Bluestep.

Risk Management and Capital Adequacy Report

Q4 2018

Bluestep Bank AB (publ)

Table of Contents

Bluestep.

1 Introduction

1.1 Purpose

This report provides information on the key elements of internal risk management, capital adequacy, liquidity and remuneration for BlueStep Bank. The information published herein, together with certain information in BlueStep's financial statements, satisfies the regulatory requirements for disclosure applicable to BlueStep Bank and allows market participants, including analysts, partner banks, investors, and customers, to assess BlueStep from a risk, capital and liquidity perspective.

1.2 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. This 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 and operational risks.

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 to assess the robustness of the Bank's assessment and capabilities.

Pillar III
Supports market discipline with a comprehensive suite of disclosure requirements.

1.3 Scope of application

According to the CRR, BlueStep Bank AB (publ) ("**BBAB**" or the "**Bank**") is an institution conducting business in Sweden and in Norway through its branch BlueStep Bank AB (publ), Filial Oslo.

BBAB is included in a financial group (the "**Financial Group**") for prudential reporting purposes. BlueStep Holding AB is the ultimate parent company in 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 Financial Group: BBAB, BlueStep Finans Funding No 1 AB, BlueStep Servicing AB, BlueStep Mortgage Securities No 2 DAC (listed), BlueStep Mortgage Securities

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

No 3 DAC (listed), and BlueStep Mortgage Securities No 4 DAC (listed). All entities are subject to full consolidation.[2]

1.4 Basis of preparation

The Board of Directors ("**the Board**") of BBAB has reviewed and approved this report for publication. In this matter, the following terms apply:

- The information in this report is prepared solely to meet the disclosure requirements outlined in Section 1.2 and to provide certain specified information about capital and other risks and details about the management of those risks 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;
- These disclosures are subject to internal review, challenge and approval processes. An audit trail to support disclosures is maintained;
- Wherever possible and relevant, the Board has ensured consistency between these disclosures, reporting under Pillar I requirements and Pillar II ICLAAP content, e.g. information about risk management practices and capital resources at year-end.

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.

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

1.5 Date and frequency of disclosure

This report reflects situation of the Financial Group as of 31st December 2018.

All disclosures herein are made on an annual basis in conjunction with the publication of the BBAB's financial statements.[3] BBAB assesses on an ongoing basis the need to publish any further disclosures more frequently than annually based on the characteristics of its business.

1.6 Exclusion of non-material, proprietary and confidential information

In accordance with the CRR, the Board may choose to omit certain information from publication in 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 position.

[2] The scope of the "BBAB's accounting consolidation" includes all the entities referred to with the exception of BlueStep Holding AB; and, "BBAB's solo level" only includes the bank and its Norwegian branch.

[3] The disclosures regarding own funds, capital requirements and liquidity risk are also made on a quarterly basis in line with the SFSA requirements.

- Information is regarded as confidential if the Bank has obligations to customers or other counterparty relationships binding it to confidentiality.

1.7 Declaration of the management body

BBAB's Board of Directors ensures that the risk management arrangements of the Bank are adequate with regard to its risk profile and strategy. These arrangements are either already implemented or are in the process of implementation as part of an approved action plan. This declaration is based on the reliability of the risk-related information communicated to the Board through the dedicated channels foreseen by the risk governance arrangements. In particular, the Audit, Risk and Compliance Committee ("**ARCCO**") of the Board (see Section 3.4), a sub-committee of the Board, which is the forum where the risk exposures are compared to the Board's risk appetite, and where significant risk events and issues are reported and discussed.

2 Business activities and related risks

2.1 Business overview

BBAB's key business lines are the provision of mortgages to customers in Sweden and Norway who have difficulties in obtaining loans from traditional banks. In addition, BBAB offers savings accounts in Sweden and Norway and consumer loans in Sweden. The Bank's funding is diversified and consists of retail deposits, issued securities (residential mortgage backed securities ("**RMBS**") and senior unsecured bonds) and secured credit facilities.

2.2 Risk identification

The key risks associated with BBAB's business activities are:

2.2.1 Credit risk

Credit risk is the risk of a counterparty failing to meet its obligations. Given the nature of the business, lending to the public, credit risk is the main risk that the Bank faces. Credit losses arise as a consequence of, firstly, defaults due to inability or unwillingness of a customer or a counterparty to meet their commitments in relation to lending (probability of default) and, secondly, the recoveries from the defaulted assets being insufficient to cover the principal, accrued interest and associated costs (loss given default). In addition, credit risk can be reflected as losses via provisions resulting from a reduction in portfolio values arising from actual or perceived deterioration in credit quality.

