M E M O R A N D U M

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Capital requirements of the Swedish banks, first quarter 2016

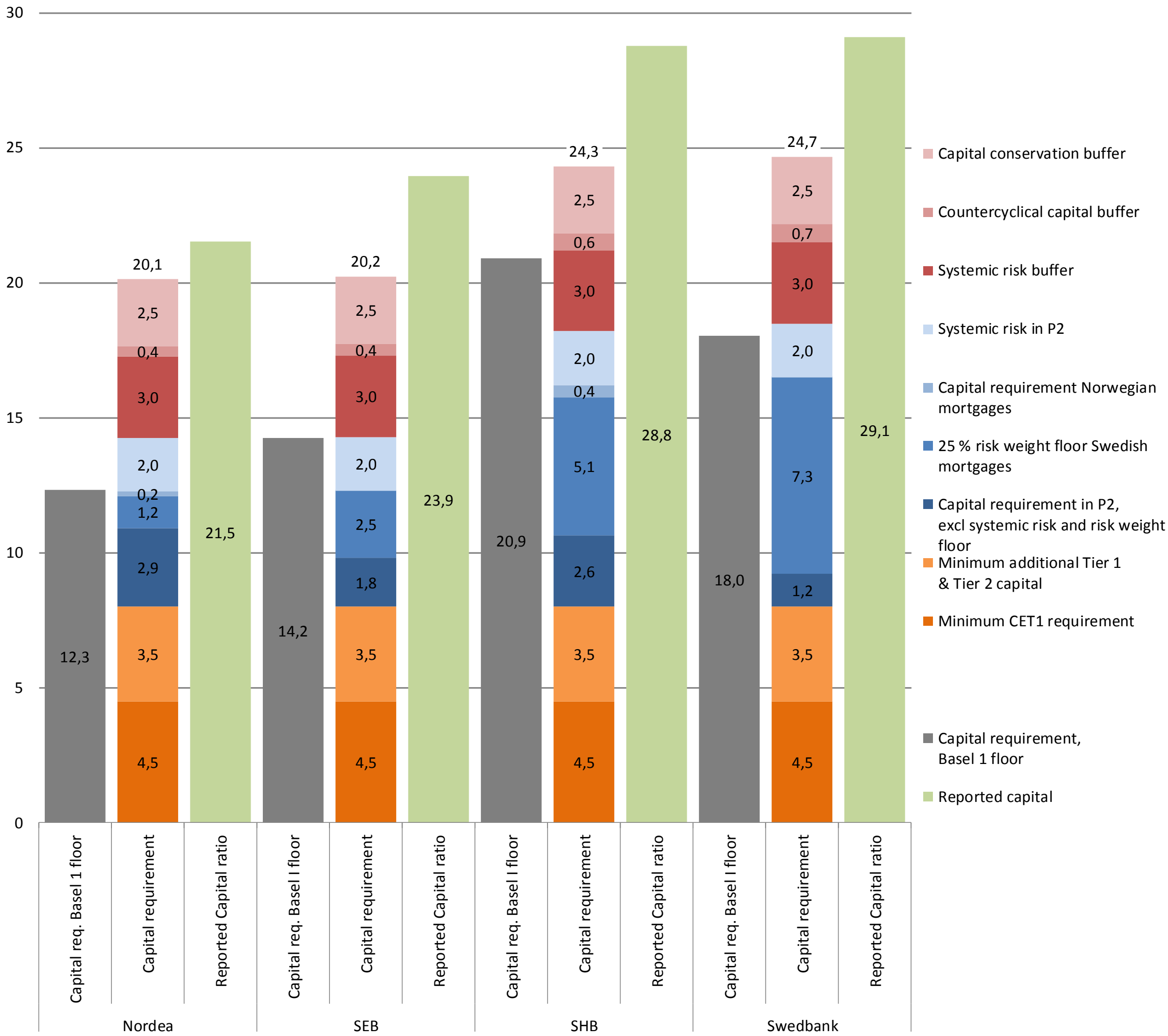
Finansinspektionen publishes on a quarterly basis the capital requirements of the ten largest Swedish banks and credit institutions. This memorandum discloses these firms' capital requirements and capital ratios as of the end of the first quarter 2016. In this memorandum FI is disclosing the values for the requirements in pillar 2.[1]

The result of the 2015 SREP for Landshypotek was communicated on the 14th of April 2016, after the end of the first quarter of 2016. The outcome of the 2015 SREP for Landshypotek is although accounted for in this memorandum.

