

MEMORANDUM



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Capital requirements for the Swedish banks, fourth quarter 2020

Finansinspektionen publishes on a quarterly basis the capital requirements of the largest Swedish banks and credit market companies under its supervision that have been categorised as Categories 1 and 2.^{1,2} This memorandum discloses these firms' capital requirements and capital ratios as at the end of the fourth quarter 2020.

At the end of 2020, new rules were introduced that change the application of capital requirements going forward. The risk assessments and accompanying capital requirements and liquidity requirements determined during FI's Supervisory Review and Evaluation Process (SREP) apply until new SREP decisions are made under the new regulation.

The following applies to the Q4 2020 capital requirements, as they are presented in this memorandum:

1. The capital allocation for Pillar 2 additional own funds requirements for concentration risk, interest rate risk and additional market risk and pension risk shall comply with the main rule introduced in Chapter 2, section 1a of the Supervision Act, i.e. three-fourths must be Tier 1 capital, of which three-fourths must be CET1 capital.
2. For other Pillar 2 additional own fund requirements, the capital allocation in the SREP decisions applies until further notice.
3. For the three major banks, the 2 per cent additional requirement for

¹ FI categorises all credit institutions under its supervision on an annual basis. This categorisation enables FI to apply the guidelines issued by the European Banking Authority (EBA). A list of the credit institutions' supervision categories is available at the following link:
<https://www.fi.se/contentassets/0ba815d50b964a128b20e961f86da9ce/tillsynskategorisering-kreditinstitut-filialer-2021.pdf>

² Klarna Bank have been categorised as supervisory category 2 institutions but since FI has not yet carried out a SREP where FI's methods for determining capital requirement in Pillar 2 are adapted they are not included in this memorandum. Further, Nordea Hypotek's and Danske Hypotek's capital requirements are not included in this memorandum even though they are categorised as Category 1 and Category 2 institutions respectively. This is due to the fact that they are Swedish subsidiaries to foreign bank groups and in this memorandum only capital requirements and capital base at group level are published.

systemic risk in pillar 2 is removed. The O-SII buffer is changed to 1 per cent and added to the systemic risk buffer of 3 per cent.



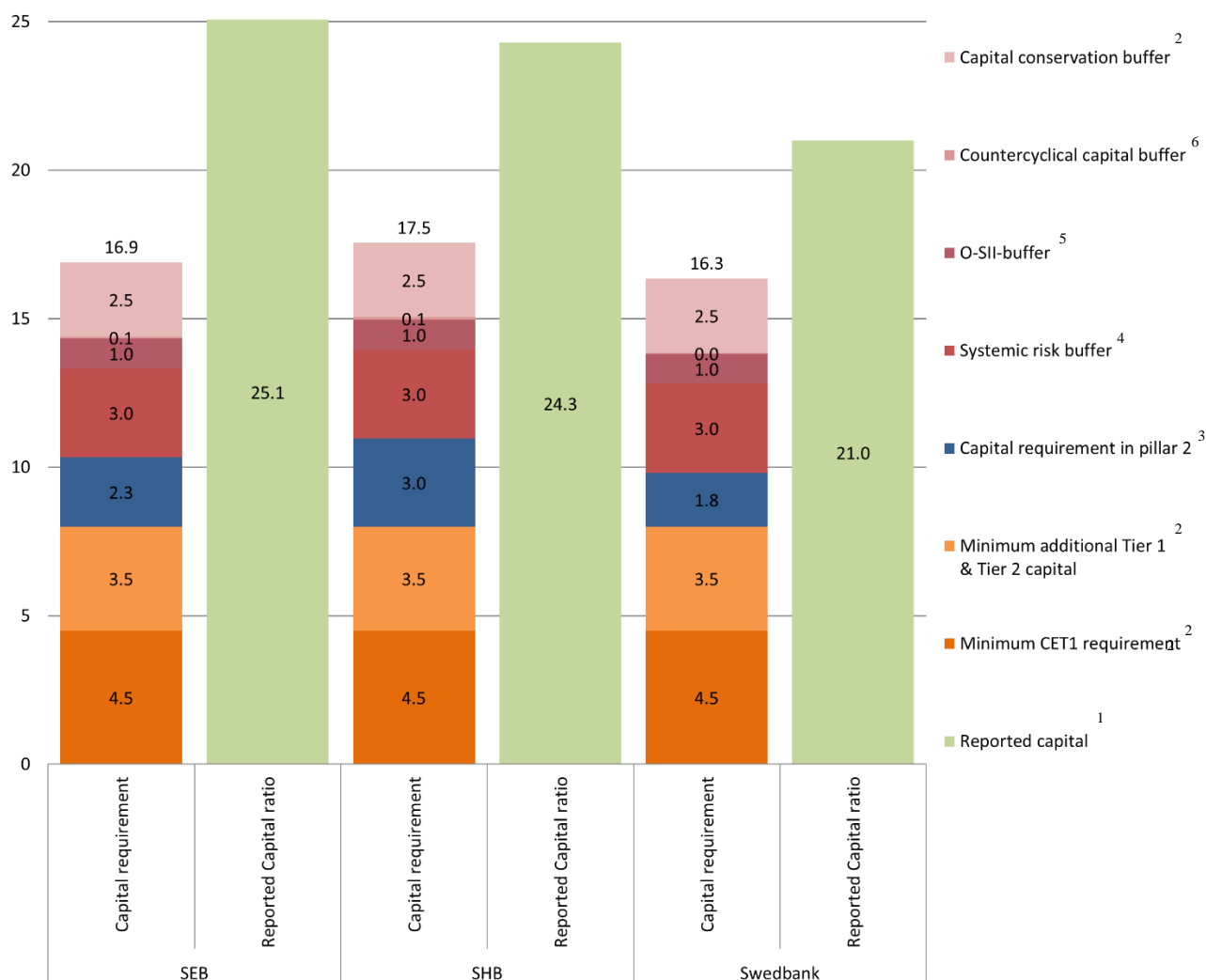
The new regulation also includes pillar 2 guidance, a capital requirement which FI can use if a bank is deemed to need more capital to cover risks and manage future stressed situations in addition to the existing coverage from the minimum requirements, the additional own funds requirements and the combined buffer requirement. This requirement is not considered in this memorandum but will be included as decisions on pillar 2 guidance are taken for each institute respectively. For more information see the memorandum *New capital requirements for Swedish banks*.³

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Further, FI has decided on additional capital requirements for the banks' exposures in lending to the commercial real estate sector. The additional capital requirement corresponds to the difference between a risk weight determined by FI and a bank's actual average risk weight for exposures to the commercial real estate sector. FI has set the risk weight at 35 per cent for corporate exposures collateralised by commercial real estate and 25 per cent for corporate exposures collateralised by commercial residential properties. The additional capital requirement is applicable as of the fourth quarter 2020 for the banks where FI has conducted a SREP during the year.