2.2.2 Operational risk

Operational risk is defined as the risk of economic loss resulting from processes, people, systems and external events. The definition also includes legal risk.

2.2.3 Credit valuation adjustment risk

Credit valuation adjustment risk ("**CVA**") is part of the counterparty credit risk, meaning the risk of a counterparty to a transaction defaulting before the final settlement of the transaction. Specifically, CVA means that an adjustment is made to the mid-market valuation of a portfolio of transactions with counterparties to reflect the current market value of the credit risk of the counterparty but excludes the current market value of the credit risk of the institution to the counterparty.

2.2.4 Market risk

Market risk is the risk that changes in market prices (including foreign exchange rates and interest rates), will affect the Bank's income and/or the value of the financial instruments it holds.

2.2.5 Interest rate in the banking book

Interest rate risk is the risk to earnings or market values of a loan portfolio due to uncertain future interest rates. In particular, the Bank may suffer losses or reduced profits as interest rates fluctuate over time and as both its asset and liability base comprise a mixture of fixed and floating interest rate items of various maturities and resetting periods. The Bank is therefore exposed to the risk of losses arising from adverse movements in market interest rates and its lending and deposits offered.

2.2.6 Concentration risk

Concentration risk is defined as the risk of suffering losses from a lack of diversification and lending too heavily in one industry, market, geographic area or purchasing only one type of financial instrument. Concentration risk can also arise from concentration in funding and liquidity mix.

2.2.7 Liquidity risk

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.

2.3 Effectiveness of hedges and mitigation

2.3.1 Credit risk

The Bank mainly provides residential mortgages in Sweden and Norway and unsecured loans in Sweden, basing its credit strategy on the borrowers' expected ability to repay their debts and credit history. In order to estimate probability of default, the Bank categorises borrowers into different risk grades (both for mortgages and personal loans).

Credit risk is mainly managed through the Bank's credit instructions in which the Bank's risk appetite is defined. Active credit risk management is also achieved through prudent customer selection by the Bank's credit departments, which is part of the first line of defence function within the business. This means that they are responsible for the credit decision process and for adhering to the credit policies and instructions established by the Board. Active credit risk management is also achieved through the collection departments by being responsible for the non-performing loans, i.e. where customers have ceased to service their debt obligations and in so breached their contractual terms and attempt to implore customers to return to orderly payments or take other actions to mitigate the risk of loss.

The performance of the loan books is continuously monitored, and risk drivers analysed, allowing for a better understanding of the underlying risk.

2.3.2 Operational risk

The Bank has a range of measures and tools in place for identifying, evaluating, documenting, controlling and reporting operational risks. During the Bank's history they have been developed into a solid set of policies, instructions, routines and procedures to ensure that staff has the proper competence, training and work experience to maintain the operational risks at an acceptable level in the business.

IT related risks specifically are mitigated through the development of reliable IT-systems with built-in controls, reconciliations, backup procedures and business continuity through contingency plans, continuity plans and disaster recovery plans in the event of a material disruption. The Bank frequently performs tests of continuity management plans.

The day-to-day management of the mortgage loan as well as the personal loan portfolios in Sweden and the administration of deposit accounts for Sweden is outsourced to the Bank's subsidiary Bluestep Servicing ("**BSAB**"). The management of the mortgage portfolio and the administration of deposit accounts for Norway is provided in-house. In order to manage operational risk, the Bank performs regular audits of outsourced business operations and internal controls, as well as their business continuity plans.

2.3.3 Credit valuation adjustment risk

As the Bank uses OTC derivatives for its hedging strategies, the CVA risk is very sensitive to mark-to-market valuations and the terms of the transaction. The Bank frequently assesses and reports CVA exposures. As CVA is a consequence of the hedging activities, and the average term of these activities is below three years, no risk mitigating actions are required.

2.3.4 Market risk

Given its operations in Norway and some funding in EUR, the Bank is exposed to market risk related to changes in foreign exchange rates. The Bank's Treasury function hedges this with derivatives and through currency-matching of liabilities and assets. The Bank has a documented process for managing its market risk exposures in its established policies.

2.3.5 Interest rate risk in the banking book

Following the SFSA's methodology for assessing individual types of risks, exposures to interest rate risk arising as a consequence of interest rate fluctuations are part of the Pillar II capital requirements and the Bank actively manages the risk by matching fixed and floating interest rates and durations of assets and liabilities or, when not possible, by mitigating the risk with hedging instruments. The Bank runs numerous stress scenarios and calculates the interest rate risk exposure under these scenarios. If the exposures breach the limits imposed in the established policy or are close to doing so, the Bank enters into new hedging instruments to reduce the interest rate exposure to within the limits.

