Capital requirements for the Swedish banks, first quarter 2021

25 May 2021

FI Ref. 21-12926

Finansinspektionen (FI) publishes on a quartely 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 first quarter 2021.

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 Q1 2021 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 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]

---

[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 an supervisory category 2 institution but since FI has not yet carried out a SREP where FI's methods for determining capital requirements 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 because they are Swedish subsidiaries to foreign bank groups and in this memorandum only capital requirements and capital base at group level are published.

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

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.

Description of the calculations

The calculations of capital requirements refer to the first quarter of 2021 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.*[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 May 12, 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.

Risk exposure amount

The capital requirements are expressed as a percentage of the risk-weighted exposure amount (REA) March 31, 2021. FI has decided, within the framework of Article 458 of the CRR, on a risk weight floor for mortgages and to reciprocally apply the Finnish risk weight floor for mortgages. The decision means that REA will increase for the companies that have Swedish and Finnish mortgage exposures. The table below shows the REA and REA in accordance with the decision on supplements in accordance with Article 458.

mSEK	**RVE**	*whereof:* **REA article 458**
SEB	761 144	105 914
SHB	747 273	190 352
Swedbank	694 615	228 284
Landshypotek	34 847	6 328
Länsförsäkringar Bank	130 104	54 534
SBAB	136 078	84 127
Skandiabanken	22 947	15 224
Sparbanken Skåne	33 824	3 451
Kommuninvest	2 433	0
SEK	89 744	0
Nordnet	14 300	0
Avanza	10 096	0

[4] Memorandum published at fi.se 2016, FI Ref. 15–13020.

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*.[5] 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 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. 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.

O-SII-buffer

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

[5] The capital requirement for maturity adjustment will be removed in future capital decisions.

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 as they come into force.[6]

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

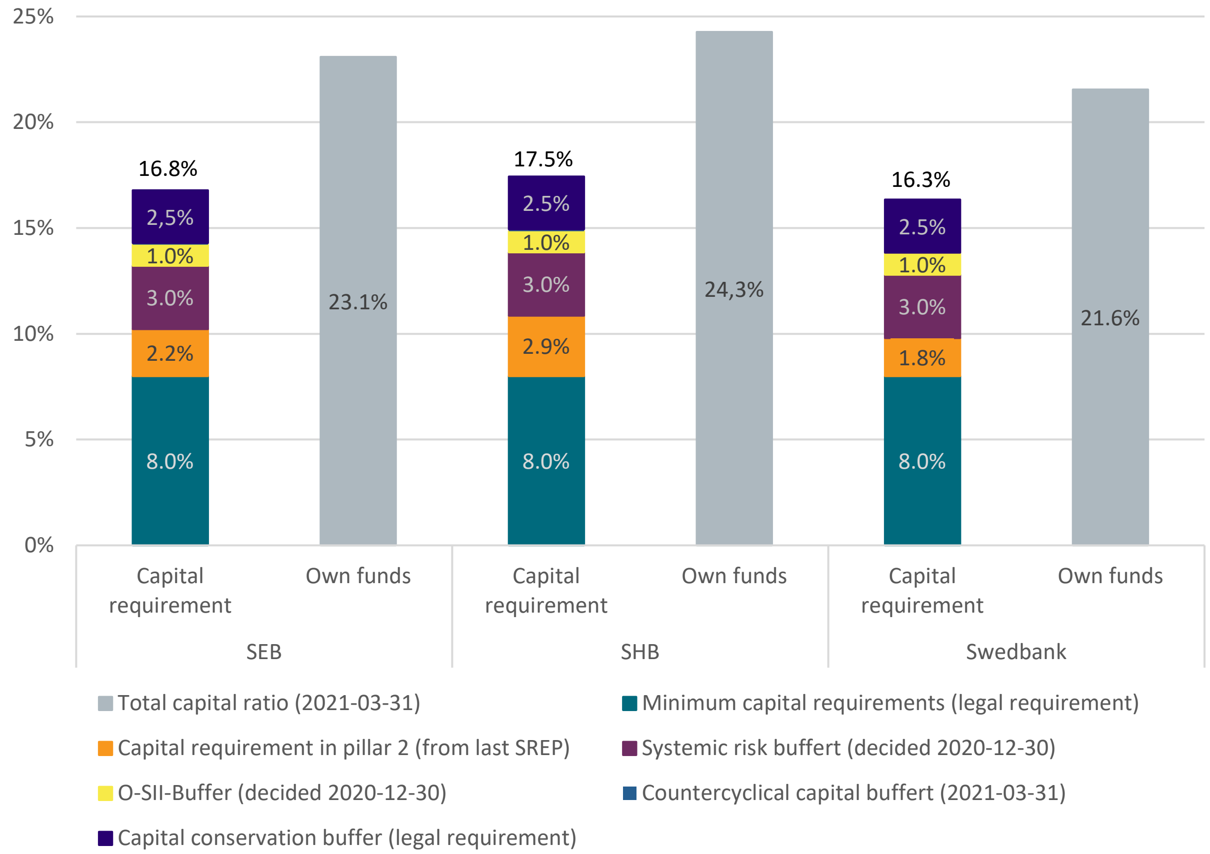
2.5 per cent of the total risk-weighted exposure amount. Covered in its entirety by CET 1 capital.