The result of the 2015 SREP for Skandiabanken was communicated on the 17th of March 2016, the outcome of the 2015 SREP for Skandiabanken is accounted for in this memorandum.

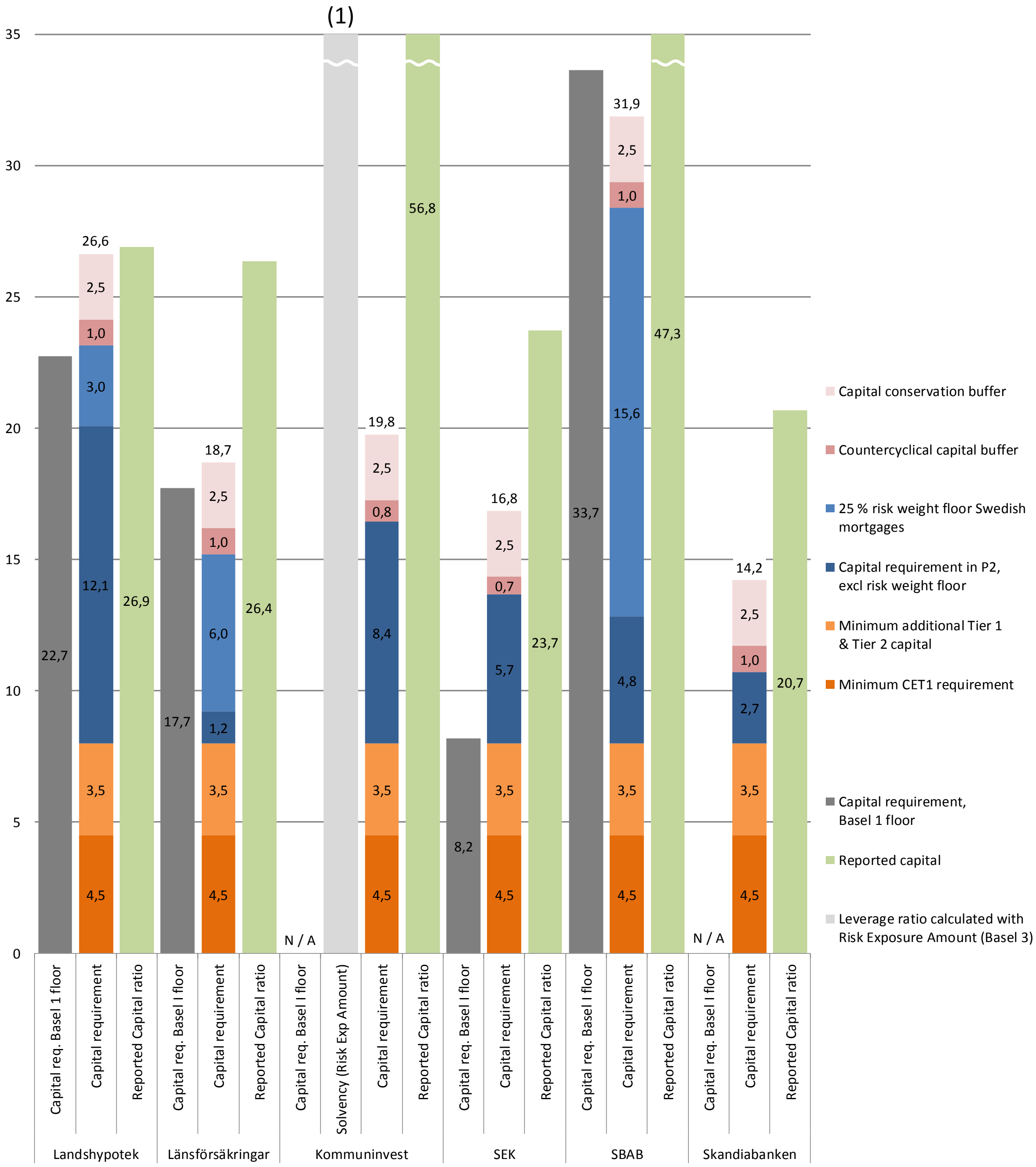
[1] The actual values in pillar 2 in terms of "Capital requirement in pillar 2, excl systemic risk and risk weight floor" refers to Finansinspektionens assessment of the capital requirements in the SREP of 2015.