³ <https://www.fi.se/contentassets/7638443691724cf195f9097b139362d4/nya-kapitalkrav-svenska-banker-20-20990-eng-fulln.pdf>

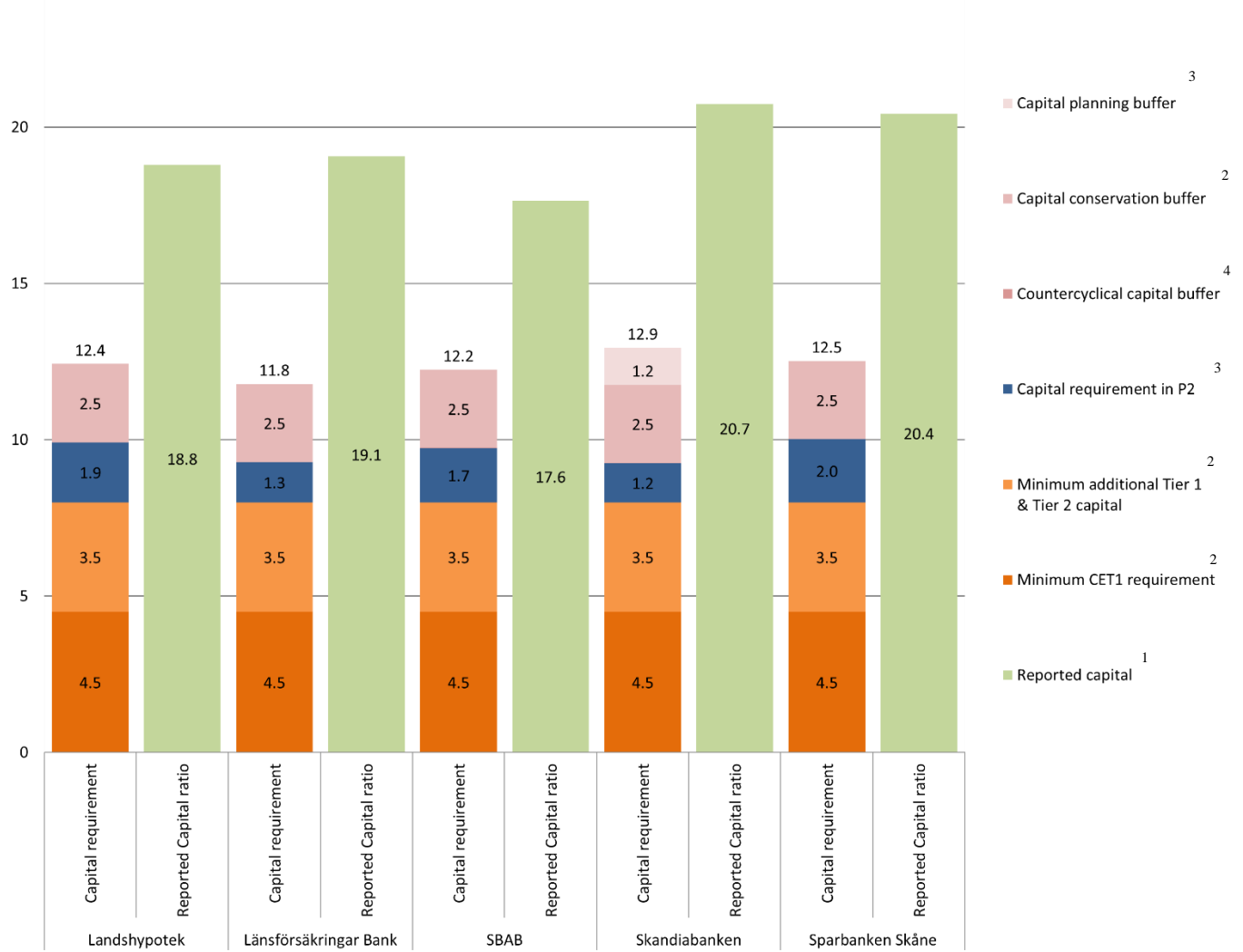
1 Total capital requirement, three major banks (as percentage of REA⁴)



- (1) Reported as per 2020-12-31.
- (2) Legal requirement.
- (3) Communicated in SREP 2020.
- (4) Decided on 2020-12-30.
- (5) Decided on 2020-12-30.
- (6) Weighted average of countercyclical buffer levels in jurisdictions where the institute is active.

