

Capital adequacy analysis and liquidity risk

Q3 2016

This report includes information about capital adequacy and liquidity risk. The information is published on a quarterly basis at the BlueStep website. In accordance to the Swedish Financial Supervisory Authority's ("**Swedish FSA**") regulations and general guidelines regarding prudential requirements and capital buffers (FFFS 2014:12), and general guidelines regarding management of liquidity in credit institutions and investment firms (FFFS 2010:7), BlueStep hereby publishes the information on capital adequacy and liquidity risk.

Information on the parent company and the consolidated situation

BlueStep Bank AB (publ) ("**BBAB**", reg. no 556717-5129), with domicile in Stockholm, Sweden, was established in December 2006. The top company in the Financial Group is Luxblue Holdings I Sarl. The following companies are also included in the consolidated Financial Group for capital adequacy reporting purposes: Luxblue Holdings II Sarl, Engblue Holdings Ltd, BlueStep Capital Holdings Ltd, BlueStep Bostadslån AB, BlueStep Finans Funding No 1 AB, BlueStep Servicing AB, BlueStep Mortgage Securities No 2 Ltd (listed), and BlueStep Mortgage Securities No 3 Ltd (listed).

According to European Regulation (EU) 575/2013 on prudential requirements for credit institutions and investment firms ("**CRR**"), BBAB is an institution conducting business in Sweden and in Norway through its branch BlueStep Bank AB (publ), Filial Oslo.

In both Sweden and Norway, BBAB conducts business in the retail market and provides lending to individuals, mainly as home mortgages, personal loans and deposits. Unsecured lending to private individuals is only conducted in Sweden.

The information is disclosed by BBAB on the basis of the consolidated situation of Luxblue Holdings I Sarl (the "**Financial Group**").

Capital Adequacy

In accordance with the CRR and also the Directive 2013/13/EU (“CRD IV”), on 1st January 2014, new EU capital adequacy regulation came into force. CRR includes requirements regarding capital, liquidity and leverage ratio while CRD IV contains new provisions on capital buffers, corporate governance, disclosure of information and the purposes of supervision and sanctions. CRD IV was transposed by Swedish law on 2nd August 2014 through a number of new and revised laws, ordinances and regulations.

Capital adequacy analysis

Own Funds (all amounts in thousand SEK, except %)	Amount at 30-Sep-2016	Amount at 31-Dec-2015
Common Equity Tier 1 (CET1) capital: instruments and reserves		
Capital instruments and the related share premium accounts	601,826	601,826
<i>of which: instrument type 1</i>	601,826	601,826
Retained earnings	350,992	209,393
Independently reviewed interim profits net of any foreseeable charge or dividend	136,906	141,595
Common Equity Tier 1 (CET1) capital before regulatory adjustments	1,089,725	952,815
CET1 capital: regulatory adjustments		
Intangible assets (net of related tax liability) (-)	-214,840	-206,500
Total regulatory adjustments to CET1	-214,840	-206,500
CET1 capital	874,885	746,315
Additional Tier 1 (AT1) capital: instruments		
AT1 capital before regulatory adjustments	0	0
AT1 capital: regulatory adjustments		
Total regulatory adjustments to AT1 capital	0	0
AT1 capital	0	0
Tier 1 capital (T1= CET1 + AT1)	874,885	746,315
Tier 2 (T2) capital: instruments and provisions		
T2 capital before regulatory adjustments	0	0
T2 capital: regulatory adjustments		
Total regulatory adjustments to T2 capital	0	0
Tier 2 capital	0	0
Total capital (TC = T1 + T2)	874,885	746,315
Total risk weighted assets	5,958,711	5,117,050
Capital ratios and buffers		
CET1 (as a % of total risk exposure amount)	14.68%	14.58%
T1 (as a % of total risk exposure amount)	14.68%	14.58%
TC (as a % of total risk exposure amount)	14.68%	14.58%
Institution specific buffer requirement	4.00%	3.50%
<i>of which: capital conservation buffer requirement</i>	2.50%	2.50%
<i>of which: countercyclical buffer requirement</i>	1.50%	1.00%
<i>of which: systemic buffer requirement</i>		
<i>of which: G-SII or O-SII buffer</i>		
CET1 available to meet buffers (as a % of risk exposure amount)	6.68%	6.58%

Risk weighted exposure amount ('000 SEK)