1 Total capital requirement, four major banks (in per cent of total REA[2])



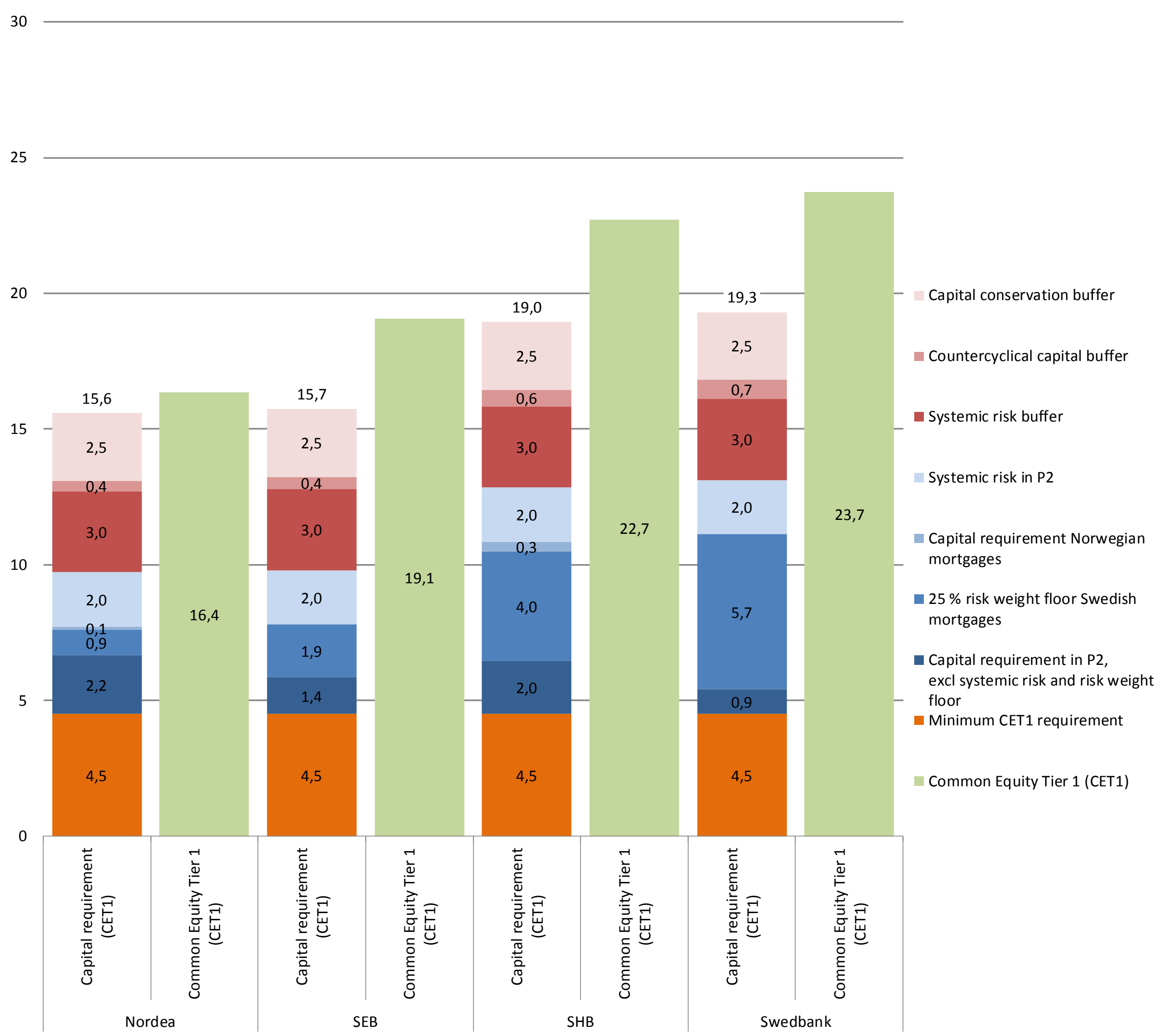
[2] Risk Exposure Amount

2 Total capital requirement, other six firms (in per cent of total REA)

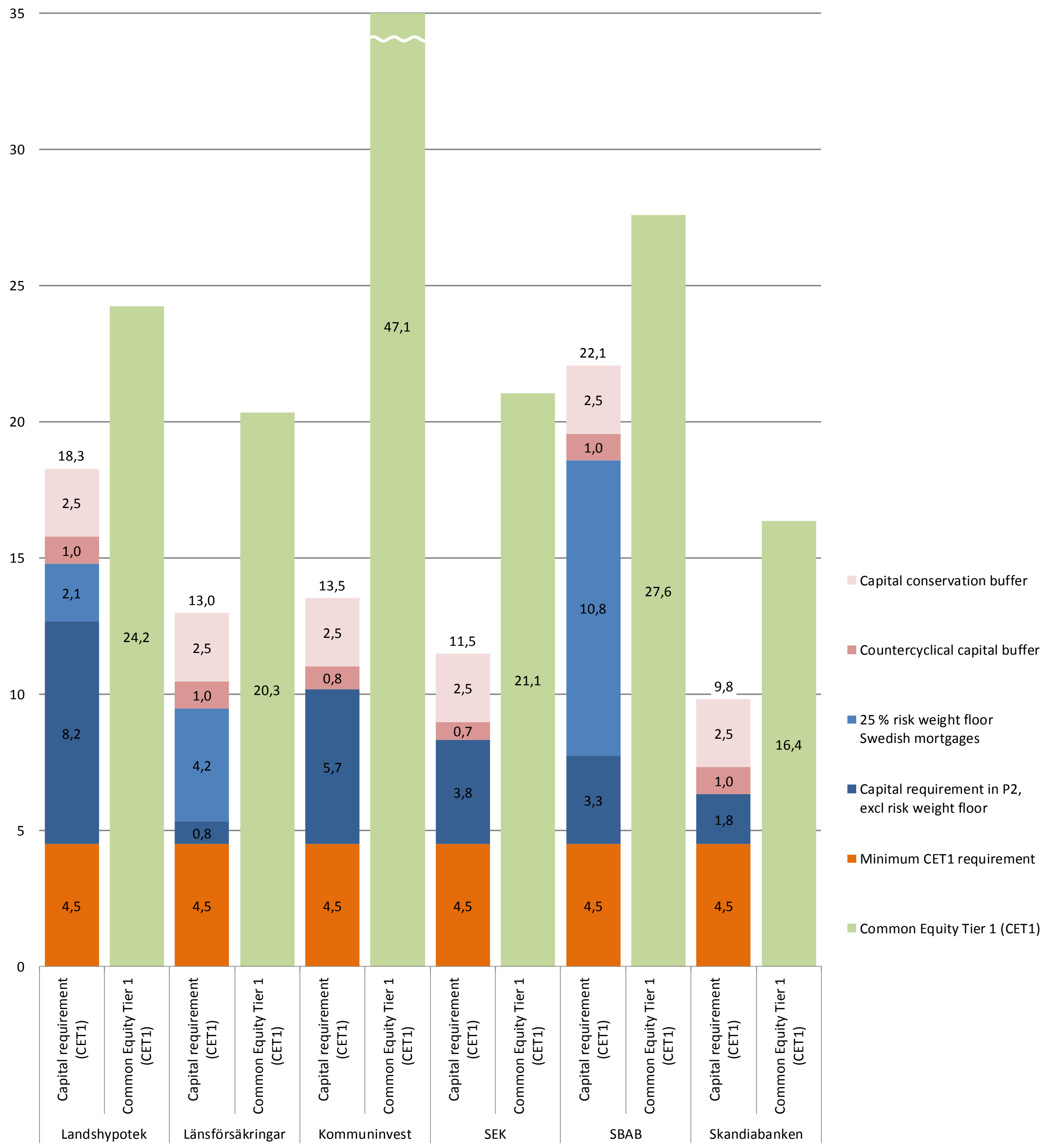


(1) In order for Kommuninvest to contain the risk of excessive leverage, it is FI's assessment that Kommuninvest should continue to pursue its' action plan to strengthen the leverage ratio. This chart shows that the capital base (green bar) of Kommunvest is equal to leverage ratio-based requirement (light grey bar).