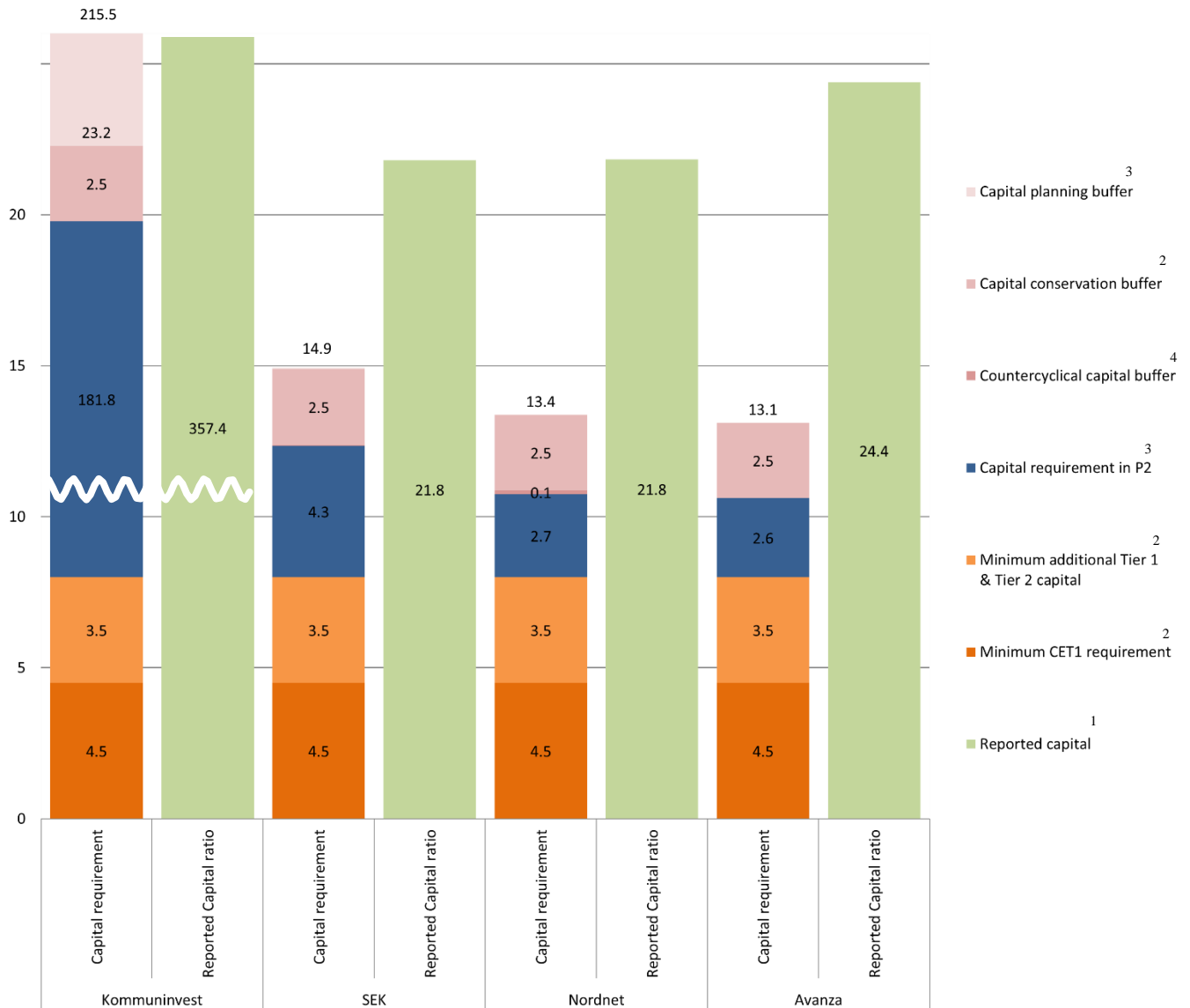
⁴ Risk Exposure Amount

2 Total capital requirement, five of the firms in Category 2 (as percentage of total REA)



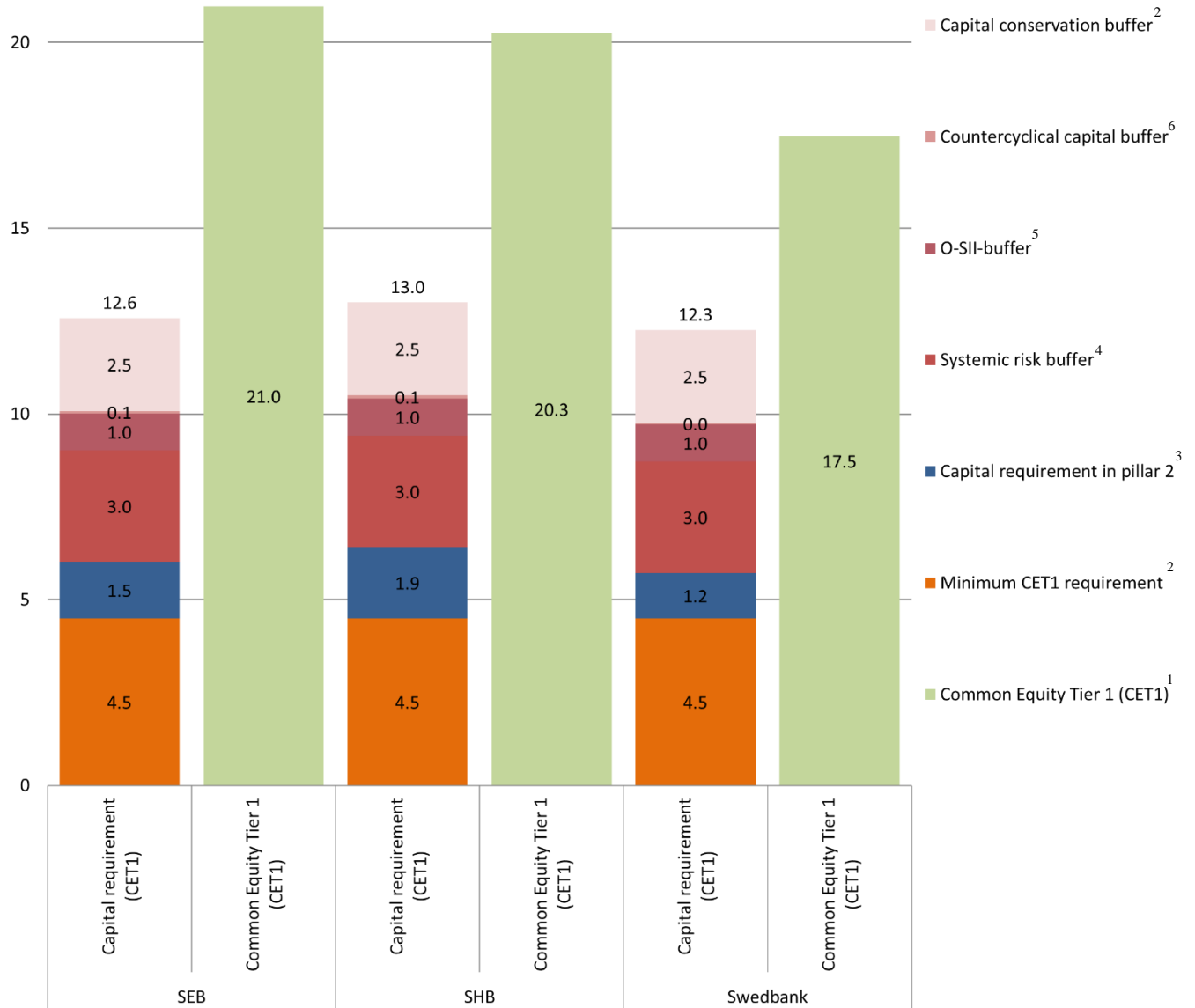
- (1) Reported as per 2020-12-31.
- (2) Legal requirement.
- (3) Communicated in SREP 2020 for Länsförsäkringar and Sparbanken Skåne and SREP 2019 for Landshypotek, SBAB och Skandiabanken.
- (4) Weighted average of countercyclical buffer levels in jurisdictions where the institute is active.

