

MEMORANDUM



Date **2019-08-23**
Author **Bank Analysis and Policy Department**

FI Ref. 19-10638

Finansinspektionen
Box 7821
SE-103 97 Stockholm
[Brunnsgatan 3]
Tel +46 8 787 80 00
Fax +46 8 24 13 35
finansinspektionen@fi.se
www.fi.se

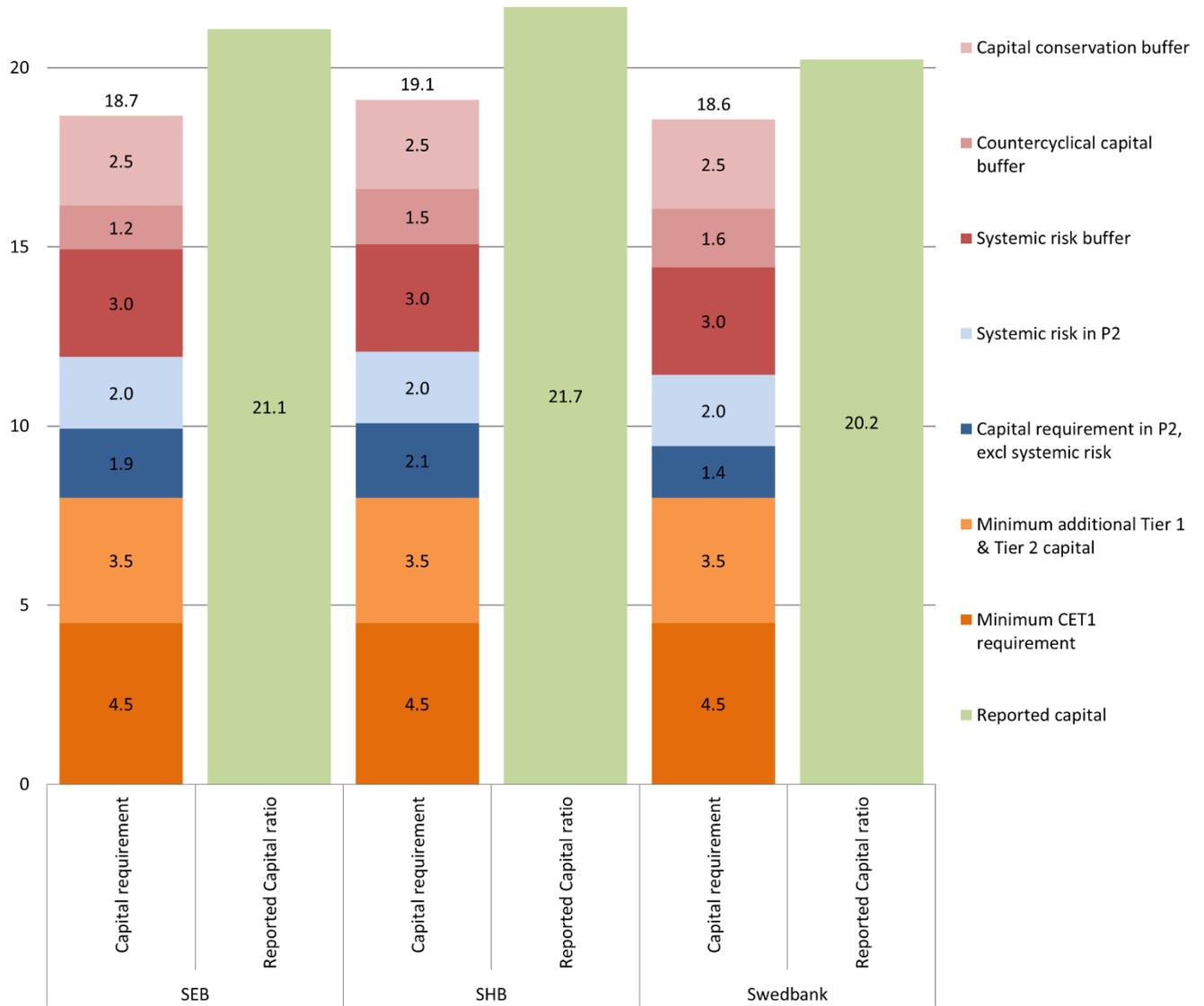
Capital requirements for the Swedish banks, second quarter 2019