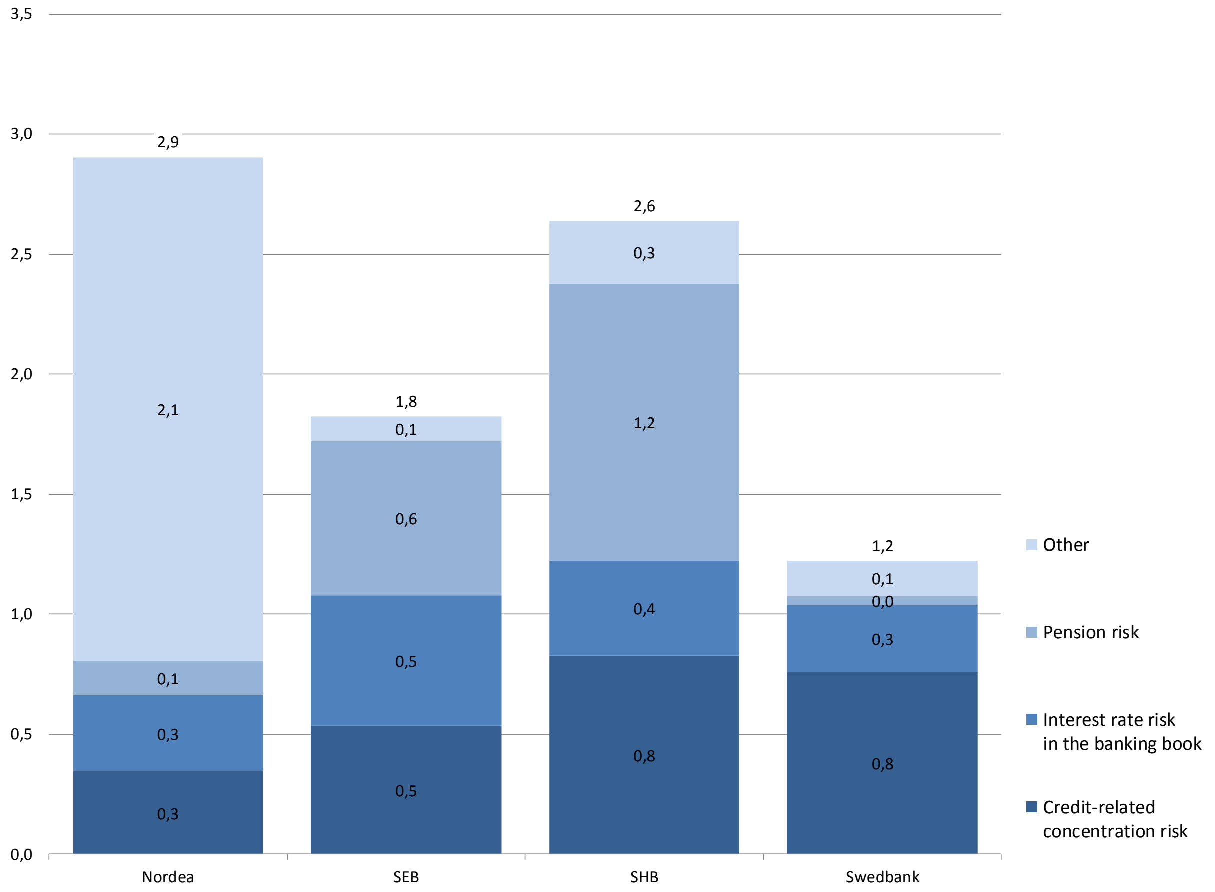
3 Common equity Tier 1 (CET1) requirement, four major banks (in per cent of total REA)