3 Total capital requirement, four of the firms in Category 2 (as percentage of total REA)



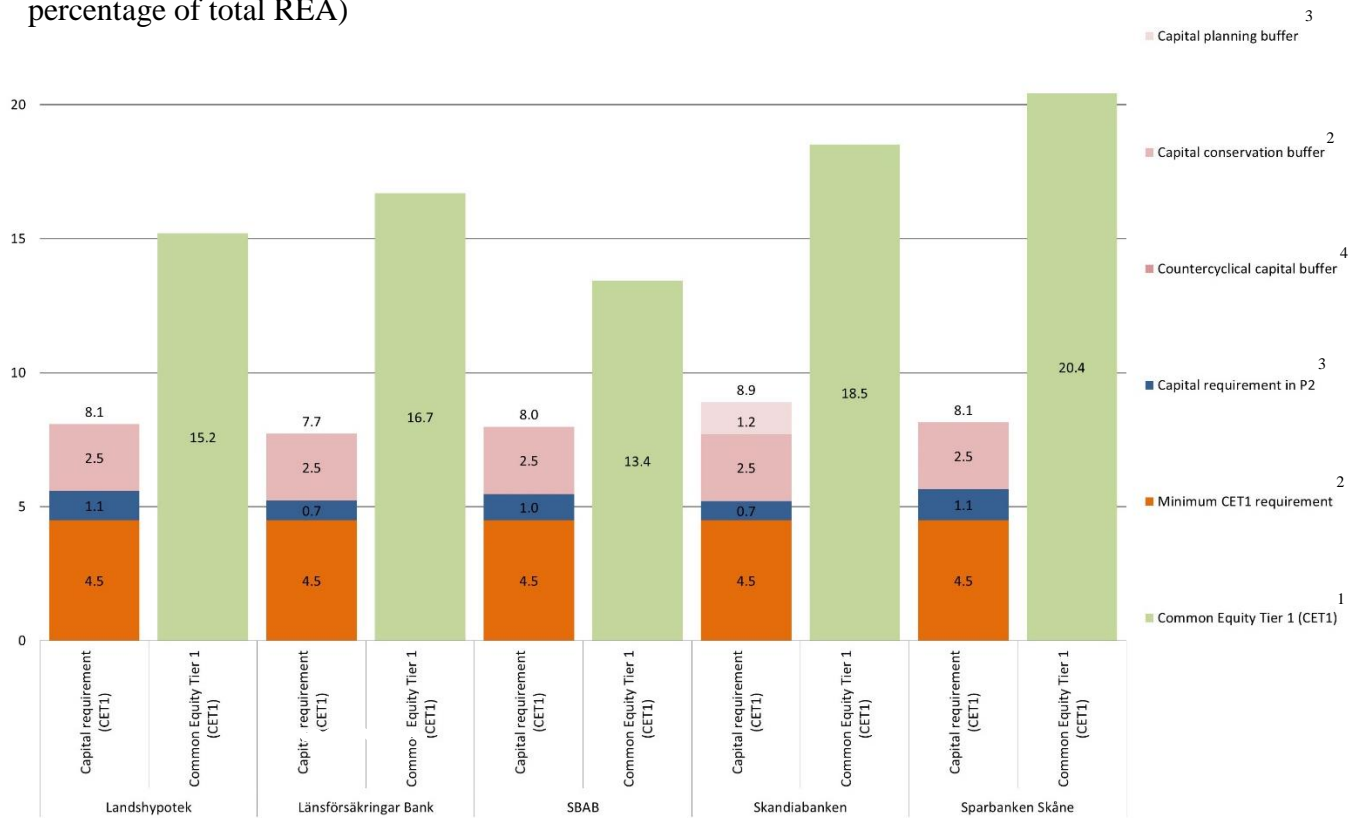
- (1) Reported as per 2020-12-31.
- (2) Legal requirement
- (3) Communicated in SREP 2020 for Avanza, SREP 2019 for Kommuninvest and Nordnet as well as SREP 2018 for SEK.
- (4) Weighted average of countercyclical buffer levels in jurisdictions where the institute is active.