Finansinspektionen publishes on a quarterly basis the capital requirements of the largest Swedish banks and credit institutions under its supervision that have been categorised as Categories 1 and 2.¹ This memorandum discloses these firms' capital requirements and capital ratios as at the end of the second quarter of 2019, including the values for the requirements in Pillar 2.²

¹FI 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/2839e794d0b94614a2adf9e1e51b7714/tillsynskategorisering-svenska-kreditinstitut-2019.pdf>

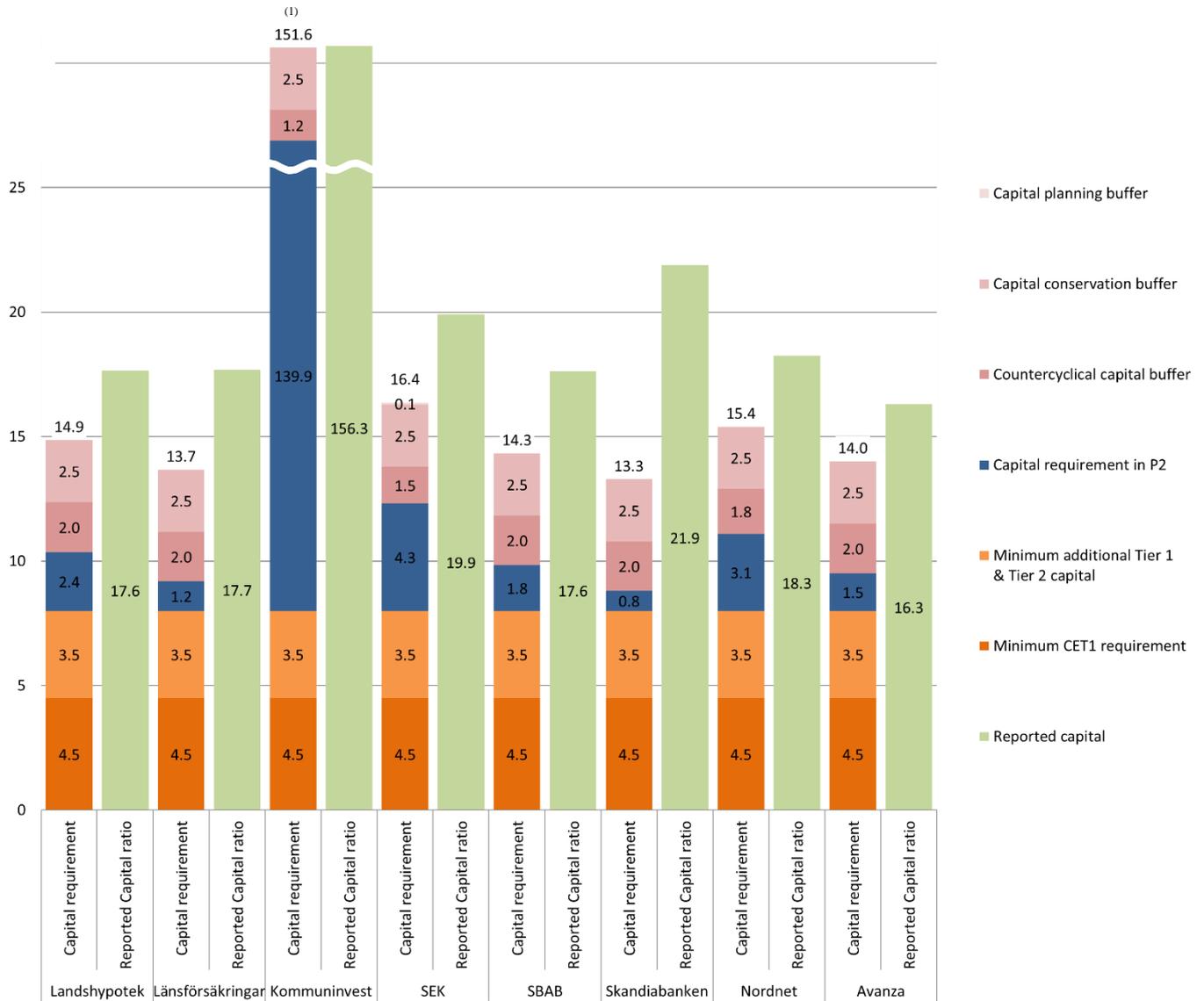
² The actual values in Pillar 2 in terms of "Capital requirement in Pillar 2, excl systemic risk" refers to Finansinspektionen's assessment of the capital requirements in the 2018 Supervisory Review and Evaluation Process (SREP). Exceptions are SBAB and Skandiabanken, which have not been subject of a SREP 2018. The SREP 2017 is thus used. The guidelines issued by EBA requires a SREP every two years for category 2.

