M E M O R A N D U M

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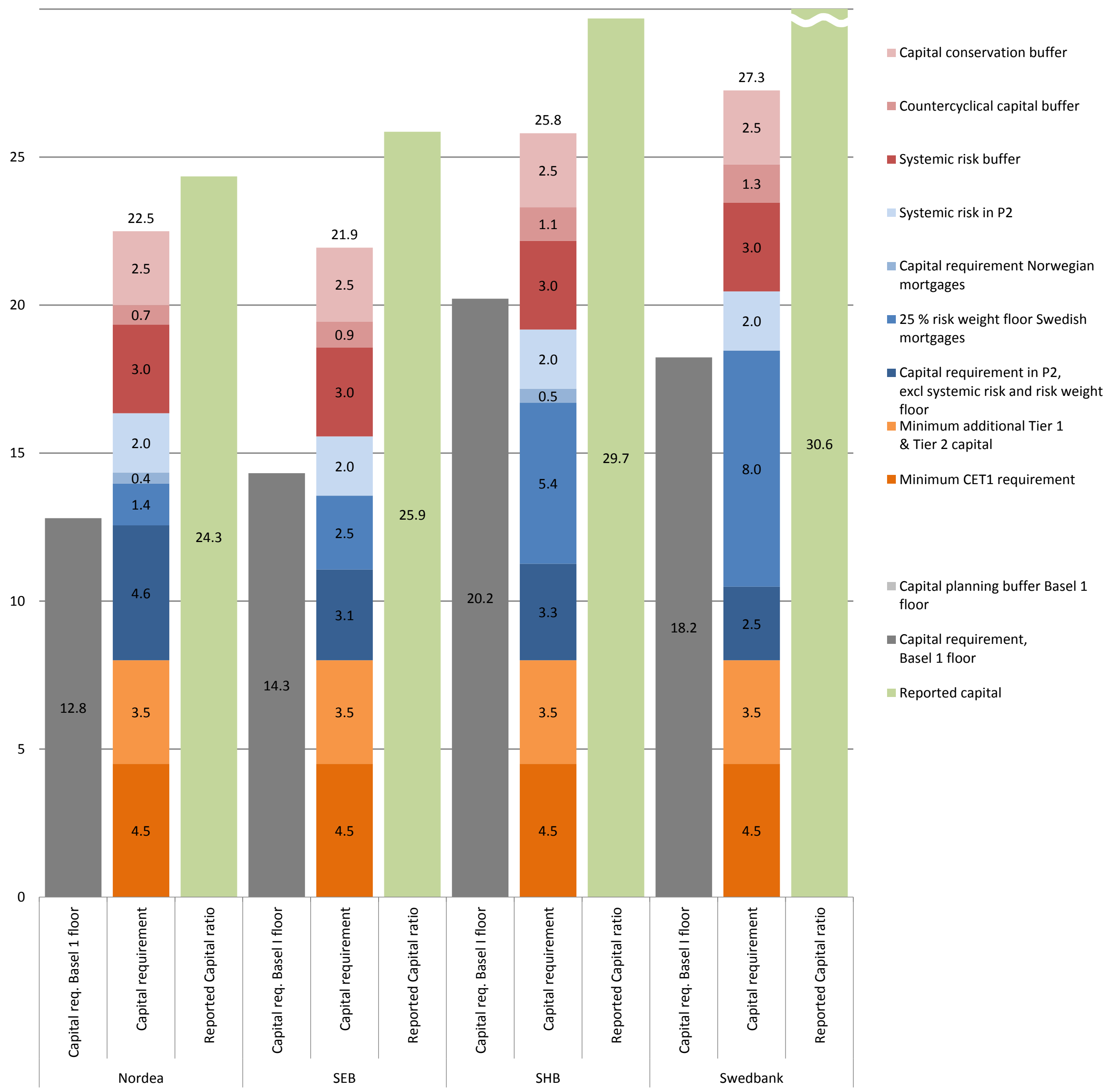
Capital requirements for the Swedish banks, first quarter 2017

Finansinspektionen publishes on a quarterly basis the capital requirements of the ten largest Swedish banks and credit institutions. This memorandum discloses these firms' capital requirements and capital ratios as at the end of the first quarter of 2017, including the values for the requirements in Pillar 2.[1]