While the Bank's Treasury function is responsible maintaining the exposures under the limits established by the Board, the Risk Management function is responsible for monitoring and reporting all aspects of interest rate risk within the Bank, and reports to the Board monthly.

The Bank uses derivative instruments to achieve desired reduction of interest rate risks. Interest rate risks are primarily attributable to fixed rates to a larger extent being applied to lending, whereas financing is to a larger extent conducted at variable rates. The Bank began to apply hedge accounting during 2016 for new derivative transactions.

The Bank measures interest risk exposures on an ongoing basis based on the SFSA's guidance on methods to assess individual risk types under Pillar II. The tables below show the implications for own funds and earning given a positive/negative change in market rates of 200 bps.

	Change	Absolute risk (SEK thousands)	Risk, % of capital base
Increased interest rates	+200bp	26.5	1.94%
Decreased interest rates	-200bp	1.8	0.13%

The calculation assumes that market rates increase/decrease by 200 bps and states the instantaneous change in the economic value for the Bank.

	Change	Absolute risk (SEK thousands)	Risk, % of net interest income
Increased interest rates	+200bp	-18.0	-4.03%
Decreased interest rates	-200bp	-15.0	-3.36%

The calculation assumes that market rates increase/decrease by 200 bps and states the change in the net interest income for the Bank over the next 12 months.

2.3.6 Concentration risk

Since the Bank operates only in Sweden and Norway, and the outstanding loan portfolio mainly consists of secured loans, a certain level of exposure to concentration risk is inherent on the Bank's business model. Concentration risk is one of the core focus areas in customer credit assessment, and the Bank's Risk Management function continuously monitors and assesses the risk to ensure that the risk profile is in line with expectations and managed appropriately. The Risk Manager reports to the Bank's Board monthly and the Board sets the concentration risk limits through the credit risk strategy.

The concentration risk and associated capital requirements have been assessed under three different categories within the capital requirements for Pillar II: individual concentration, industry concentration and geographical concentration. The total capital requirement for the concentration risk is equal to the sum of the three different categories of concentration risk. Based on this, the Bank maintains sufficient capital for the assessed concentration risk.

2.3.7 Liquidity

The Bank has a low liquidity risk appetite and its policy for managing liquidity risk states that the Bank shall retain enough excess liquidity in a liquidity reserve to meet unforeseen cash outflows. The Bank's liquidity reserve is only composed of highly rated liquid securities (government bonds and covered bonds) and bank account balances according to the Bank's liquidity policy. The Board sets the limit for the minimum liquidity reserve and liquidity buffer that the Bank shall maintain at any time.

The Bank is mainly exposed to liquidity risk related to retail deposits and refinancing of issued securities (RMBS and senior unsecured bonds). As the Bank diversifies its funding sources, deposit product features and pricing are designed to maximize their cost/risk efficiency. The Bank's retail deposits from the public, consisting of Swedish and Norwegian deposit products, are covered by the respective country's deposit guarantee scheme, which also reduces liquidity risk.[4] The Bank offers different deposit products depending on the needs of the Bank and market prices, incorporating this risk into its decision making. For further information see Section 5.

[4] Only minor interest amounts (accrued- and capitalized interests) can exceed amounts guaranteed by the deposit guarantee schemes.