1 Total capital requirement, three major banks (as percentage of total REA³)



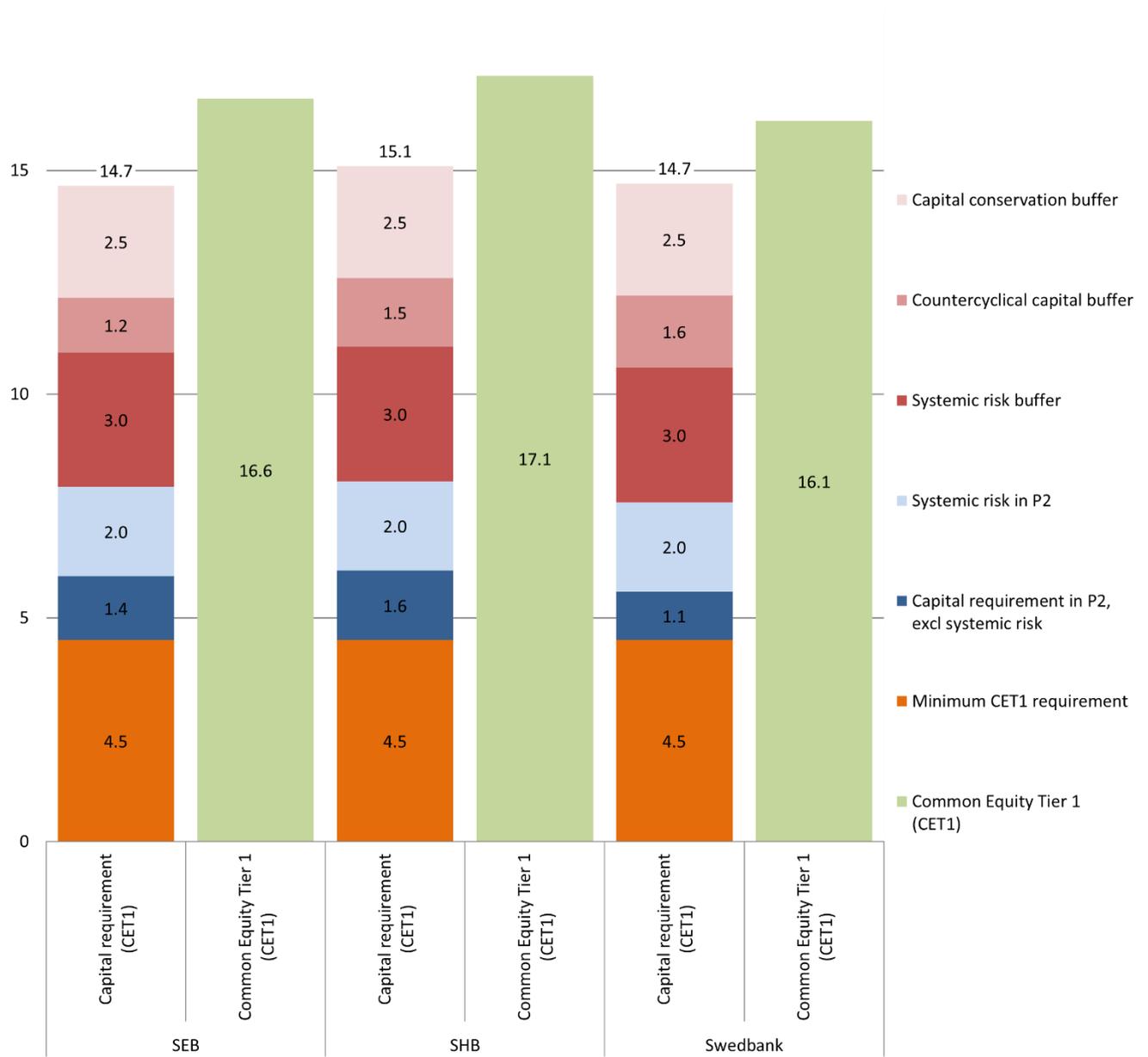
³ Risk Exposure Amount

2 Total capital requirement, other eight firms published in this memorandum (as percentage of total REA)