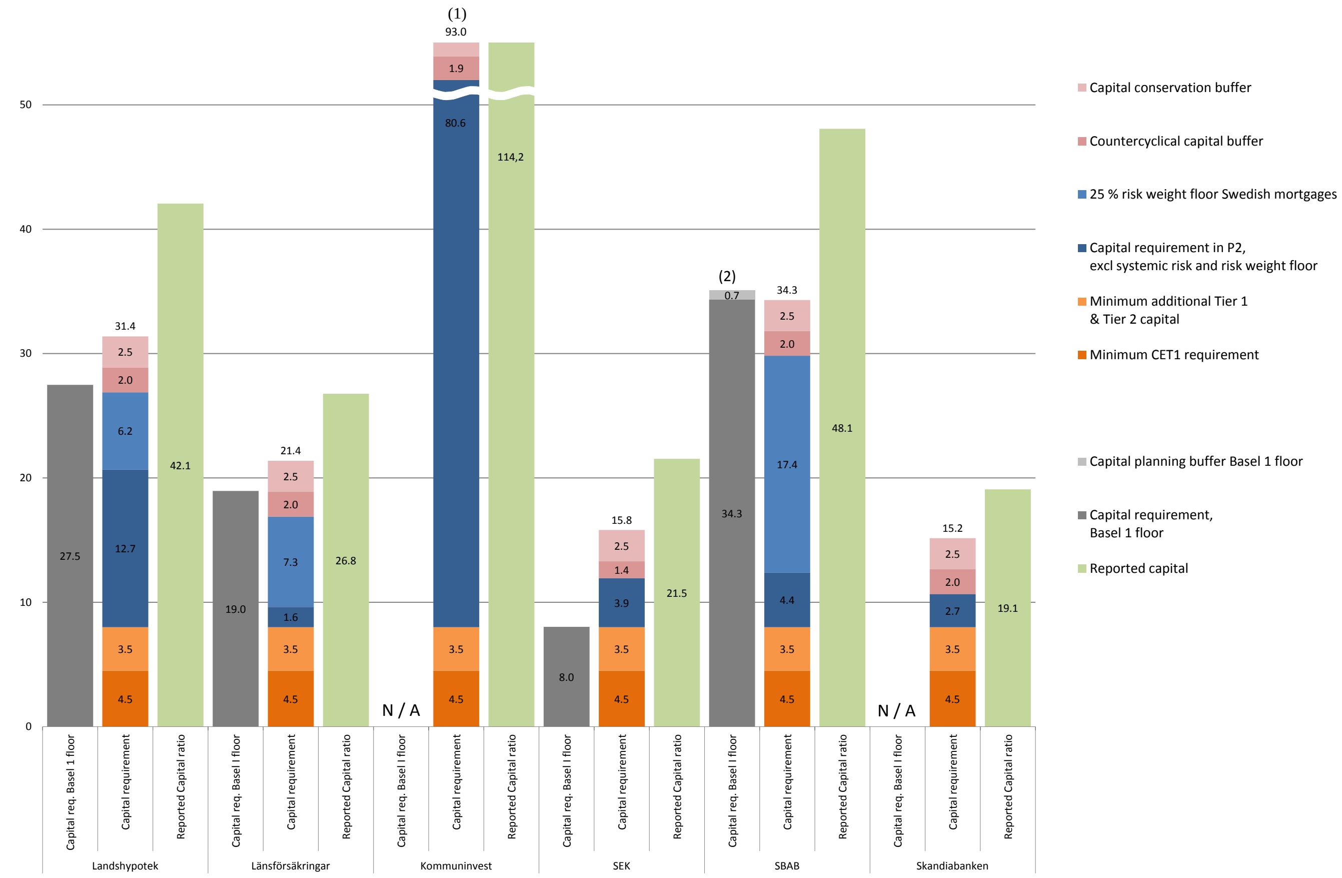
[1] The actual values in Pillar 2 in terms of "Capital requirement in Pillar 2, excl systemic risk and risk weight floor" refers to Finansinspektionen's assessment of the capital requirements in the 2016 SREP.