Capital planning buffer

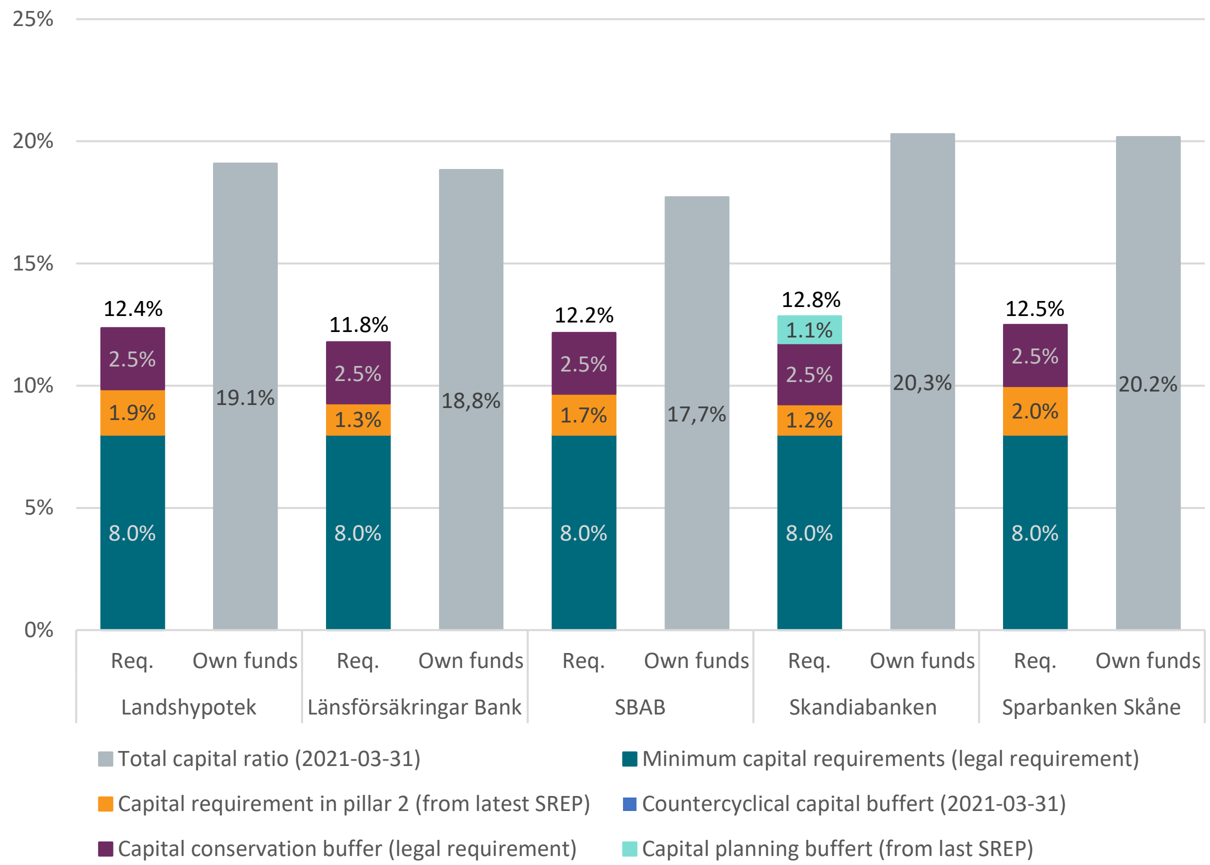
FI's stress tests to determine the capital planning buffer have shown that the buffer exceeds 2.5 per cent for several firms. A buffer requirement in excess of the capital conservation buffer is therefore required for these firms. The methodology is further described in *Stress test methodology for determining the capital planning buffer* and *Capital requirements for Swedish banks.*[7,8]