4 Common equity Tier 1 (CET1) requirement, other six firms (in per cent of total REA)



5 Capital requirement in P2, four major banks, excluding systemic risk and capital requirements for Swedish and Norwegian mortgages (in per cent of total REA)



6 Capital requirement in P2, other six firms, excluding capital requirements for Swedish and Norwegian mortgages (in per cent of total REA)

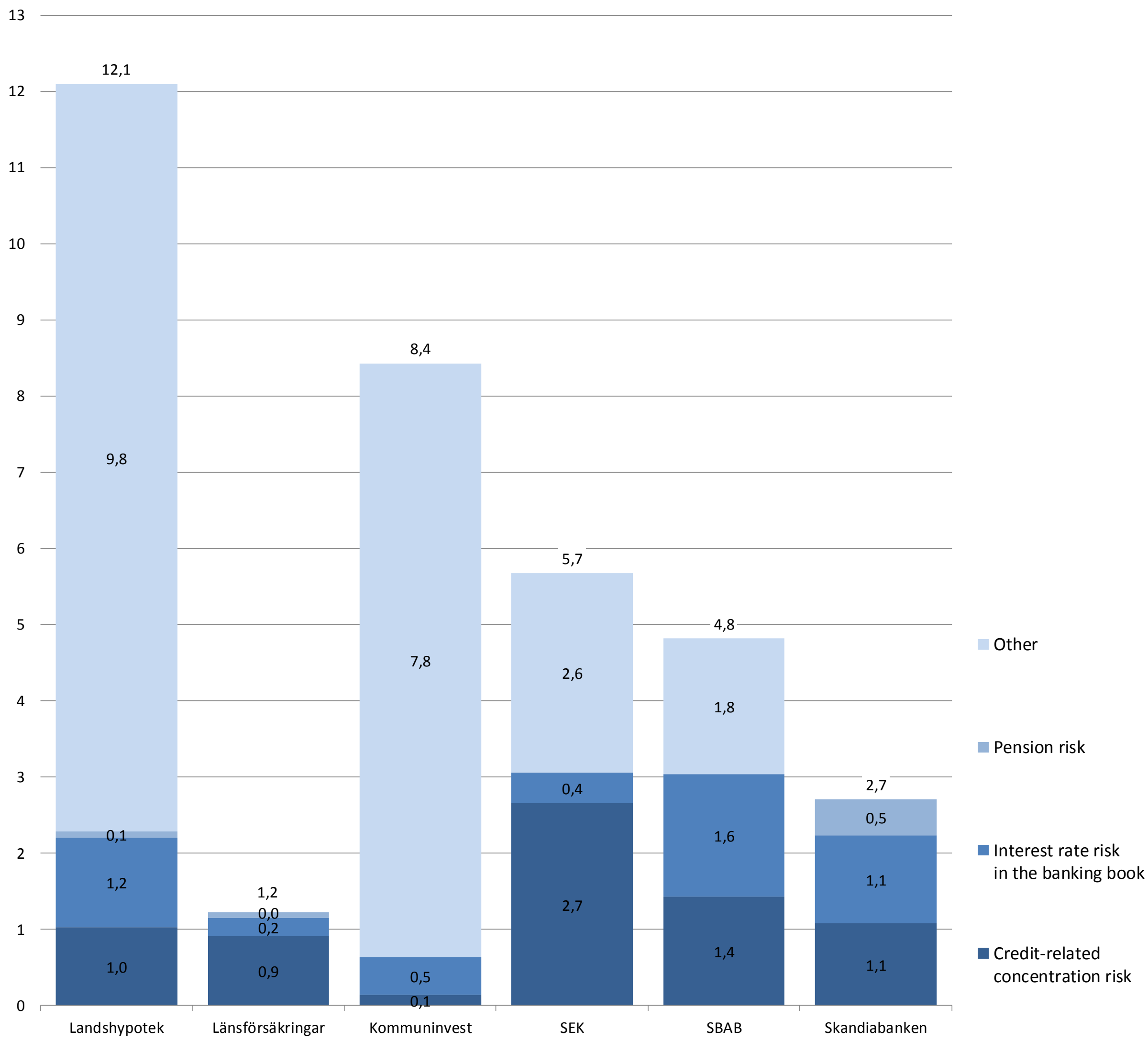


Table 1 Components of the 10 largest firms' combined total capital requirement in mnSEK