1 Total capital requirement, four major banks (as percentage of total REA[2])



² Risk Exposure Amount

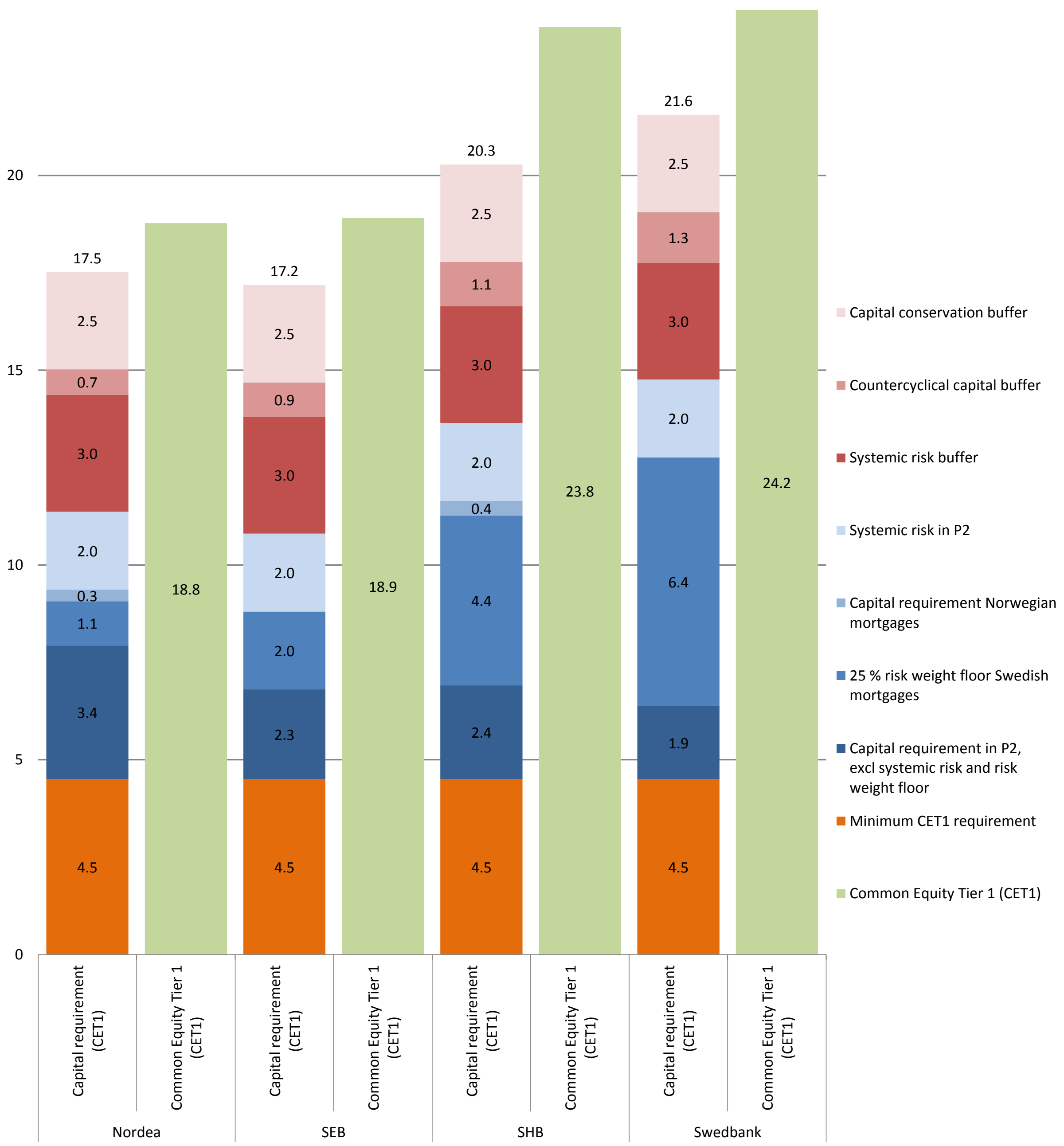
2 Total capital requirement, other six firms (as percentage of total REA)