[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
[7] Memorandum published at fi.se 2016, FI Ref. 15-11526
[8] Memorandum published at fi.se 2014, FI Ref. 14–6258

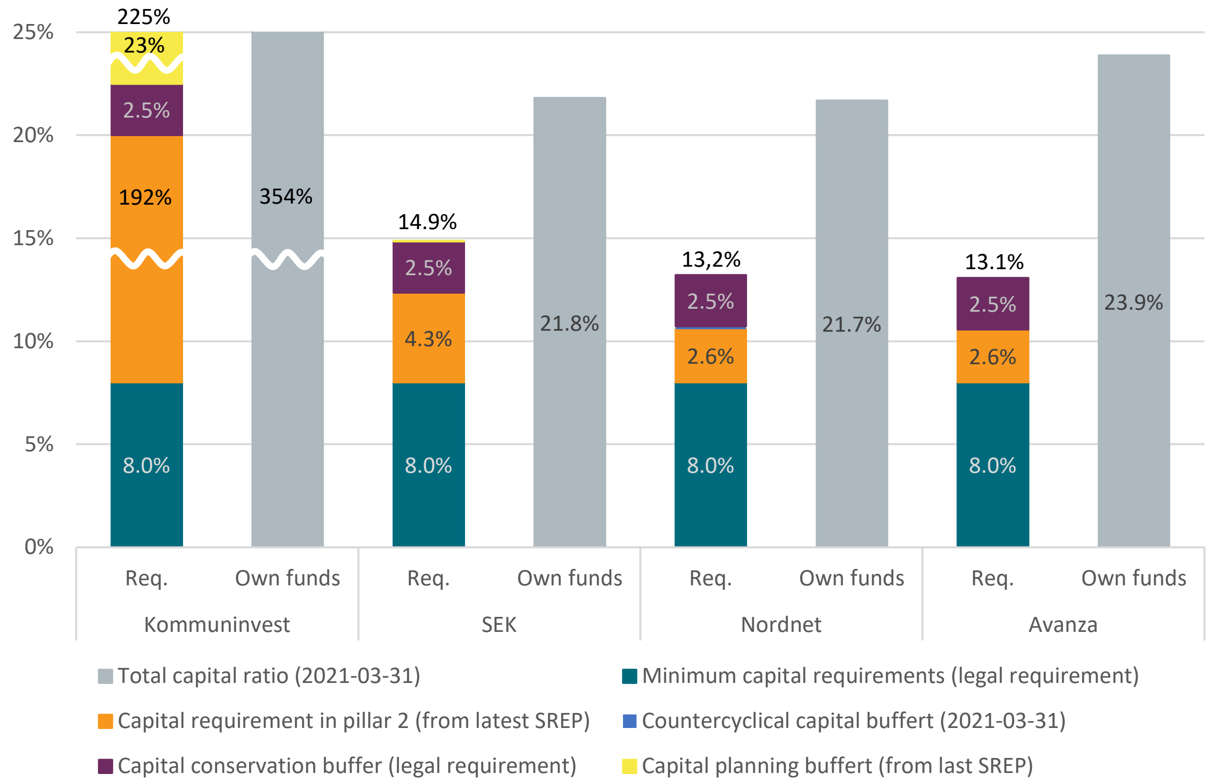
1 Total capital requirements, three major banks