4 Common equity Tier 1 (CET1) requirement, three major banks (as percentage of total REA)



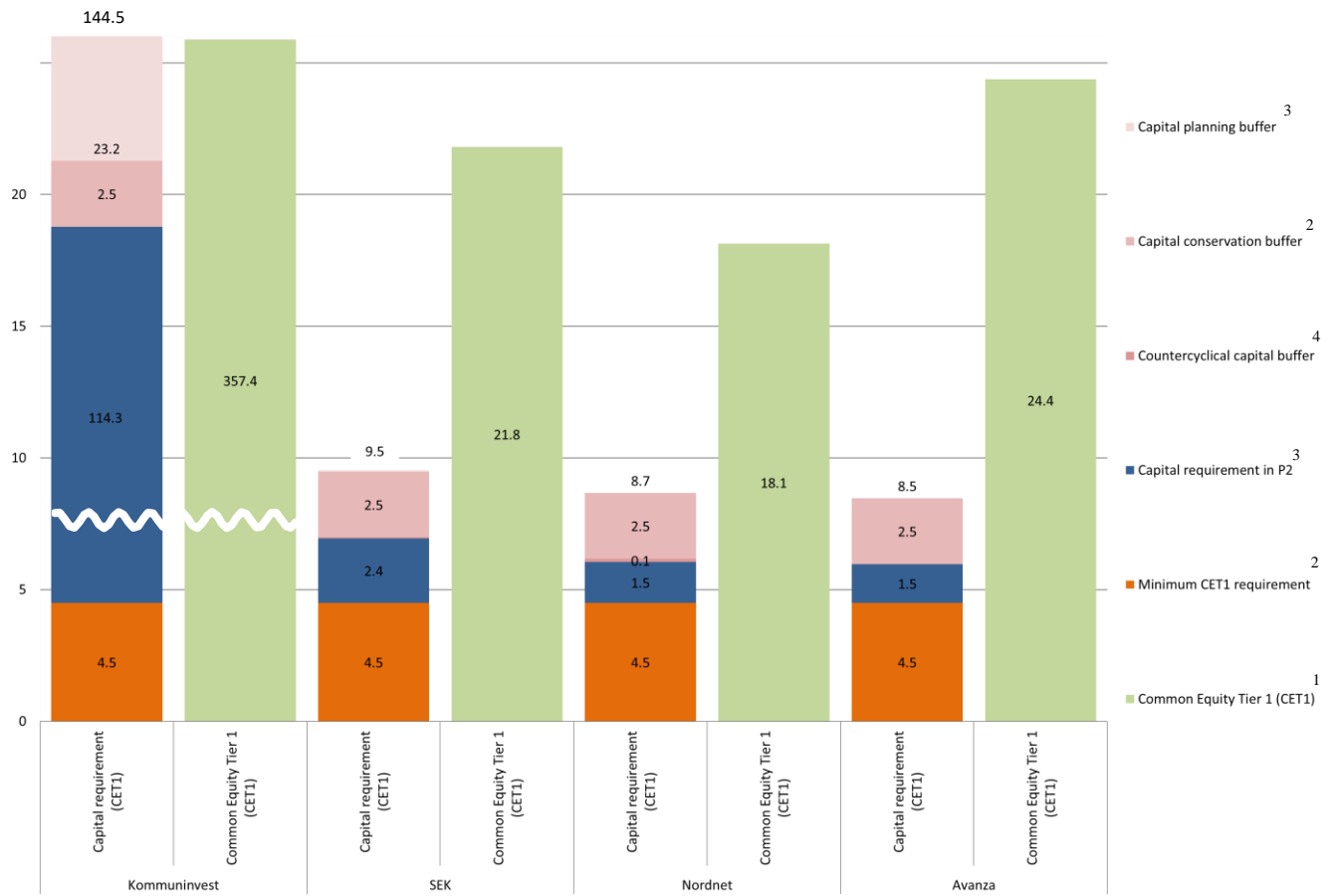
- (1) Reported as per 2020-12-31.
- (2) Legal requirement.
- (3) Communicated in SREP 2020.
- (4) Decided on 2020-12-30.
- (5) Decided on 2020-12-30.
- (6) Weighted average of countercyclical buffer levels in jurisdictions where the institute is active

5 Common equity Tier 1 (CET1) requirement, five of the firms in Category 2 (as percentage of total REA)



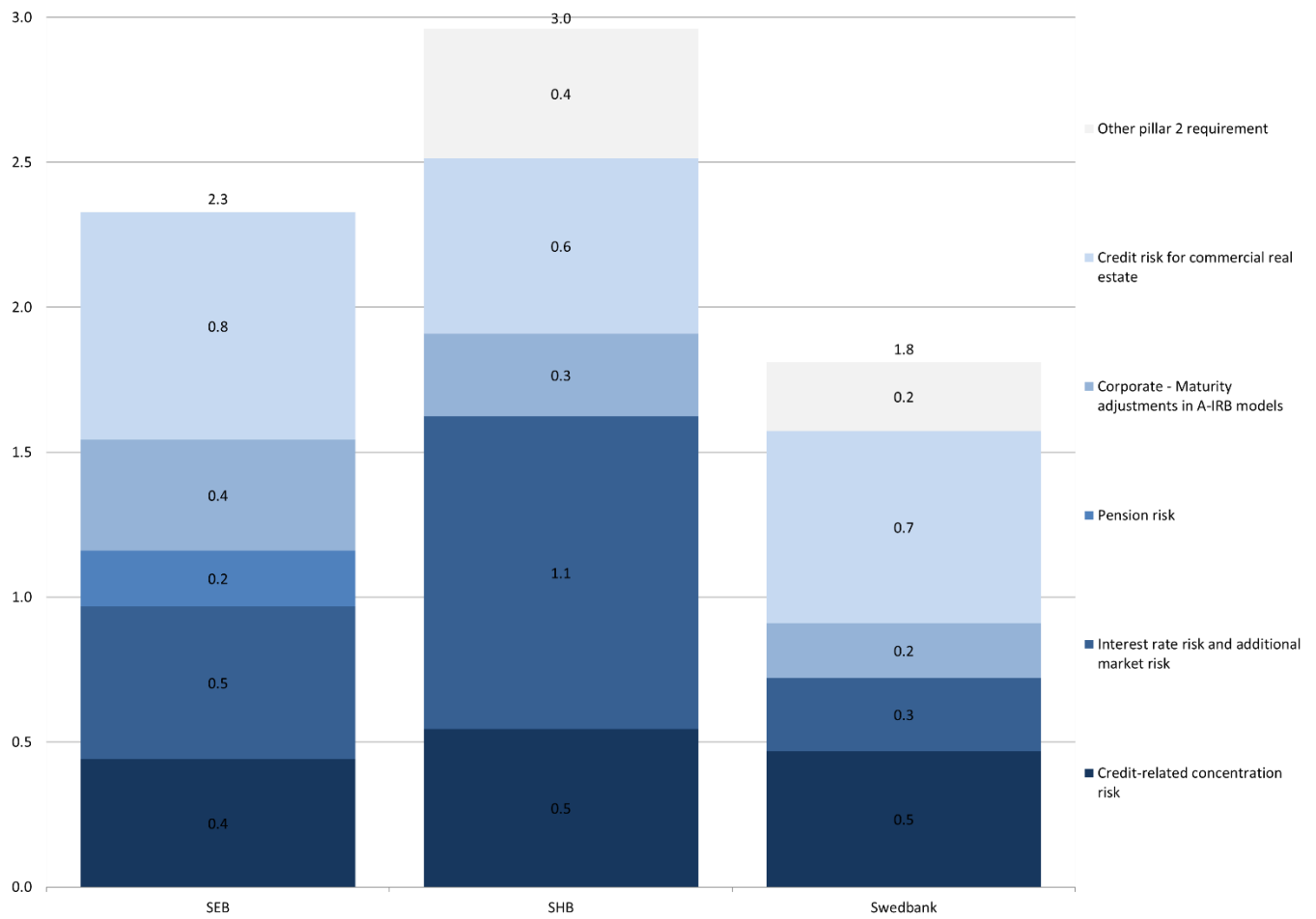
- (1) Reported as per 2020-12-31.
- (2) Legal requirement.
- (3) Communicated in SREP 2020 for Länsförsäkringar and Sparbanken Skåne and SREP 2019 for Landshypotek, SBAB and Skandiabanken.
- (4) Weighted average of countercyclical buffer levels in jurisdictions where the institute is active