3 Risk governance and management

3.1 Corporate governance structure

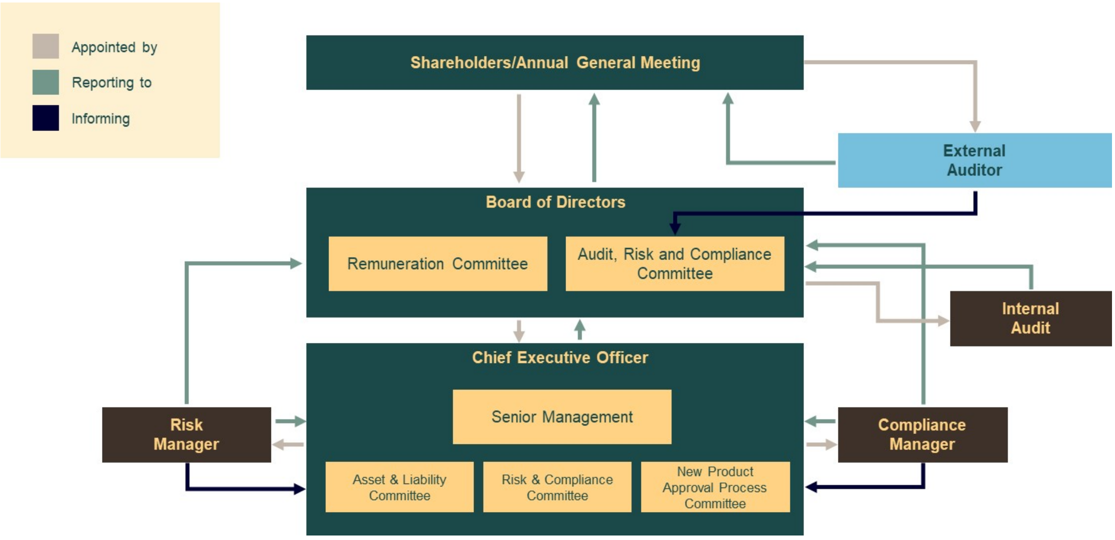
The Board[5]
BBAB has a traditional corporate governance structure with shareholders appointing the Board, the Board in turn appointing a Chief Executive Officer (**CEO**), supplemented with internal and external auditors. The overall responsibility of the Board cannot be delegated; however, certain board committees (the ARCCO) monitor, prepare and evaluate issues in its respective areas for decision by the Board. The ultimate responsibility for the Bank's risk organisation and for the maintenance of good internal control lies with the Board.

The Board members are selected on the basis of skills and experience relevant to an organisation of the Bank's size, complexity and business activities. Due attention is paid to the need to ensure a diverse composition of Board members in order to ensure the Board is capable of making objective judgements and providing effective challenge regarding the running of the business.

CEO
The CEO has the overall responsibility for managing all of BBAB's risks in accordance with Policies and Instructions adopted by the Board. The CEO shall ensure that the organisation and working methods are appropriate and that the business complies with external and internal rules. The CEO also has a special responsibility to present material information concerning BBAB's risks to the Board; however, there are also independent functions for Risk Control and Compliance that report directly to the Board on a monthly basis.

Risk Manager
The Board appoints the Risk Manager as the function responsible for identification, assessment, management, and reporting of risks arising within operations across all businesses and risk types within the organization. The Risk Manager reports to both the Board and the CEO.

Figure 3.1 Risk management governance structure of BBAB



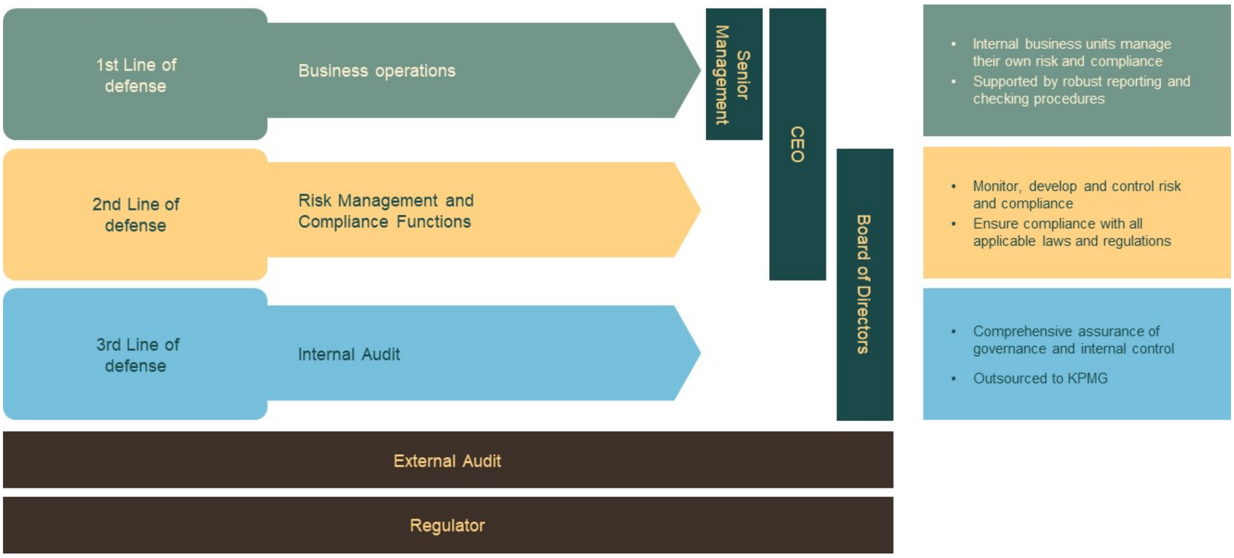
[5] The Board constitutes BBAB's "management body" in the meaning of Article 3.1 (8) CRD IV.