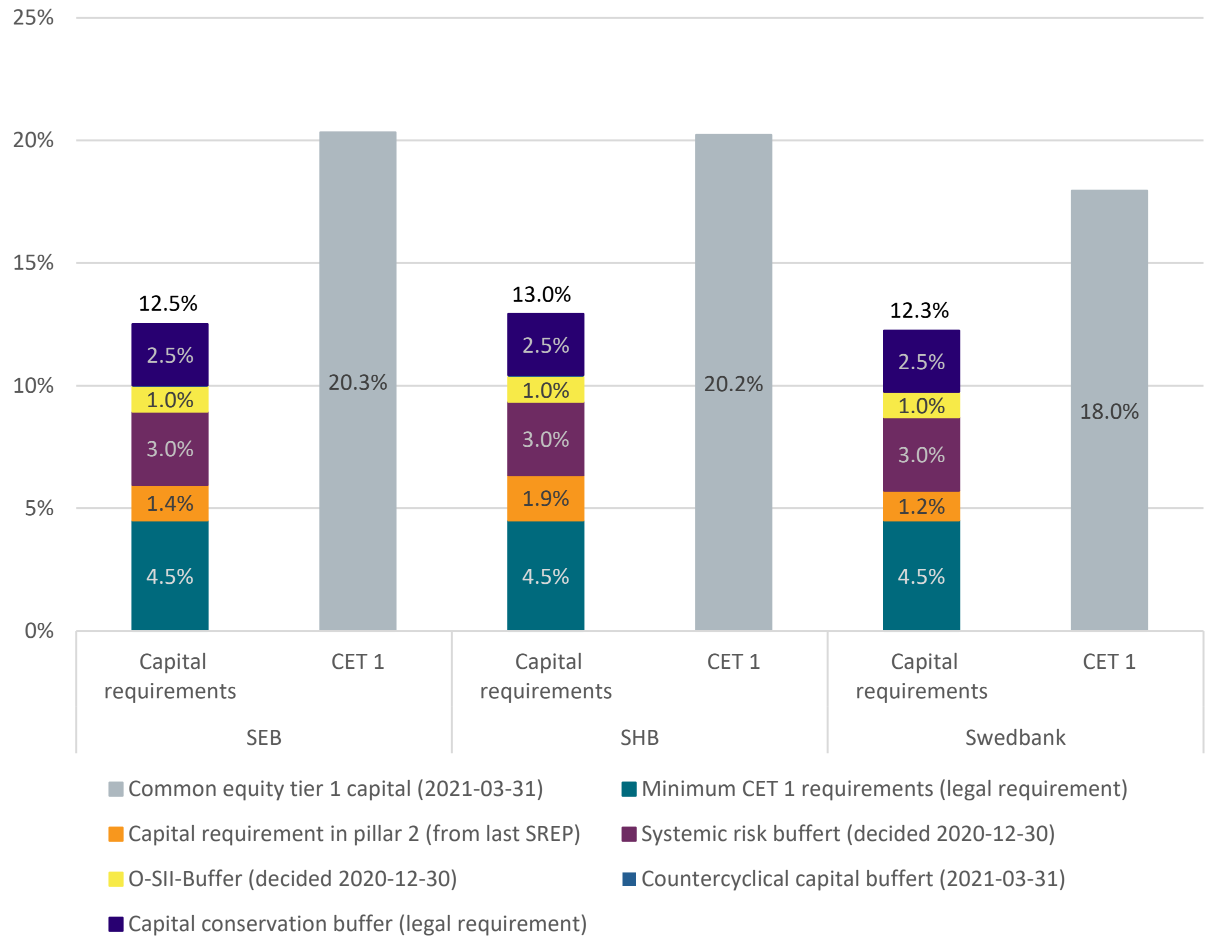
2 Total capital requirement, five of the firms in category 2