6 Common equity Tier 1 (CET1) requirement, four of the firms in Category 2 (as percentage of total REA)



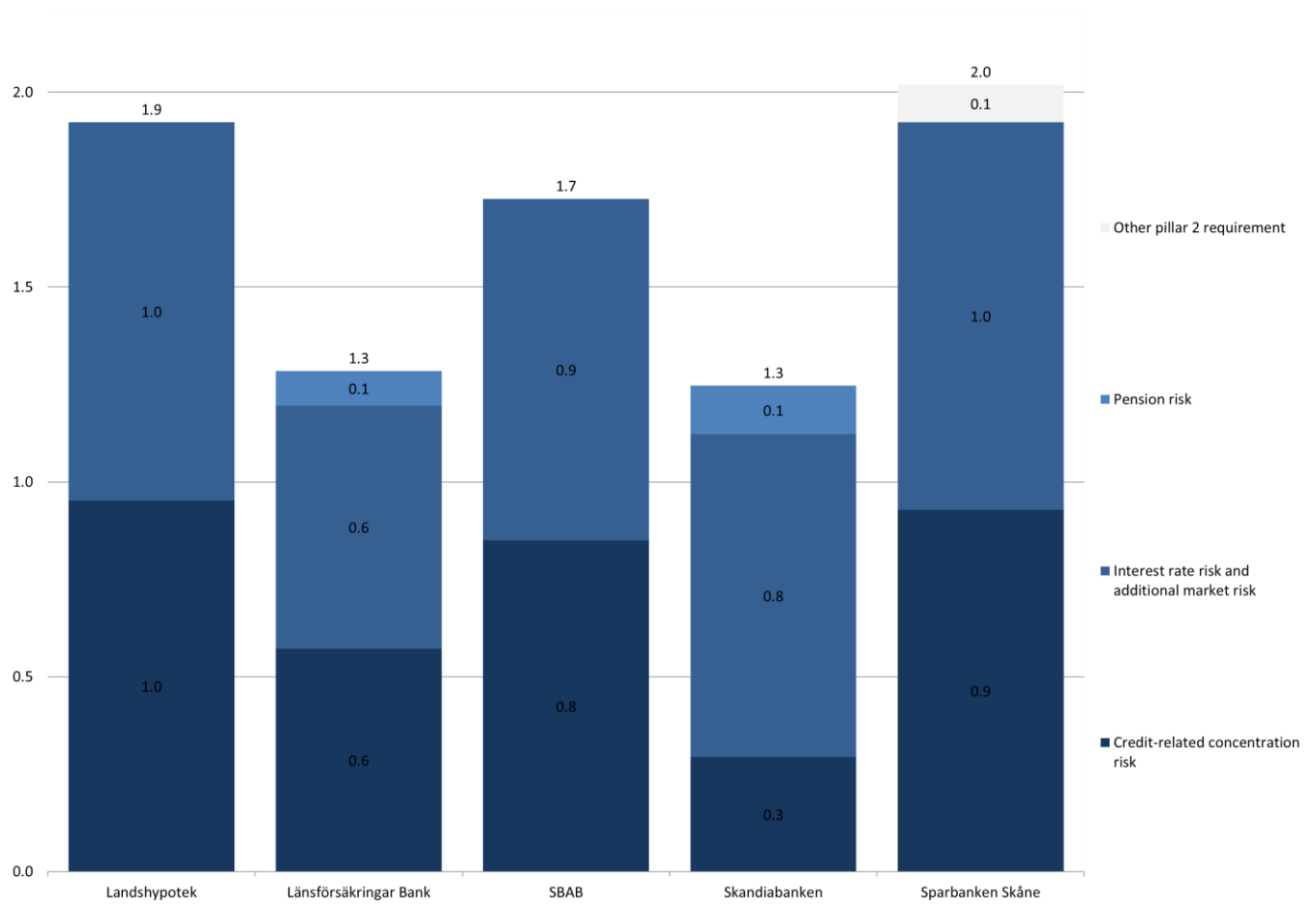
- (1) Reported as per 2020-12-31.
- (2) Legal requirement.
- (3) Communicated in SREP 2020 for Avanza, SREP 2019 for Kommuninvest and Nordnet as well as SREP 2018 for SEK.
- (4) Weighted average of countercyclical buffer levels in jurisdictions where the institute is active