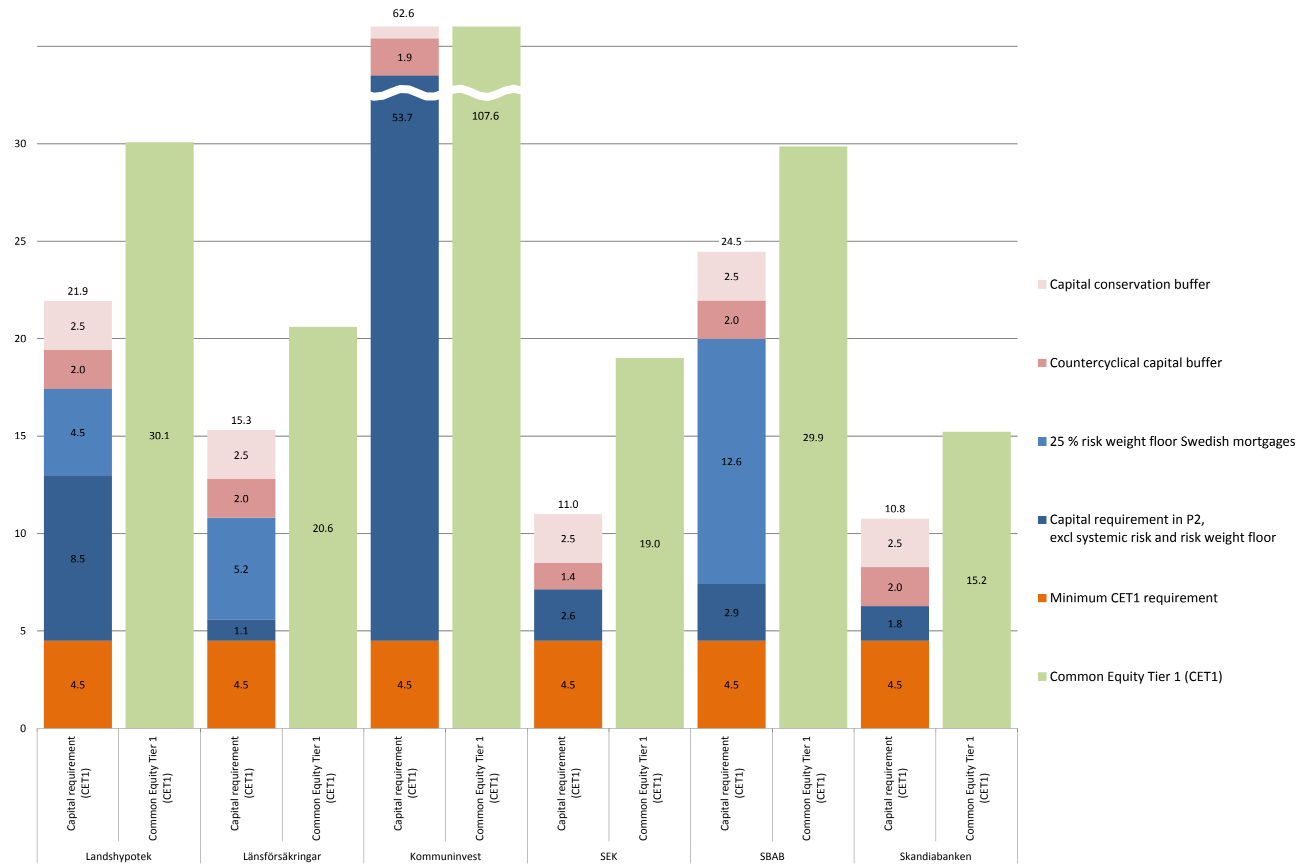
(1) To cover the risk for excessive leverage, FI has assessed that Kommuninvest needs to have own funds amounting to at least 1.5 per cent of its total leverage ratio exposure. For the purpose of reaching this total own funds requirement, an additional capital charge for the risk of excessive leverage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

(2) The applicable capital requirement for SBAB this quarter is the capital requirement as set out by the regulations regarding the Basel I floor. This capital is therefore being reported for SBAB as the Basel 1 floor including the capital planning buffer, in total 35.0 per cent of the risk exposure amount.