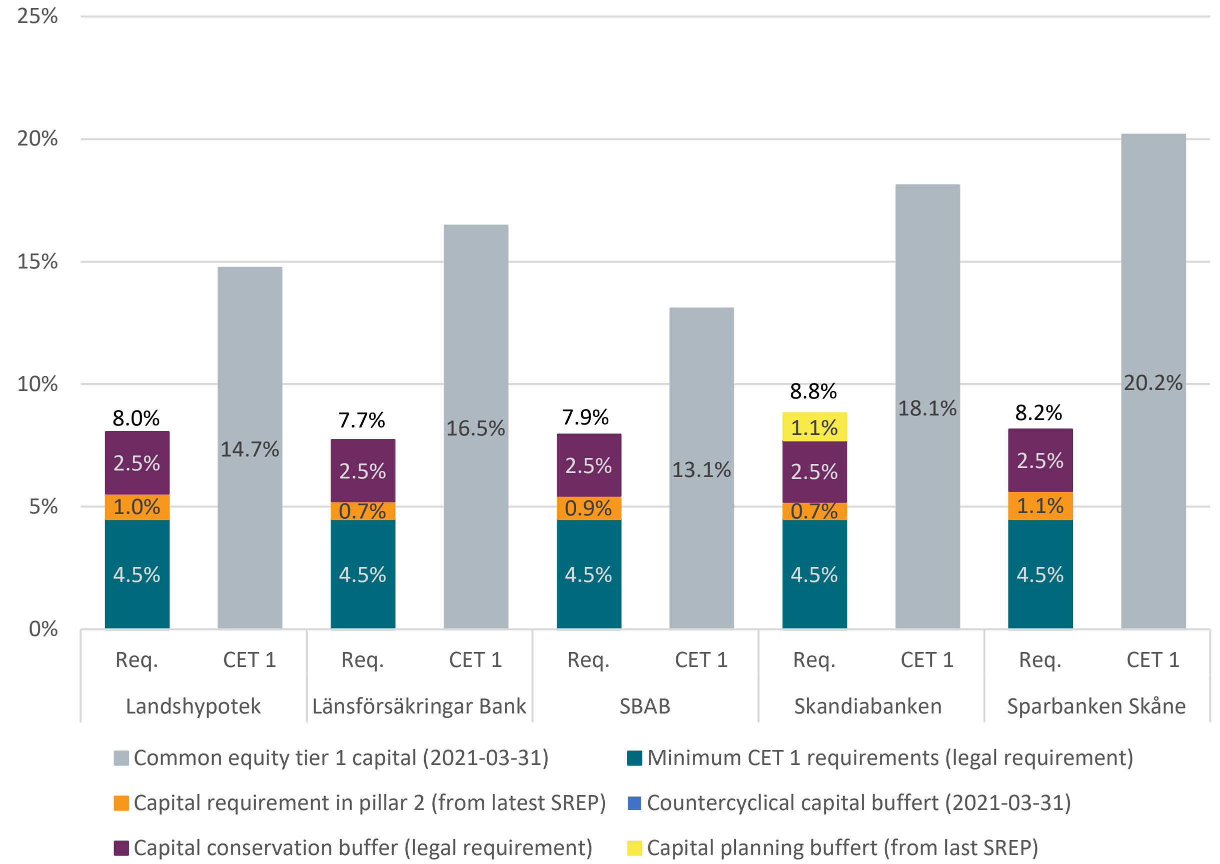
3 Total capital requirement four of the firms in category 2



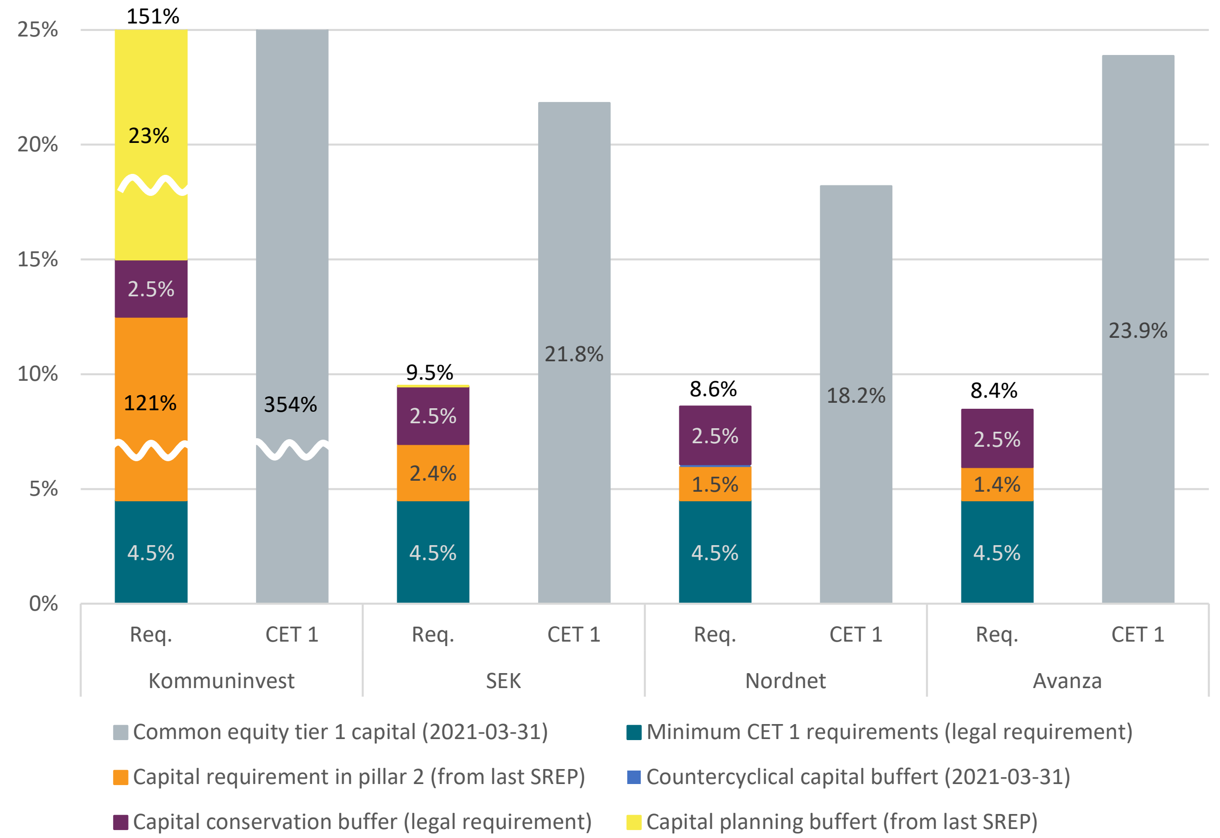
4 Common equity tier 1 capital (CET 1), three major banks