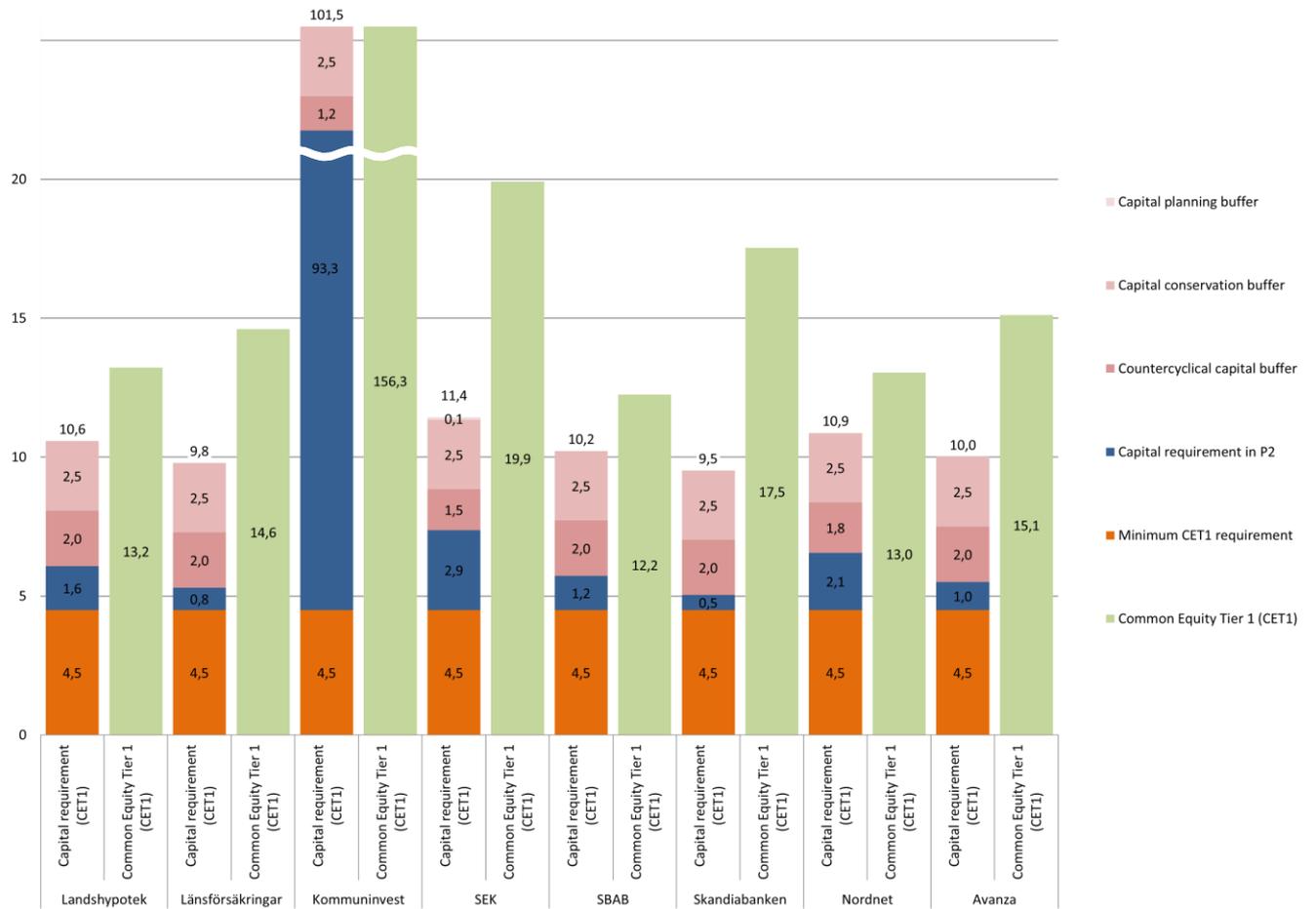


(1) To cover the risk for excessive leverage, FI has assessed that Kommuninvest needs to have own funds amounting to at least 1.5 per cent of its total leverage ratio exposure. For the purpose of reaching this