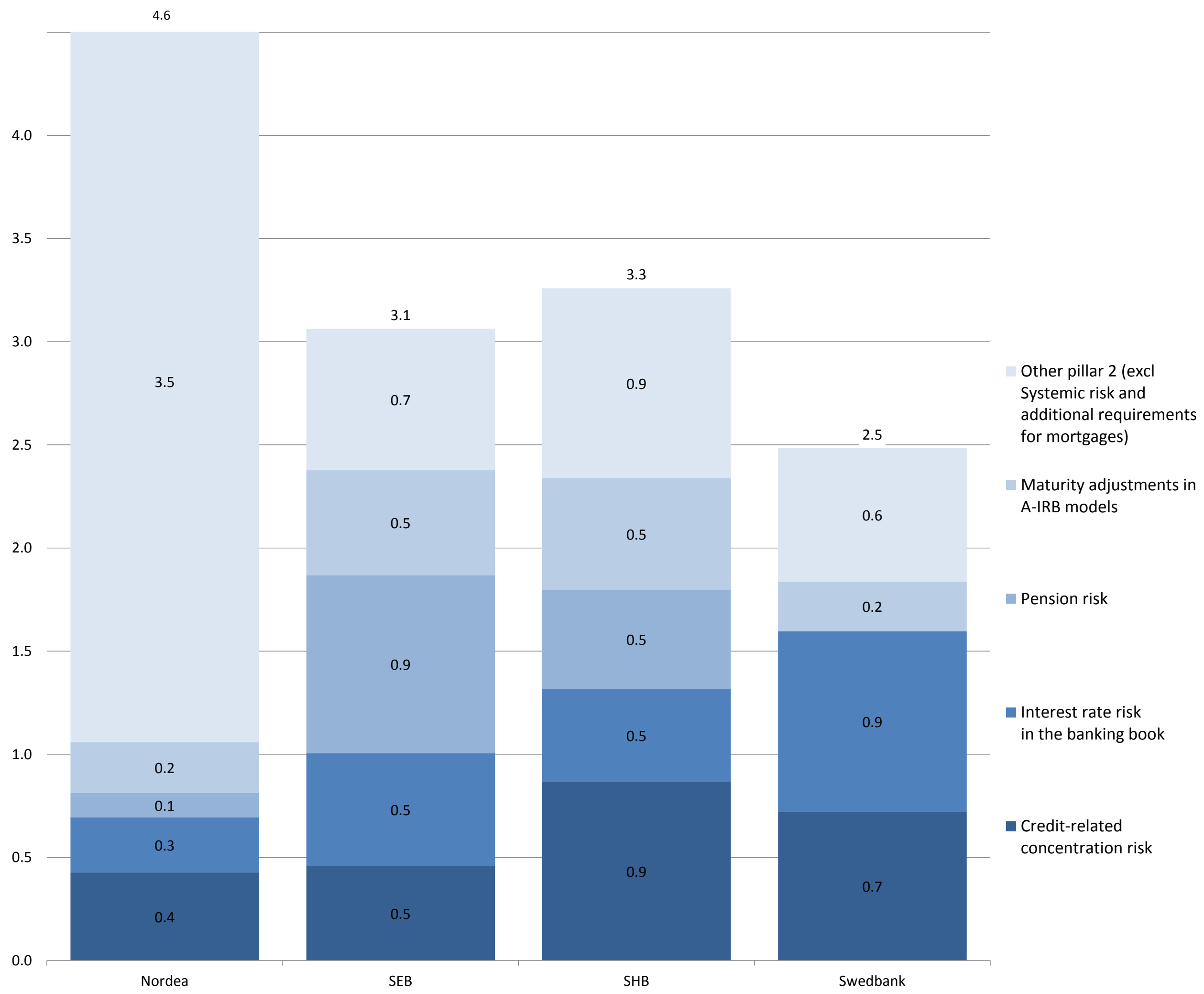
3 Common equity Tier 1 (CET1) requirement, four major banks (as percentage of total REA)



4 Common equity Tier 1 (CET1) requirement, other six firms (as percentage of total REA)



5 P2 capital requirement, four major banks, excluding systemic risk and capital requirements for Swedish and Norwegian mortgages (as percentage of total REA)



6 P2 capital requirement, other six firms, excluding capital requirements for Swedish and Norwegian mortgages (as percentage of total REA)