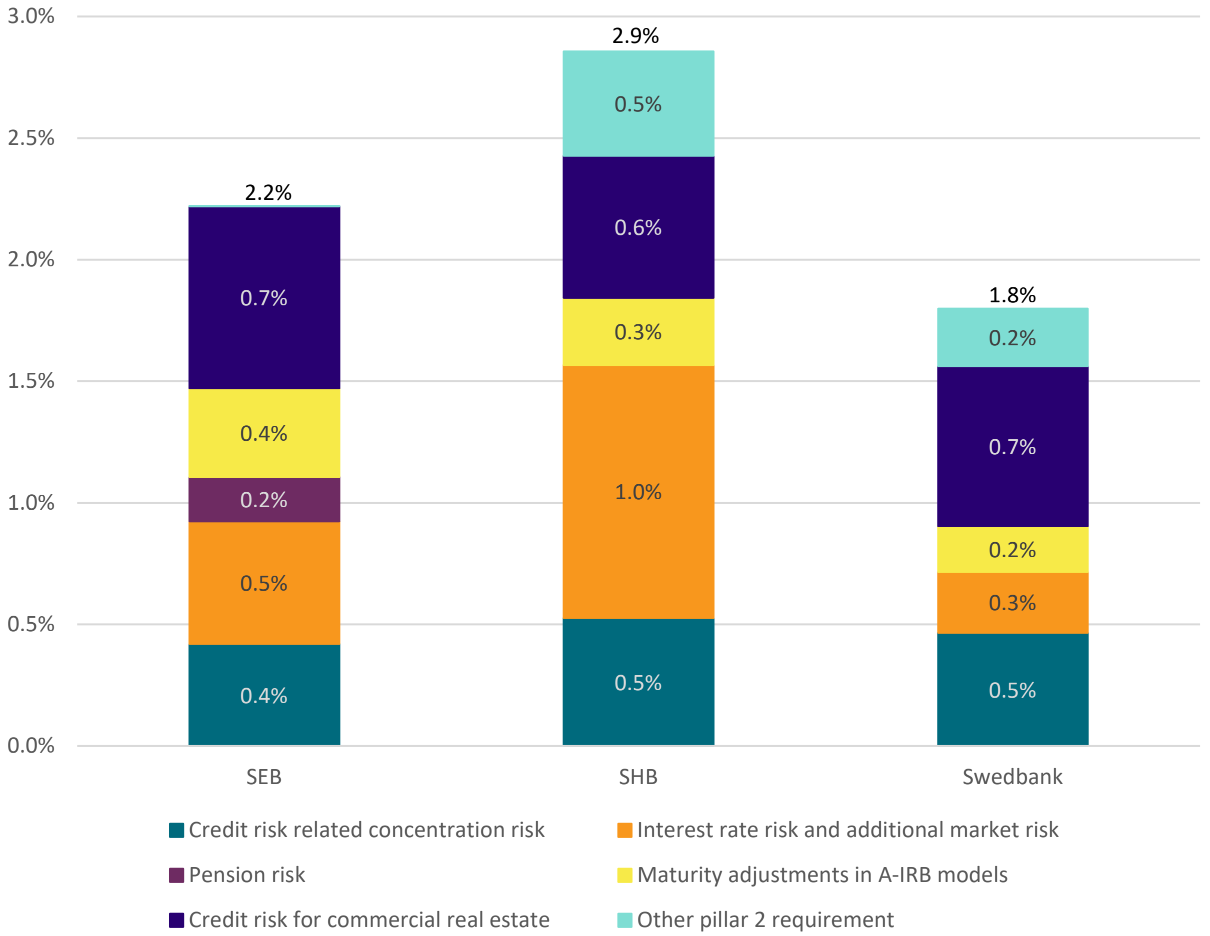
5 Common equity tier 1, five of the firms in category 2



