored, controlled and reported as part of the overall risk

management framework, using the same methodology and processes as for operational and other operating-related risks. Potential impact on the viability and sustainability of the business model and long-term resilience of the Bank is thereby assessed.

Identified Environmental risks are at least twice a year assessed qualitatively based on probability and impact, assessed in the ESG Material Assessment, and part of the ICLAAP performance. When identifying and assessing Environmental risks, the risk has been sub-categorized into physical and transitional environmental risks.

- Regarding physical environmental risks, external and internal contribution to climate change, natural resources, pollution and waste, and negative effect on collateral (customers' underlying properties) is considered. Acute (short term) and chronic (long term) physical impact of global warming might make some geographies higher risk.
- Regarding transitional environmental risks, the risk of uncertainty caused by legislation,

policy and societal changes to reduce the impact of climate change is considered. E.g. public policy, technological advancements and market sentiment might lead to activities phased out.

The Environmental risks are limited and mitigated through set risk appetite and risk tolerance, which makes it possible to make well-informed decisions for risk-taking and to ensure awareness and understanding of risk management within the Bank. To mitigate the Environmental risks, there are

measures and tools that could be used for identifying, assessing, managing, monitoring, controlling, documenting and reporting the risks.

#### METRICS AND TARGET

The section on Metrics and Target includes describing the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

Metrics used by the organization to assess climate-related risks and

opportunities in line with its strategy and risk management process.

Bluestep Bank strive to align the business strategy to be consistent with and contribute to the Paris Climate Agreement and relevant national frameworks.

Since 2020, Bluestep Bank has been measuring its climate impact in the form of both direct and indirect emissions. As a next step, the company has now proceeded to determine metrics and targets for climate risks. The work on metrics and targets began in 2021.

### Scope 1, Scope 2, and Scope 3 greenhouse gas (GHG) emissions, and the related risks.

#### Emissions by emission source

Emissions, tonnes CO <sub>2e</sub>	Total		Sweden		Norway		Finland	
	2021	2020	2021	2020	2021	2020	2021	2020
<b>Scope 1</b>								
Owned/leased cars	3.25	4.49	3.25	4.49	0.00	0.00	0.00	0.00
<b>Scope 2</b>								
Electricity consumption	6.15	42.08	6.14	5.93	0.00	36.16	0.00	0.00
Heating	13.81	41.33	10.13	10.81	0.00	22.00	3.68	8.52
District cooling	0.38	0.48	0.38	0.48	0.00	0.00	0.00	0.00
<b>Scope 3</b>								
Water consumption	0.10	0.14	0.07	0.07	0.03	0.07	0.01	0.01
Waste (incl. road freight)	0.35	0.03	0.34	0.02	0.01	0.01	0.01	0.00
IT purchases	98.89	44.70	53.87	17.20	40.71	8.00	4.31	19.50
Paper and printed matter	5.03	6.28	4.98	5.89	0.04	0.34	0.01	0.06
Business travel	22.66	13.36	14.91	7.22	5.57	4.56	2.18	1.58
Hotel nights	5.63	4.72	4.02	1.10	1.40	3.47	0.20	0.16
Commuting	138.11	138.90	81.17	90.40	48.08	40.96	8.86	7.54
Other	4.87	4.33	3.02	3.77	0.91	0.26	0.94	0.30
<b>Total</b>	<b>299.2</b>	<b>300.9</b>	<b>182.3</b>	<b>147.4</b>	<b>96.7</b>	<b>115.8</b>	<b>20.2</b>	<b>37.7</b>
<b>Key figures</b>								
Per employee	1.10	0.99	0.98	0.69	1.40	1.52	1.12	2.69
Per MSEK lent	0.02	0.02	0.02	0.01	0.01	0.02	0.09	0.77
Per square metre (office space)	0.09	0.09	0.07	0.05	0.19	0.23	0.10	0.19



Data from the table show greenhouse gas emissions expressed as tonnes of CO<sub>2</sub> equivalent (CO<sub>2</sub>e, market-based). Bluestep Bank's Greenhouse Gas Protocol Report has been produced in partnership with the environmental consultancy U&We using the tool 'Our Impacts'. The full report is available on [bluestepbank.com](https://bluestepbank.com).

#### Scope 3 - Credit portfolio

Emissions, tonnes CO <sub>2e</sub>	Total	Sweden	Norway
Per MSEK lending	5.44	4.81	6.30
Per employee	335.4	242.2	688.2
Per square metre	0.045	0.038	0.057
<b>Total</b>	<b>95,922</b>	<b>48,438</b>	<b>47,484</b>

The table show greenhouse gas emissions expressed as tonnes of CO<sub>2</sub> equivalent (CO<sub>2</sub>e, market-based). The scope has been the underlying collateral for mortgages in Sweden and Norway (Finland excluded) and calculation has been done in accordance with "PCAF The Global GHG Accounting & Reporting Standard for the financial industry".

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