total own funds requirement, an additional capital charge for the risk of excessive leverage has been added to Pillar 2.

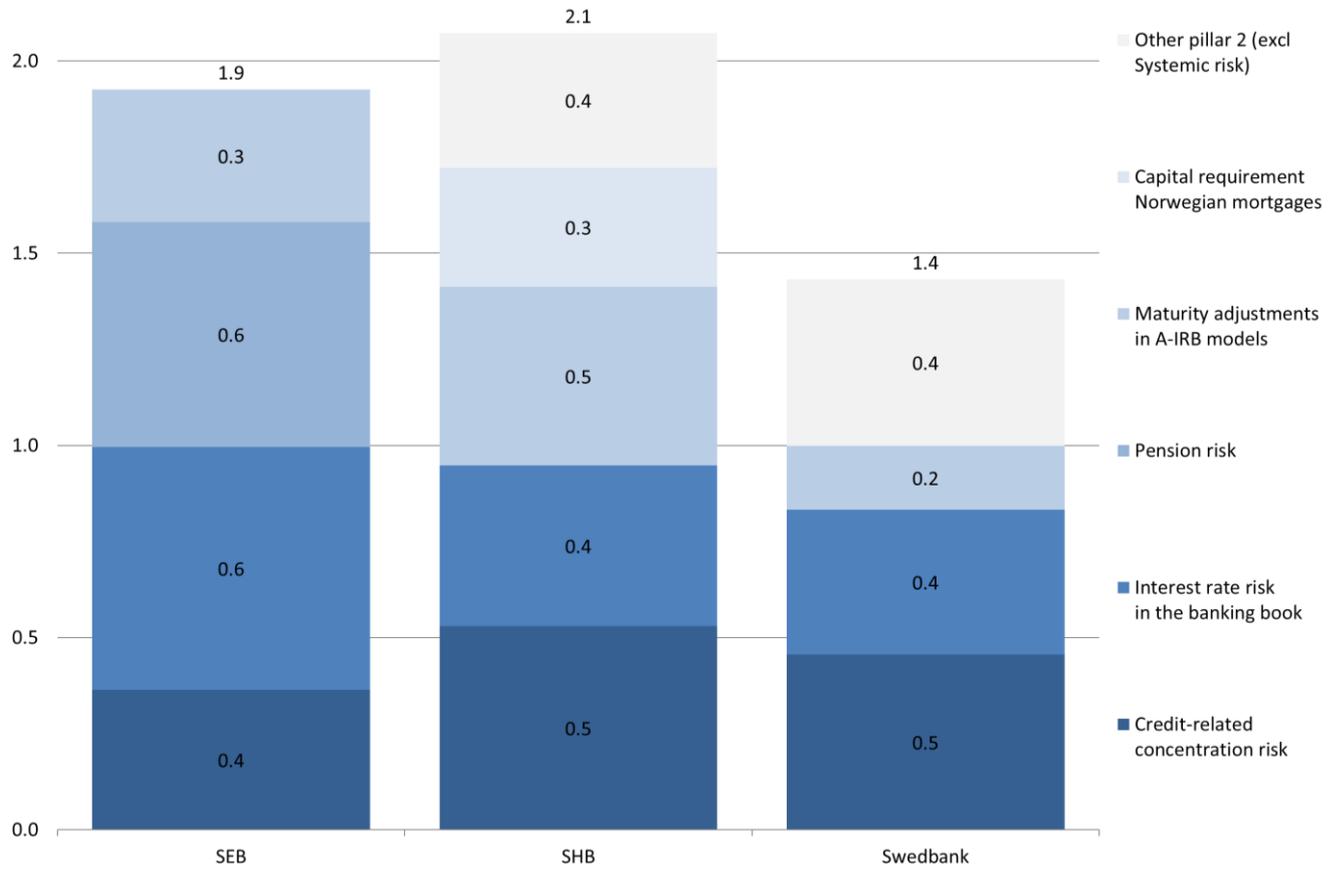
3 Common equity Tier 1 (CET1) requirement, three major banks (as percentage of total REA)