3.2 Risk governance framework

The risk governance framework within BBAB follows the three lines of defense approach. Under this approach:

1. The first line of defense relies on the business units (and departments). They have the primary responsibility for the day-to-day risk management.
2. The second line of defense, represented by Risk and Compliance, assisting in determining risk capacity, risk appetite allocation, strategies, policies and structures for managing risks. They also provide oversight, support, monitoring and reporting, and training.
3. The third line of defense, supported by internal audit. They provide independent and objective assurance on the overall effectiveness of the risk governance framework. BBAB has appointed KPMG to manage the Bank's internal audit function.

Figure 3.2 Risk governance framework



3.3 Risk management framework

The nature of the business requires it to identify, measure, aggregate and manage its risk effectively, and allocate capital appropriately. Risk and capital are managed via a framework of principles, organizational structures and measurement and monitoring processes that are closely aligned with the activities of the business:

- The Board and the CEO provide overall risk and capital management supervision;
- The ARCCO assists the Board in risk management, compliance and audit areas;
- Three committees, the Asset and Liability Committee ("**ALCO**") and the Risk and Compliance Committee ("**RiCO**") support the CEO in risk and balance sheet management while the New Process Approval Process Committee ("**NPAP**") supports the business in the management of new or changed products and processes (including material organisational changes);
- The three-line defense model ensures business management, risk management oversight and assurance roles are played by functions independent of one another;
- Risk strategy and risk appetite are defined based on strategic plans in order to align risk, capital, and performance targets;

- All major risks are managed via risk management processes, including: credit risk, market risk, operational risk, liquidity risk, and interest rate risk;
- Other risks as business risk, strategic risk and reputational risk are assessed and quantified during the ICLAAP process
- Where applicable, modelling and measurement approaches for quantifying risk and capital demand are implemented across the major risk classes; and,
- Effective processes and policies are a critical component of BBAB's risk management capability.

3.4 Roles of risk committees

ARCCO

Assists the Board in its oversight of:

1. the integrity of the Company's financial statements and the financial reporting process, including the system of disclosure controls,
2. the Company's compliance with legal and regulatory requirements,
3. the performance of the Company's internal and external audit functions,
4. the effectiveness of the Company's systems of internal controls and policies and procedures for risk assessment and risk management,
5. the effectiveness of the Company's procedures for risk assessment and risk management of material credit, market, interest rate, liquidity, operational, legal and compliance, and other material risks, and the adequacy of capital available to absorb such risks, and
6. the review and approvals of certain policies delegated by the Board.

During 2018, the ARCCO met on six (6) occasions.

ALCO

Assists the business in the management of balance-sheet related risks. These risks are mainly interest rate risk, liquidity risk, FX risk and credit risk. The ALCO is chaired by the Chief Financial Officer. During 2018, the ALCO met on eleven (11) occasions.

RiCO

Aims to improve and promote a strong risk management culture, processes and controls within BlueStep by assisting the business in the management of operational and compliance risks. RiCO is chaired by the Risk Manager. During 2018, the RiCO met on twelve (12) occasions.

NPAP

Provides the Company with a uniform procedure for the consideration and evaluation of new or changed products and processes (including material organisational changes). NPAP is chaired by the Compliance Manager. During 2018, the NPAP was part of the RiCO meetings until August when it was separated. All together the NPAP met on eleven (11) occasions.

3.5 Risk reporting and measurement systems

The Bank has centralized risk data and systems supporting regulatory reporting, as well as internal management reporting for its main risks. The risk infrastructure provides the basis for tailor-made reporting on risk positions and capital adequacy on a regular and ad-hoc basis. Both Finance and Treasury, as first line, and Risk, as second line, assume responsibility for measurement, analysis and reporting of risk while ensuring sufficient quality and integrity of risk-related data.

The main risk report is the so-called 'Monthly Risk Report' which comprises an overview of the current risk, capital and liquidity situation of the Financial Group incorporating information on regulatory capital and economic capital adequacy. It is presented to the Board and ARCCO by the Risk Manager on a quarterly basis and to the ALCO every month.

In addition to the internal reporting, the Bank files all regulatory reports to the supervisory authorities.

3.6 Relevant policies and instructions

The Bank maintains documented policies and instructions covering all material categories of risk the Bank is exposed to. All policies and instructions are approved by the Board or, if authorised, the ARCCO and are subject to review at least annually. Key policies include:

Risk Policy

The Bank's overarching Risk Policy is approved by the Board and ensures that risk taking decisions are made in an objective, documented, and transparent way; based on the Bank's risk appetite and strategy. The policy is not seeking to eliminate risk-taking behaviour or capital loss, but to ensure that they are controlled and managed within the risk appetite limits, and losses communicated at the right forum, in a prompt manner, which can be traced back to the original capital allocation decision. Additionally, better knowledge of the risk and loss drivers will allow the Bank to improve its overall risk management and business returns for each business line.