7 P2 capital requirement, three major banks (as percentage of total REA)¹



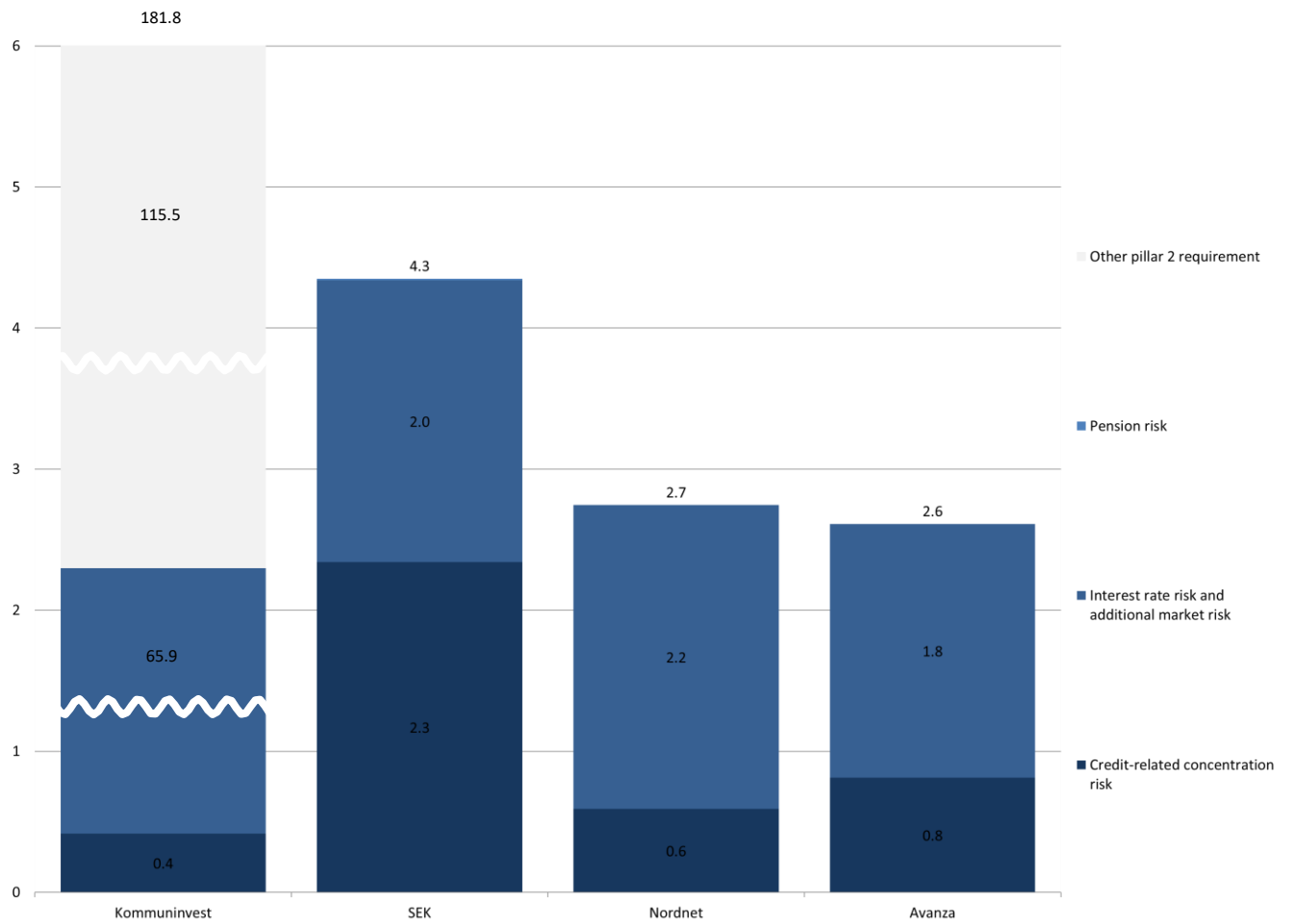
(1) Communicated in SREP 2020.

8 P2 capital requirement, five of the firms in Category 2 (as percentage of total REA)¹



(1) Communicated in SREP 2020 for Länsförsäkringar and Sparbanken Skåne and SREP 2019 for Landshypotek, SBAB and Skandiabanken.

9 P2 capital requirement, four of the firms in Category 2 (as percentage of total REA)¹



1) Communicated in SREP 2020 for Avanza, SREP 2019 for Kommuninvest and Nordnet as well as SREP 2018 for SEK.

Table 1 Components of the firms' combined total capital requirement in SEKm

	SEB	SHB	Swedbank	Lands- hypotek	Länsför- säkringar Bank	Kommun- invest	SEK	SBAB	Skandia	Nordnet	Avanza	Sparbanken Skåne	Total
Minimum requirement (8%)	58 045	57 712	55 167	2 696	10 288	192	7 136	10 421	1 797	1 081	797	2 670	208 003
<i>of which mortgages from Art. 458</i>	8 228	14 929	18 084	497	4 284	0	0	6 532	1 192	0	0	270	54 016
Credit-related concentration risk	3 200	3 936	3 234	321	736	10	2 089	1 107	66	80	81	310	15 170
Interest rate risk and additional market risk	3 827	7 777	1 741	327	802	1 579	1 780	1 142	186	291	179	332	19 963
Pension risk	1 400	0	0	0	114	0	11	0	28	0	0	0	1 553
Maturity adjustments in A-IRB models	2 765	2 057	1 305	0	0	0	0	0	0	0	0	0	6 127
CRE adjustment	5 700	4 367	4 567	0	0	0	0	0	0	0	0	0	14 634
Other Pillar 2 capital requirements	9	3 221	1 644	0	0	2 768	0	0	0	0	0	32	7 673
O-SII-buffer (1%)	7 256	7 214	6 896	-	-	-	-	-	-	-	-	-	21 366
<i>of which mortgages from Art. 458</i>	1 029	1 866	2 260	-	-	-	-	-	-	-	-	-	5 155
Systemic risk buffer (3%)	21 767	21 642	20 688	-	-	-	-	-	-	-	-	-	64 097
<i>of which mortgages from Art. 458</i>	3 086	5 598	6 781	-	-	-	-	-	-	-	-	-	15 465
Countercyclical capital buffer	458	611	264	0	0	0	29	17	2	17	0	0	1 399
<i>of which mortgages from Art. 458</i>	65	158	86	0	0	0	0	11	2	0	0	0	322
Capital conservation buffer (2.5%)	18 139	18 035	17 240	843	3 215	60	2 230	3 257	561	338	249	834	65 001
<i>of which mortgages from Art. 458</i>	2 571	4 665	5 651	155	1 339	0	0	2 041	373	0	0	84	16 880
Capital planning buffer	0	0	0	0	0	557	41	0	267	0	0	0	865
<i>of which mortgages from Art. 458</i>	0	0	0	0	0	0	0	0	177	0	0	0	177
Total capital requirement	122 565	126 572	112 745	4 187	15 155	5 165	13 316	15 944	2 907	1 808	1 305	4 179	425 849
Common equity tier 1 capital	152 124	146 160	120 496	5 123	21 475	8 565	19 450	17 492	4 157	2 452	2 427	6 817	506 738
Tier 1 capital	164 403	158 332	128 848	5 563	22 775	8 565	19 450	20 992	4 157	2 952	2 427	6 817	545 281
Total capital	181 835	175 245	144 737	6 335	24 519	8 565	19 450	22 992	4 657	2 952	2 427	6 817	600 531

Descriptions of the calculations

The calculations of capital requirements refer to the fourth quarter of 2020 and are done on a group level. The Pillar 2 capital requirements are based on FI's latest overall capital assessment. For the concerned firms this includes the capital requirement for corporate exposures, which is presented in more detail in the memorandum *FI:s supervision of banks' calculations of risk weights for exposure to corporates*⁵.