Risk Weighted Exposure Amount (all amounts in thousand SEK)	Exposure amounts at 30-Sep-2016	Exposure amounts at 31-Dec-2015
TOTAL RISK EXPOSURE AMOUNT	5,958,711	5,115,219
RISK WEIGHTED EXPOSURE AMOUNTS FOR CREDIT, COUNTERPARTY CREDIT AND DILUTION RISKS AND FREE DELIVERIES		
Standardised Approach (SA)	4,995,021	4,294,764
<i>SA exposure classes excluding securitisation positions</i>	4,995,021	4,284,090
Institutions	380,922	48,131
Corporates	5,743	8,246
Retail	646,038	518,653
Secured by mortgages on immovable property	3,678,018	3,191,389
Exposures in default	145,698	127,191
Covered bonds	78,607	63,634
Claims on institutions and corporates with a short-term credit assessment	0	238,387
Other items	59,996	88,459
<i>Securitisation positions SA</i>	0	10,673
TOTAL RISK EXPOSURE AMOUNT FOR POSITION, FOREIGN EXCHANGE AND COMMODITIES RISKS	28,201	1,689
Risk exposure amount for position, foreign exchange and commodities risks under standardised approaches (SA)	28,201	1,689
Foreign Exchange	28,201	1,689
TOTAL RISK EXPOSURE AMOUNT FOR OPERATIONAL RISK (OpR)	661,021	644,427
OpR Basic indicator Approach (BIA)		644,427
OpR Standardised (STA) / Alternative Standardised (ASA) approaches	661,021	
TOTAL RISK EXPOSURE AMOUNT FOR CREDIT VALUATION ADJUSTMENT	274,469	174,340
Standardised method	274,469	174,340

Capital needs including Pillar 2 risks ('000 SEK)

	Total capital needs
Credit risk and counterparty risk	475,857
- which concentration risk	54,298
- including risks associated with exposure to the Swedish mortgages	209,773
- of which reciprocity in other countries' demands	
Market risk	11,358
- including interest rate risk arising from non-trading book	9,102
Operational risk	52,882
Pension risk	
Other	239,203
Diversification effects	
Total	779,300

Information on 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. The extent of the risk depends on the Financial Group's ability to raise 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 is 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 and net stable funding ratio among others. Furthermore, liquidity risk is measured under different scenarios, including stress scenarios.

As of the end of September 2016, the Financial Group had a liquidity coverage ratio of 2.15.

Liquidity Coverage Ratio ('000 SEK)	Sep-16	Dec-15
Liquidity Coverage Ratio	2.15	2.06
High quality liquid assets	480,230	308,652
Total Outflows	891,925	598,325
Outflows from retail deposits	686,438	593,871
Other outflows	205,487	4,454
Total inflows (Max 75% of total outflows)	668,944	448,744
Inflows from retail customers, lending activities	149,085	131,730
Other inflows	1,679,008	550,456

Liquidity Reserve ('000 SEK)

Liquidity Reserve	Sep-16	Dec-15
Cash and balances with central banks	9	8
Deposits in other banks	1,661,415	1,129,400
Securities issued or guaranteed by sovereigns, central banks or multinational development banks	144,658	91,347
Covered bonds	786,072	636,341
Issued by other institutions	786,072	636,341
Total	2,592,154	1,857,097

Applied rules and regulations

Pillar I – Minimum capital requirement

Calculation of the minimum capital requirement according to Pillar I is performed in accordance with the Swedish FSA'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 a different factor is applied to each one of the company's business lines.
4. Capital requirements for credit valuation adjustment risk (CVA) is calculated using the standardised approach and relate to positions in OTC derivatives.

Pillar II – Rules for the supervisory authorities' overall capital assessment and Internal Capital and Liquidity Adequacy Assessment Process (ICLAAP)

In addition to the statutory minimum capital requirement, credit institutions are expected to make their own assessments of their risks and capital requirements, the so called "Internal Capital and Liquidity Adequacy Assessment Process ("ICLAAP")" under Pillar II.

Pillar II is regulated by the special supervision of credit institutions and investment firms act (2014:968), the banking and financing business act (2004:297) and the regulation of prudential requirements and capital buffers (2014:993).

Within the ICLAAP, stress tests are performed to analyse the capital requirement even 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 company's minimum capital requirement.

The Swedish FSA 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 review and evaluation process.

Pillar III – Disclosure of capital adequacy and liquidity

Pillar III relates to disclosure of information. Information regarding capital adequacy and liquidity must be submitted annually and quarterly in accordance with the Swedish FSA's regulations and general guidelines regarding prudential requirements and capital buffers (FFFS 2014:12), the Commission's implementing regulation (EU) No 1423/2013 on implementing technical standards with respect to the disclosure requirements of capital for institutions according to the Swedish FSA's regulations and general guidelines regarding management of liquidity in credit institutions and investment firms (2010:7).

Complete information is disclosed yearly and not later than in connection with publication of the annual report on BlueStep website.

Periodic information on capital adequacy is provided on the BlueStep website for the periods ended 31 March, 30 June, 30 September and 31 December.

Buffer requirements

In addition to the capital requirements under Pillar I and Pillar II, all companies covered by the capital adequacy regulations since August 2, 2014 needs to hold extra capital in form of a capital conservation buffer. The purpose of this buffer is to serve as a cushion to absorb losses in bad times. The calculation is performed according to the capital buffers act (2014:966), implementing the capital buffers act (2014:967) and the Swedish FSA's regulations and general guidelines regarding prudential requirements and capital buffers (FFFS 2014:12). The capital conservation buffer is 2.5% of the risk-weighted exposure amounts and shall be covered with CET1. If the buffer requirement is not fulfilled restrictions will follow for dividends and bonuses like among other things.