The Risk Policy oversees all other policies risk related, as well as the ICLAAP methodology policy, which guidelines the process to be followed during the ICLAAP itself.

Risk Management Policy

The Bank's Risk Management Policy sets the guidelines for the risk management framework. This policy establishes the Board's appointment of the Risk Manager and its mandates, consisting mainly on implementing the Risk Policy.

Credit Instructions and Collections Mandates

These instructions document and define the risk appetite and are the principal means by which lending and collection activities in Sweden and Norway are controlled form a credit risk perspective. Prudent client selection is achieved through the Bank's Credit departments who act as a first line of defence. Active management is also achieved through the Collection departments (collection policies). Finally, performance of the mortgage books is continuously monitored, and risk drivers analysed, allowing for a better understanding of the underlying risk.

Foreign Exchange Rate Risk Policy

The Foreign Exchange Rate Policy approved by the Board provides internal guidance on how exchange rate risks should be managed. The Bank has no trading book thus market risk exposures arise only through non-SEK positions in the banking book (NOK mortgages and EUR RMBS funding).

The Foreign Exchange Rate Policy defines the criteria and the necessary hedging to manage the exposures, sets out the method for calculating FX exposures (in line with CRR) and specifies limits for BBAB's exchange rate risks in terms of capital for individual currencies and total exposure.

Interest Rate Risk Management Policy
The Interest Rate Risk Management Policy approved by the Board sets the guidelines in order to manage interest rate risk in the banking book. The policy follows relevant guidelines from the SFSA and establishes the exposure limits. The Bank actively manages its interest rate exposure in order to be compliant with the policy.

Liquidity Risk Policy
The Banks Liquidity Risk Policy approved by the Board provides guidance on liquidity risk management regarding the Company's funding strategy, its risk appetite, stress tests, investments criteria for liquidity reserve and funding contingency plan.

Operational Risk Policy and Instruction
The Bank's Operational Risk Policy and Instruction approved by the Board establishes the approach to manage operational risks within risk appetite limits defined by the Board of the Bank. In line with the Risk policy, this policy does not seek to eliminate risk-taking behavior or capital loss, but to ensure that they are controlled and managed with losses communicated at the right forum, in a prompt manner, and can be traced back to the original capital allocation decision.

Capital Policy
The Bank's Capital Policy defines the principles and guidelines used by the Bank for capital planning, capital issuance, capital composition and distribution of dividends. The ultimate goal of the policy is to secure the Bank's ability to continue its operations and, thereby, generating returns and benefits for shareholders and other stakeholders.

Recovery Policy
The Recovery Plan Policy approved by the Board defines the procedures to ensure the promptly implementation of recovery actions as well as recovery options. The Recovery Plan contemplates a range of scenarios of macroeconomic and financial stress relevant to the Bank. Recovery plan indicators are monitored and presented in the monthly risk report.

Business Continuity Plans
The Business Continuity Plans ("**BCP**") detail how the Bank, its branch BBNB and its subsidiary BSAB, would continue to operate in the event of a material short or long-term loss or limitation on resources required to operate the business until it is in a position to return to business-as-usual (e.g. in the event of fires, floods, IT-related breakdowns or similar emergencies). The BCPs cover both the contingency and continuity plans. These plans are supplemented with disaster recovery plans for all defined material processes within the business and are included in the Disaster Recovery Plan Instructions approved by the CEO.

4 Capital adequacy position

This section summarises the own funds and liquidity situation of the Financial Group, as well as information the main approaches, requirements and conclusions reported to the SFSA as part of the quarterly COREP reporting and the annual ICLAAP.

4.1 Own funds and capital adequacy per 31 December 2018

Own funds and its composition as of the end of December 2018 and December 2017 are shown in Table 4.1.