4 Common equity Tier 1 (CET1) requirement, other eight firms published in this memorandum (as percentage of total REA)



5 P2 capital requirement, three major banks, excluding systemic risk (as percentage of total REA)



6 P2 capital requirement, other eight firms published in this memorandum (as percentage of total REA)

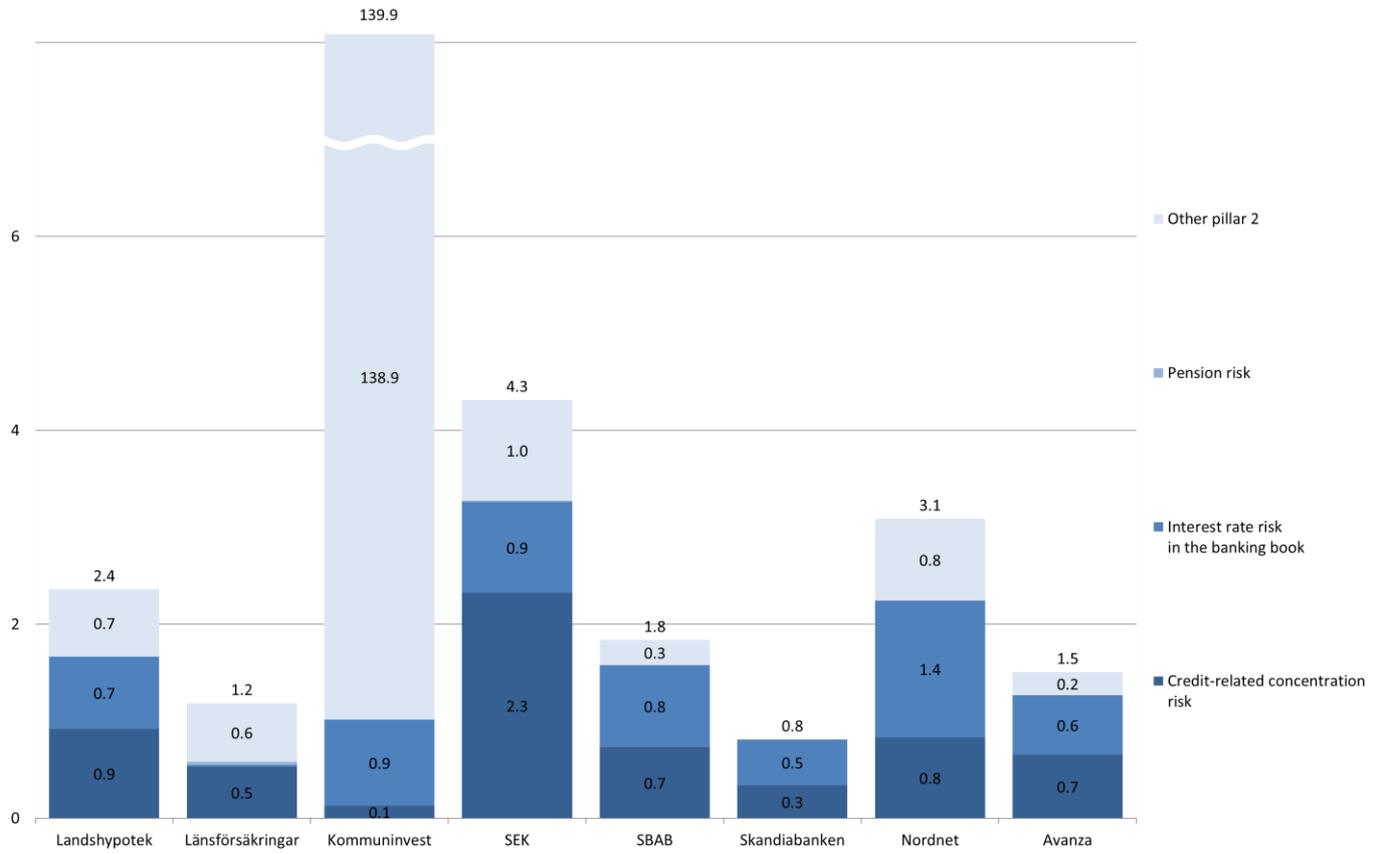


Table 1 Components of the firms' combined total capital requirement in SEKm

Table 1 Components of the 11 firms' combined total capital need (mnSEK)