The firms have made different choices regarding their handling of profit during the current year in the calculation of the capital adequacy ratio. This means that the own funds for the firms in this memorandum could either include or exclude the revenue recognised during the year based on whether the institutions have applied for and received authorisation from FI to include the recognised revenue following deductions for expected dividends.

The calculations in this memorandum are based on data reported to FI. The data was submitted to FI on February 11, 2021. The rounding of each component of the capital requirement may result in a discrepancy between the sum of all parts and the total capital requirement. The size of each component has been estimated as follows.

Minimum requirement, pillar 1

Eight per cent of total risk exposure amount. Covered by 75 per cent tier 1 capital whereof 75 per cent is CET1 capital.

Pillar 2 capital requirement

The Pillar 2 capital requirement is illustrated as an aggregate for each firm in Charts 1-6 and broken down into six components in Charts 7-9. These components are *Credit-related concentration risk, Interest rate risk and additional market risk, Pension risk, CRE adjustments, Maturity adjustments* and *Other Pillar 2 requirements*. The capital allocation for concentration risk, interest rate risk and additional market risk and pension risk shall comply with the main rule introduced in Chapter 2, section 1a of the Supervision Act, i.e. three-fourths must be Tier 1 capital, of which three-fourths must be CET1 capital. For other Pillar 2 additional own fund requirements, the capital allocation in the latest communicated SREP applies until further notice.

Other Pillar 2 requirements in turn is an aggregate of the Pillar 2 capital requirements, which are not presented individually. This contains risk elements such as market and credit risk that are not considered in Pillar 1 as well as, in certain cases, capital requirements for shortcomings in governance, risk management and control.

Other Pillar 2 requirements also includes the capital requirement for Norwegian mortgages, which Finanstilsynet in Norway has introduced as a measure under Pillar 1 for exposures to mortgages. This requirement contributes to higher capital requirements for Norwegian banks. Swedish firms

⁵ Memorandum published at fi.se 2016, FI Ref. 15-13020.

with exposures to Norwegian mortgages, instead of implementing the measures, will hold capital under Pillar 2 to match the increase in capital requirements from the Pillar 1 measures. The size of the capital requirement is set on an individual basis and is to be calculated by each firm in connection to their internal capital evaluation process (ICAAP) and, in turn, added to the other Pillar 2 requirements. Finansstilsynet has calculated the effect of these measures for the Norwegian domestic firms, which has resulted in risk weights of between 20 and 25 per cent. The calculation of the capital requirement for Norwegian mortgages must contain all capital requirements relating to Pillar 1, including the countercyclical capital buffer value for Norway. For the three major banks this includes the total capital buffer requirement associated with systemic risk.

Capital requirements based on article 458

As of 31 December 2018, the risk weight floor for Swedish mortgages, which previously was managed under Pillar 2, was replaced by an equivalent requirement in Pillar 1 in line with article 458 in the CRR. This change has not affected the capital level or the underlying risk. However, it has affected the Swedish banks' capital requirements when set in relation to their risk-weighted assets in that the capital ratios are now lower when expressed as a percentage. The reason is that the requirement in the new design increases the amount of risk-weighted assets, unlike a Pillar 2 requirement which instead increases the requirement as a percentage.

FI has also acknowledged the Finnish supervisory authority's decision to introduce an average company-specific risk weight floor of 15 per cent for Finnish mortgage exposures⁶. As of 1 January 2018, Sweden is reciprocating the Finnish risk weight floor for mortgages according to Article 458(5) of Regulation (EU) No. 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (CRR). This capital requirement will be part of Pillar 1 for affected institutions.

Risk weight floors in pillar 1 affects several parts of the capital requirement as it affects the risk exposure amount. This effect is presented in Table 1.

O-SII-buffer

One per cent of the total risk-weighted amount for the major banks. Covered in its entirety by CET 1 capital.

Systemic risk buffer

Three per cent of the total risk-weighted amount for the major banks. Covered in its entirety by CET 1 capital.

Countercyclical capital buffer

As of 16 March 2020, Sweden applies a countercyclical buffer of 0 per cent. Other EEA countries' countercyclical buffer values are included in the analysis

⁶ For an overview of the decision and the institutions to which the decision applies, see FI's website: <https://www.fi.se/contentassets/4b9d4b6504c547b1b3387a0d576f5d1e/beslut-finskt-riskviktsgolv-n.pdf>

as they come into force⁷

The firm-specific buffer value has been estimated on the basis of reported data according to the European common instructions for reporting (COREP). In order to calculate the firm-specific buffer value the relevant credit exposure in each country is multiplied by the countercyclical buffer rate for each country. The firm-specific buffer is then multiplied with the total risk exposure amount.

In compliance with Chapter 6, Section 5 of the Capital Buffer Act (2014: 966), Sweden also applies full reciprocity for non-EEA countries, as long as the countercyclical buffer for the country is less than 2.5 per cent and FI has not decided otherwise in compliance with Chapter 7, Sections 4 and 5. Covered in its entirety by CET 1 capital.

Capital conservation buffer

2.5 per cent of the total risk-weighted exposure amount. Covered in its entirety by CET 1 capital.

Capital planning buffer

FI's stress tests to determine the capital planning buffer have shown that the buffer exceeds 2.5 per cent for several firms. A buffer requirement in excess of the capital conservation buffer is therefore required for these firms. The methodology is further described in *Stress test methodology for determining the capital planning buffer*⁸ and *Capital requirements for Swedish banks*⁹.

⁷ For an overview of the current countercyclical buffer rates, see ESRB's website: https://www.esrb.europa.eu/national_policy/ccb/applicable/html/index.en.html

⁸ Memorandum published at fi.se 2016, FI Ref. 15-11526

⁹ Memorandum published at fi.se 2014, FI Ref. 14-6258