Table 4.1 Own funds at Financial Group level

Own Funds (all amounts in thousand SEK, except %)	Amount at 31-Dec-2018	Amount at 31-Dec-2017
Common Equity Tier 1 (CET1) capital: instruments and reserves		
Capital instruments and the related share premium accounts	4,477,416	4,286,573
of which: instrument type 1	*4,477,416*	*4,286,573*
Retained earnings	-4,069	-
Independently reviewed interim profits net of any foreseeable charge or dividend	148,904	9,724
Common Equity Tier 1 (CET 1) capital before regulatory adjustments	**4,622,251**	**4,296,297**
CET1 capital: regulatory adjustments		
Intangible assets (net of related tax liability) (-)	-3,319,201	-3,232,471
Total regulatory adjustments to CET1	**-3,319,201**	**-3,232,471**
CET1 capital	**1,303,050**	**1,063,826**
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)	**1,303,050**	**1,063,826**
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)	**1,303,050**	**1,063,826**
Total risk weighted assets	**7,466,357**	**7,083,786**
Capital ratios and buffers		
CET1 (as a % of total risk exposure amount)	*17.45%*	*15.02%*
T1 (as a % of total risk exposure amount)	*17.45%*	*15.02%*
TC (as a % of total risk exposure amount)	*17.45%*	*15.02%*
Institution specific buffer requirement	*4.50%*	*4.50%*
of which: capital conservation buffer requirement	*2.50%*	*2.50%*
of which: countercyclical buffer requirement	*2.00%*	*2.00%*
of which: systemic buffer requirement	-	-
of which: G-SII or O-SII buffer	-	-
CET1 available to meet buffers (as a % of risk exposure amount)	*9.45%*	*7.02%*

4.2 Capital requirements as per 31 December 2018

The Financial Group's total capital requirements consists of three elements:

4.2.1 Pillar I minimum capital requirement

Calculation of the minimum capital requirement according to Pillar I is performed in accordance with the SFSA's regulations and general guidelines on prudential requirements and capital buffers.

1. BBAB uses the standardised approach in calculating the credit risk. Credit risk is calculated on all asset items.
2. The capital requirement for foreign exchange risks cover all items on the balance sheet and 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.
3. The capital requirement for operational risks is calculated using the standardised approach, in which all business lines within the Company have been designated as retail business whereby the capital requirement is 12% of the average net operating income for the last three fiscal years.
4. Capital requirements for CVA are calculated using the standardised approach and relate to positions in OTC derivatives.

4.2.2 Additional requirements under Pillar II

In addition to the statutory minimum capital requirement, credit institutions are expected to make their own assessments of their risks and capital requirements, the ICLAAP under Pillar II. Within the ICLAAP, BBAB performs stress tests 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, an analysis is made of the institution's total capital requirements and a plan to maintain the capital level. Pillar II requirements will always be beyond Pillar I requirements and together they constitute the Bank's minimum capital requirement.

The SFSA reviews and evaluates risk management and performs controls to ensure that sufficient capital is held for the significant risks that BBAB is exposed to due to its annual supervisory review and evaluation process ("**SREP**").

4.2.3 Combined buffer requirement

In addition to the capital requirements under Pillar I and Pillar II, all institutions covered by the CRR/CRD IV need to hold extra capital in form of a capital buffer. The purpose of this buffer is to serve as a cushion to absorb losses in periods of financial stress. The calculation is performed according to the capital buffers act (2014:966), implementing the capital buffers act (2014:967) and the SFSA's regulations and general guidelines regarding prudential requirements and capital buffers (FFFS 2014:12). The combined buffer requirement shall be met with 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 Bluestep;

c) an O-SII buffer, not applicable to Bluestep; and,

d) a systemic risk buffer, not applicable to Bluestep.

As of the end of December of 2018, Bluestep had relevant credit exposures in Sweden and Norway, and the CCyCB factors applied in both jurisdictions were 2% of total risk exposures amounts. Table 4.2 shows the combined buffer requirement at Financial Group level.

Table 4.2 Combined buffers requirement at Financial Group level

Capital buffers requirement (all amounts in thousand SEK)	Amount
Combined buffer requirement	**335,986**
Capital conservation buffer	186,659
Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State	N/A
Institution specific countercyclical capital buffer	149,327
Systemic risk Sum of long and short positions of trading book exposures for standardised approaches	N/A
Global Syster Value of trading book exposures for internal models	N/A
Other Systemically Important Institution buffer	N/A

4.2.4 Combined capital requirements

As a result of applying the methods described in the CRR, the risk weighted exposures amounts ("**REAs**") are those shown in Table 4.3. Capital requirements resulting from these REAs and Pillar 2 needs are shown in Table 4.4.