	SEB	SHB	Swedbank	Lands- hypotek	Länsför- säkringar	Kommun- invest	SEK	SBAB	Skandia	Nordnet	Avanza	Total	Share of total capital requirement (%)
Minimum requirement (8%)	61,082	58,336	52,648	2,802	9,774	378	7,196	9,578	1,651	767	600	204,811	44
<i>of which mortgages from Art. 458</i>	<i>7,585</i>	<i>13,339</i>	<i>16,372</i>	<i>384</i>	<i>3,824</i>	<i>0</i>	<i>0</i>	<i>5,865</i>	<i>1,043</i>	<i>0</i>	<i>0</i>	<i>43,012</i>	<i>10</i>
Credit-related concentration risk	2,781	3,865	3,002	323	649	6	2,089	875	70	80	49	13,789	3
Interest rate risk in the banking book	4,825	3,046	2,478	260	18	42	844	1,015	98	135	46	12,807	3
Pension risk	4,468	0	0	0	43	0	11	0	0	0	0	4,522	1
Maturity adjustments in A- IRB models	2,623	3,391	1,092	0	0	0	0	0	0	0	0	7,106	2
Other Pillar 2 capital requirements	0	2,557	2,847	244	739	6,557	936	310	0	81	18	14,289	3
Capital requirement Norwegian mortgages	10	2,257	5	-	-	-	-	-	-	-	-	2,272	0
Systemic risk, pillar 2 (2%)	15,270	14,584	13,162	-	-	-	-	-	-	-	-	43,016	9
<i>of which mortgages from Art. 458</i>	<i>1,896</i>	<i>3,335</i>	<i>4,243</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>8,474</i>	<i>2</i>
Systemic risk buffer (3%)	22,906	21,876	19,743	-	-	-	-	-	-	-	-	64,524	14
<i>of which mortgages from Art. 458</i>	<i>2,844</i>	<i>5,002</i>	<i>6,364</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>14,211</i>	<i>3</i>
Countercyclical capital buffer	9,353	11,208	10,675	700	2,429	58	1,319	2,383	407	174	150	38,857	8
<i>of which mortgages from Art. 458</i>	<i>1,162</i>	<i>2,563</i>	<i>3,441</i>	<i>96</i>	<i>950</i>	<i>0</i>	<i>0</i>	<i>1,459</i>	<i>267</i>	<i>0</i>	<i>0</i>	<i>9,328</i>	<i>2</i>
Capital conservation buffer (2.5%)	19,088	18,230	16,452	876	3,054	118	2,249	2,993	516	240	187	64,003	14
<i>of which mortgages from Art. 458</i>	<i>2,370</i>	<i>4,169</i>	<i>5,304</i>	<i>120</i>	<i>1,195</i>	<i>0</i>	<i>0</i>	<i>1,833</i>	<i>326</i>	<i>0</i>	<i>0</i>	<i>15,316</i>	<i>3</i>
Capital planning buffer	-	-	-	-	-	-	84	-	-	-	-	84	0
Total capital requirement	142,406	139,351	122,104	5,205	16,707	7,160	14,727	17,154	2,742	1,476	1,050	470,081	100

Description of the calculations

The calculations of capital requirements refer to the second quarter of 2019 and are done on a group level. The Pillar 2 capital requirements are based on FI's latest overall capital assessment. For some of the 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*⁴.

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 August 12, 2019. 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.