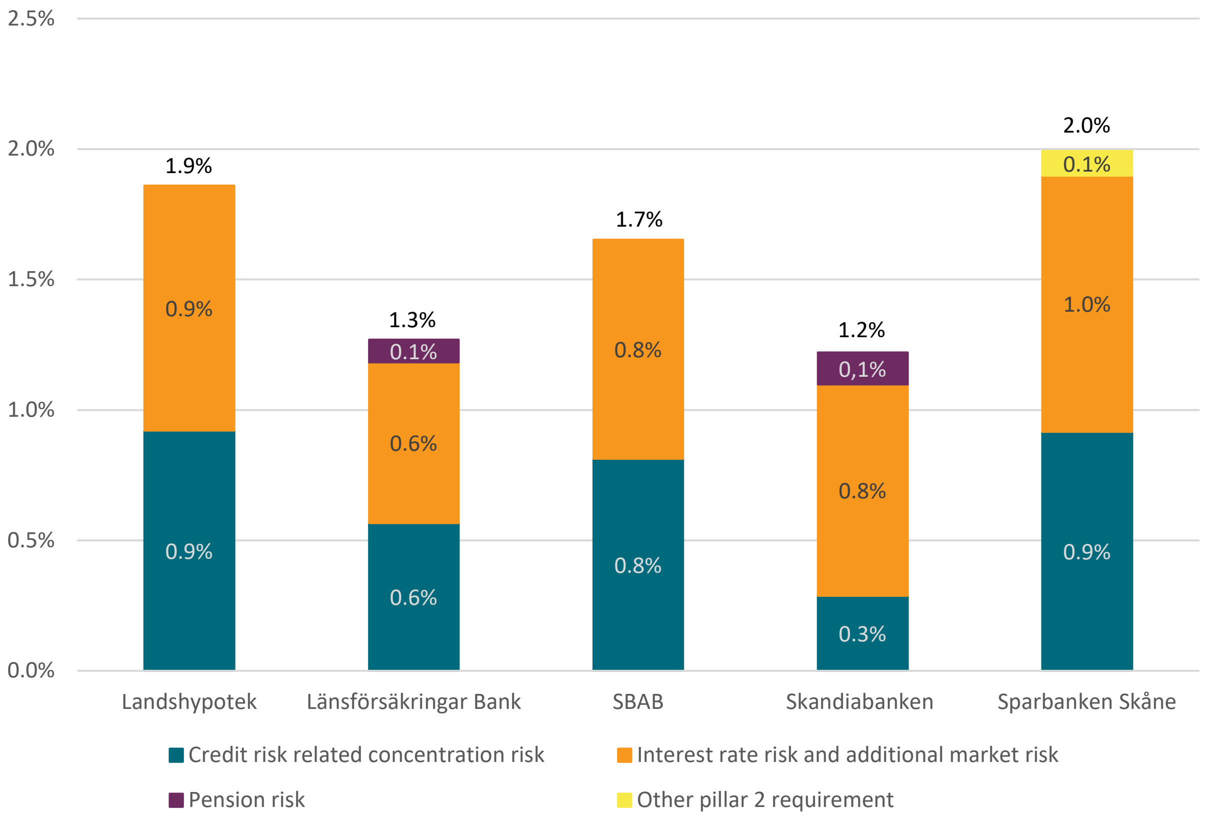
6 Common equity tier 1 (CET 1), four of the firms in category 2



7 Capital requiremen in pillar 2, three major banks (from last SREP)



8 Capital requirement in pillar 2, five of the firms in category 2 (from last SREP)



9 Capital requirements in pillar 2, four of the firms in category 2 (from last SREP)