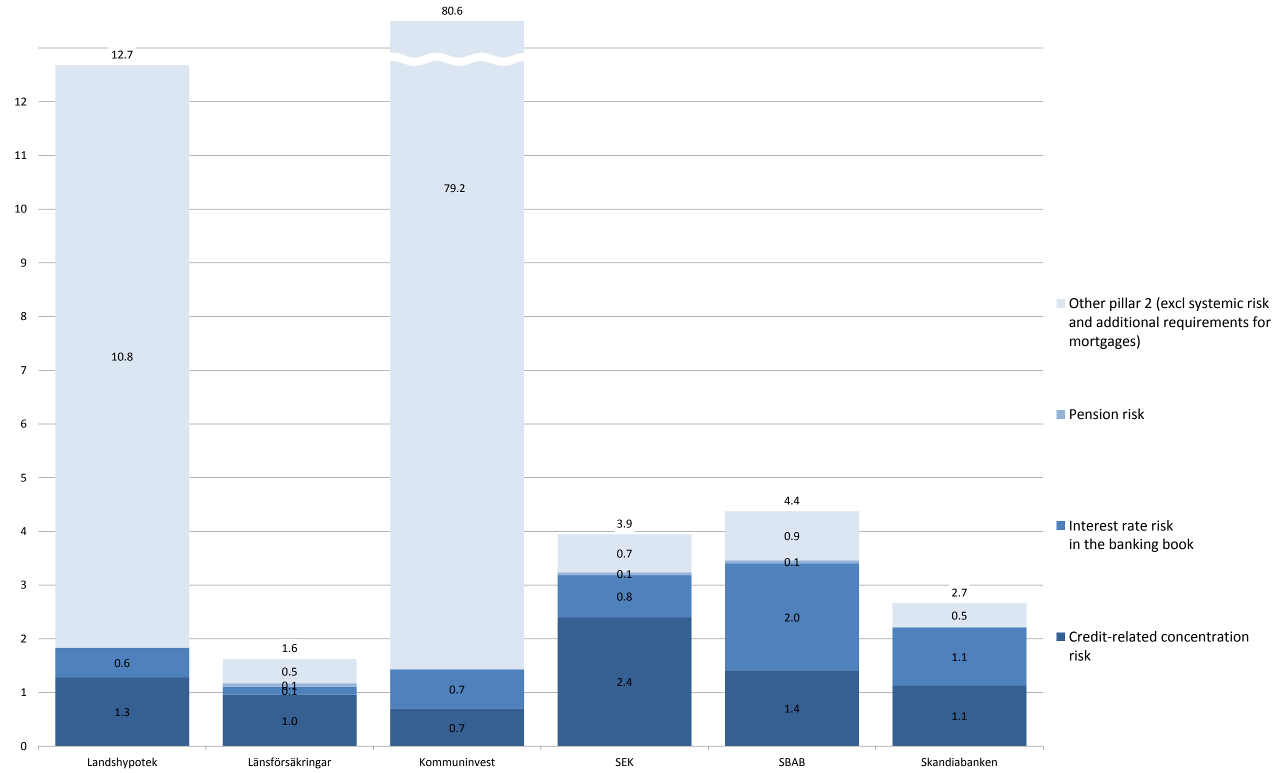


Table 1 Components of the 10 largest firms' combined total capital requirement in SEKm

Table 1 Components of the 10 largest firms' combined total capital need (mnSEK)

	Nordea	SEB	SHB	Swedbank	Lands-hypotek	Länsför-säkringar	Kommun-invest	SEK	SBAB	Skandia	**Total**	**Share of total capital requirement (%)**
Minimum requirement (8 %)	101,871	48,804	39,156	32,857	1,269	4,918	481	7,060	3,272	1,866	**241,556**	**34**
Capital conservation buffer (2.5 %)	31,835	15,251	12,236	10,268	397	1,537	150	2,206	1,023	583	**75,486**	**11**
Credit-related concentration risk	5,433	2,800	4,234	2,962	203	588	42	2,116	576	264	**19,218**	**3**
Interest rate risk in the banking book	3,413	3,337	2,208	3,595	88	92	44	696	817	252	**14,542**	**2**
Pension risk	1,506	5,259	2,361	0	0	41	0	46	22	0	**9,235**	**1**
Maturity adjustments in A-IRB models	3,136	3,105	2,640	986	-	-	-	-	-	-	**9,867**	**1**
Other pillar 2, excl. mortgage risk weight floor & systemic risk	44,544	4,188	4,510	2,659	1,721	279	4,756	624	375	105	**63,761**	**9**
Risk weight floor mortgages Sweden (25 %)	17,976	15,239	26,652	32,764	984	4,464	-	-	7,137	-	**105,215**	**15**
Capital requirement Norwegian mortgages	4,788	9	2,294	7	-	-	-	-	-	-	**7,097**	**1**
Countercyclical capital buffer (1.5 %)	8,318	5,364	5,554	5,306	317	1,226	114	1,205	810	465	**28,679**	**4**
Systemic risk, pillar 2 (2 %)	25,468	12,201	9,789	8,214	-	-	-	-	-	-	**55,672**	**8**
Systemic risk buffer (3 %)	38,202	18,301	14,684	12,321	-	-	-	-	-	-	**83,508**	**12**
Surplus capital requirement, Basel 1-floor (3)	-	-	-	-	-	-	-	-	315	-	**315**	**0**
Total capital requirement	**286,488**	**133,857**	**126,318**	**111,940**	**4,980**	**13,145**	**5,588**	**13,954**	**14,347**	**3,535**	**714,151**	**100**
Capital requirement, Basel 1-floor (3)	*162,993*	*87,356*	*98,946*	*74,879*	*4,361*	*11,653*	-	*7,085*	*14,347*	-	*461,621*	

(3) A capital planning buffer, which is not specified here, is included in addition to the Basel I floor, but it is shown in Chart 2 for SBAB.