Pillar 2 capital requirement, excluding systemic risk. The Pillar 2 capital requirement, excl. the requirement for systemic risk, is illustrated as an aggregate for each firm in Charts 1-4 and broken down into five components in Charts 5-6. These components are *Credit-related concentration risk*, *Interest rate risk in the banking book*, *Pension risk*, *Maturity adjustments* and *Other Pillar 2 requirements*.

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. The share of the capital requirement which, as a main rule, is to be covered by common equity Tier 1 (CET 1) capital is determined in accordance with the distribution of Pillar 1 capital, including the combined buffer requirement with the exception of the countercyclical capital buffer, for the three major banks and the other eight firms. In some cases the countercyclical capital buffer is included in different ways.

Other Pillar 2 requirements also includes the capital requirement for Norwegian mortgages, which Finansstilsynet 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 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

⁴ Memorandum published at fi.se 2016, FI Ref. 15-13020.

other Pillar 2 requirements. Finanstilsynet 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, which amounts to 5 per cent.

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 exposures⁵. 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.

Systemic risk in Pillar 2. Two 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 19 March 2017, Sweden applies a counter-cyclical buffer of 2.0 per cent. On 18 September 2018 Finansinspektionen decided to increase the countercyclical buffer rate for Sweden to 2.5 per cent. This means that the new buffer rate will apply as of 19 September 2019. Other EEA countries' countercyclical buffer values are included in the analysis as they come into force⁶

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

⁵ 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>

⁶ 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

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.

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 for 2018 have shown that the buffer exceeds 2.5 per cent for one of the eleven firms. A buffer requirement in excess of the capital conservation buffer is therefore required for that firm. The methodology is further described in *Stress test methodology for determining the capital planning buffer*⁷ and *Capital requirements for Swedish banks*⁸.

⁷ Memorandum published at fi.se 2016, FI Ref. 15-11526

⁸ Memorandum published at fi.se 2014, FI Ref. 14-6258