Table 4.3 Risk weighted exposure amounts for the Financial Group

Risk Weighted Exposure Amount (all amounts in thousand SEK)	Exposure Amounts at 31-Dec-2018	Exposure Amounts at 31-Dec-2017
TOTAL RISK EXPOSURE AMOUNT	**7,466,357**	**7,083,786**
RISK WEIGHTED EXPOSURE AMOUNTS FOR CREDIT, COUNTERPARTY CREDIT AND DILUTION RISKS AND FREE DELIVERIES	6,266,447	5,926,375
Standardised Approach (SA)	6,266,447	5,926,375
SA exposure classes excluding securitisation positions	*6,266,447*	*5,926,375*
Institutions	459,049	435,761
Corporates	-	-
Retail	748,765	796,391
Secured by mortgages on immovable property	4,730,365	4,417,086
Exposures in default	236,054	188,814
Covered bonds	52,672	49,448
Claims on institutions and corporates with a short-term credit assessment	-	-
Other items	39,541	38,875
Securitisation positions SA	-	-
TOTAL RISK EXPOSURE AMOUNT FOR POSITION, FOREIGN EXCHANGE AND COMMODITIES RISKS	157,784	104,328
Risk exposure amount for position, foreign exchange and commodities risks under standardised approaches (SA)	157,784	104,328
Foreign Exchange	157,784	104,328
TOTAL RISK EXPOSURE AMOUNT FOR OPERATIONAL RISK (OpR)	880,826	773,948
OpR Standardised (STA) / Alternative Standardised (ASA) approaches	880,826	773,948
TOTAL RISK EXPOSURE AMOUNT FOR CREDIT VALUATION ADJUSTMENT	161,301	279,136
Standardised method	161,301	279,136

Table 4.4 Capital needs including Pillar 2 risks for the Financial Group

	Total capital needs ('000 SEK)
Credit risk and counterparty risk	582,452
- which concentration risk	68,232
- including risks associated with exposure to the Swedish mortgages	232,982
- of which reciprocity in other countries' demands	-
Market risk	25,014
- including interest rate risk arising from non-trading book	12,391
Operational risk	70,466
Pension risk	-
Other	335,986
Diversification effects	-
Total	**1,013,918**

4.2.5 Leverage ratio

The leverage ratio is a key ratio that assesses the ability of BBAB to meets its financial obligations. Table 4.5shows information about the leverage ratio. BBAB shows a healthy leverage ratio level.

Table 4.5 Leverage ratio calculation at Financial Group level

Leverage ratio calculation (all amounts in thousand SEK)	
Exposure Values	**Amount / Ratio**
Total Leverage Ratio exposure	14,757,045,677
Capital	
Tier 1 capital	1,303,049,787
Leverage Ratio	
Leverage Ratio	8.83%

5 Liquidity position

5.1 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 within BBAB. The BBAB Risk Manager acts as the central function for 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 BBAB Liquidity Policy.

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

5.2 Liquidity planning

BBAB runs different scenarios 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 Risk 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 Company to a shortage of liquidity breaching the limits imposed in the liquidity indicators.

5.3 Liquidity metrics per 31 December 2018

As of the end of December 2018, as shown in Table 5.1, the Financial Group had a LCR of 324%, above the minimum LCR requirement of 100% as established in the CRR for 2018.

Table 5.1 Liquidity coverage ratio at Financial Group level

Liquidity Coverage Ratio ('000 SEK)	Dec-18	Dec-17
Liquidity Coverage Ratio	**324%**	**268%**
High quality liquid assets	673,152	578,584
Total Outflows	832,043	863,955
Outflows from retail deposits	831,406	762,079
Other outflows	637	101,876
Total inflows (Max 75% of total outflows)	624,032	647,966
Inflows from retail customers, lending activities	200,663	189,398
Other inflows	1,520,989	1,773,830

Table 5.2 shows the composition of the liquidity reserve as of the end of December 2018.

Table 5.2 Liquidity reserve at Financial Group level

Liquidity Reserve ('000 SEK)	Dec-18	Dec-17
Cash and balances with central banks	57,432	42,151
Deposits in other banks	1,806,381	1,903,921
Securities issued or guaranteed by sovereigns, central banks or multinational development banks	170,729	154,335
Covered bonds	526,721	494,479
Issued by other institutions	526,721	494,479
Securities issued by financial corporates (excl. Covered bonds)	-	-
Total	**2,561,262**	**2,594,885**

6 Unencumbered assets

Table 6.1 contains details on the level of encumbered and unencumbered assets of the Financial Group.

Table 6.1 The Financial Group's asset encumbrance

Disclosure on asset encumbrance ('000 SEK)		
Assets		
	Carrying amount of encumbered assets	Carrying amount of unencumbered assets
Assets of the reporting institution	89,079,080	20,665,204,509
Equity instruments	-	-
Debt securities	20,279,080	677,170,077
Other assets	68,800,000	3,600,719,483