Description of the calculations

The calculations of capital requirements refer to the first quarter of 2017 and are done on a group level. The Pillar 2 capital requirements are based on FI's overall capital assessment in 2016. For the majority of 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*[3].

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 in this memorandum the own funds for each firm may include or exclude the profit accrued during the year.

The effects described in this chapter comprise ten firms, eight of which shall comply with the Basel I floor: the four major banks, Landshypotek, Länsförsäkringar, SBAB and SEK. The effects of the Basel I floor are accounted for below as well as in *Finansinspektionen's approach to the Basel I floor*[4].

The calculations in this memorandum are based on data reported to FI. The data was submitted to FI on May 11, 2017. 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 and capital requirements for Swedish and Norwegian mortgages. In this report, Pillar 2 reflects FI's assessment of the capital requirements for each firm.

The Pillar 2 capital requirement, excl. the requirement for systemic risk and capital requirements for mortgages, 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. These capital requirements are not subject to standardised and fully common evaluation methods, which is why they are not disclosed at a more detailed level in this memorandum. 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

[3] Memorandum published at fi.se 2016, FI Ref. 15–13020.
[4] Memorandum published at fi.se 2014, FI Ref. 13-13990.

the exception of the countercyclical capital buffer, for the four major banks and the other six firms. In some cases the countercyclical capital buffer is included.

Risk weight floor of 25 per cent for Swedish mortgages. The increased risk-weighted exposure amount brought about by the risk weight floor of 25 per cent has been multiplied by the relevant capital requirement. The calculation of the capital requirement resulting from the risk weight floor must contain all capital requirements relating to Pillar 1, including the countercyclical capital buffer for Sweden. For the four major banks the calculation also includes the total capital buffer requirement associated with systemic risk, which amounts to 5 per cent.

Capital requirement for Norwegian mortgages. Finanstilsynet in Norway has introduced measures under Pillar 1 for exposures to mortgages which are contributing 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.

For firms subject to these measures but that have yet to calculate the actual size of the capital requirement, FI is using an indicative risk weight of 25 per cent. This risk weight is adjusted depending on the outcome and certainty of the firms' individual calculations based on the measures introduced by Finanstilsynet.

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 four major banks this includes the total capital buffer requirement associated with systemic risk, which amounts to 5 per cent.

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. Other EEA countries' countercyclical buffer values are included in the analysis as they come into force[5]

The firm-specific buffer value has been estimated on the basis of reported data according to the European common instructions for reporting (COREP). In

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

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.

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 2016 have shown that the buffer does not exceed 2.5 per cent for any of the ten firms. A buffer requirement in excess of capital conservation buffer is thus not required for any of the firms. This method is further described in *Stress test methodology for determining the capital planning buffer*[6] and *Capital requirements for Swedish banks*[7].

Basel I floor. According to Swedish law, the Basel I floor represents a minimum capital requirement calculated in Swedish krona, and is applicable to firms that use internal models to calculate the own funds requirements for credit risk and/or operational risk. The floor requires firms to hold own funds that are at all times more than or equal to 80 per cent of the total minimum amount of own funds that a firm would be required to hold under the Basel I rules. Additionally, FI applies an adjusted capital planning buffer to the Basel I floor. This adjusted capital planning buffer is determined by stress testing and disclosed only in cases were the Basel I floor is binding.

The definition of own funds has changed in CRR and CRD 4 compared to the Basel I regulation. For purposes of applying the Basel I floor, the own funds must be adjusted in accordance with Article 500.4 of CRR. This adjustment aims to neutralise the impact of the expected loss amount on the size of the own funds, calculated using the internal model for credit risk. In this memorandum, own funds are illustrated without this adjustment, which affects the comparability between the available own funds and the Basel I floor requirement.

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