	Nordea	SEB	SHB	Swedbank	Lands-hypotek	Länsför-säkringar	Kommun-invest	SEK	SBAB	Skandia	**Total**	**Share of total capital requirement (%)**
Minimum requirement pillar 1 (8 %)	105 584	45 020	36 488	31 906	1 500	4 651	491	6 104	3 231	1 663	**236 639**	**37**
Capital conservation buffer (2,5 %)	32 995	14 069	11 403	9 971	469	1 453	154	1 908	1 010	520	**73 950**	**12**
Pillar 2, excl. risk weight floor & systemic risk	38 520	10 268	12 033	4 876	2 268	712	518	4 333	1 946	564	**76 038**	**12**
Risk weight floor mortgages Sweden (25 %)	15 623	13 890	23 423	28 975	572	3 471	-	-	6 287	-	**92 241**	**15**
Risk weight floor mortgages Norway (25 %)	2 123	11	1 991	6	-	-	-	-	-	-	**4 131**	**1**
Countercyclical capital buffer (1,0 %)	4 995	2 508	2 786	2 726	188	580	51	505	401	207	**14 947**	**2**
Systemic risk, pillar 2 (2 %)	26 396	11 255	9 122	7 977	-	-	-	-	-	-	**54 750**	**9**
Systemic risk buffer (3 %)	39 594	16 883	13 683	11 965	-	-	-	-	-	-	**82 125**	**13**
Surplus capital require-ment, Basel 1-floor	-	-	-	-	-	-	-	-	715	-	**715**	**0**
Total capital requirement	**265 829**	**113 904**	**110 928**	**98 402**	**4 996**	**10 867**	**1 214**	**12 850**	**13 589**	**2 953**	**635 534**	**100**
Capital requirement, Basel 1-floor	*162 570*	*80 161*	*95 359*	*71 941*	*4 266*	*10 304*	*0*	*6 249*	*13 589*	*0*	*444 439*	

Description of the calculations

The effects have been assessed based on data primarily pertaining to the first quarter of 2016. The calculations pertain to the consolidated level. The capital requirements in Pillar 2 is based on the actual Supervisory Review and Evaluation Process (SREP) of 2015.

The calculations in this memorandum are based on reported data from the ten firms as of the first quarter of 2016. This data can, in certain aspects, differ from one company to another, for example when it comes to retained earnings. This means that the ten firms differ in their treatment of retained earnings for the purpose of calculating the capital base.

The effects described in this chapter comprise ten firms, eight of these shall comply with the Basel 1 floor; the four major banks, Landshypotek, Länsförsäkringar, SBAB and SEK. The effects of the Basel 1 floor are accounted for below as well as in *Finansinspektionen's approach to the Basel 1 floor*.[3]

The size of the various components of the capital requirement has been estimated as follows.

<u>Capital requirement in Pillar 2, excluding systemic risk and capital requirements for Swedish and Norwegian mortgages.</u> In this report Pillar 2 reflects FIs assessment of the capital requirements for each firm.

The capital requirement in Pillar 2, excl. requirement for systemic risk and capital requirements for mortgages, is illustrated as an aggregate for each firm in Chart 1 to 4 and divided into four components in Chart 5 and 6. These components consist of the three risk types; Credit-related concentration risk, Interest rate risk in the banking book, Pension risk and Other Pillar 2 requirements. The latter component, Other Pillar 2 requirements, is in turn an aggregate of capital requirements in Pillar 2 which are not presented separately. These capital requirements are not subject to standardized and fully common evaluation methods which is the reason why they are not disclosed at a more granular level in this memorandum.

The Other Pillar 2 requirements consists of risk elements such as market and credit risk which are not treated in Pillar 1 as well as, in certain cases, capital requirements for shortcomings in governance, risk management and control.

[3] Memorandum published on fi.se on 18 March 2014, FI ref. 13-13990.

The share of the capital requirement which is to be covered by common equity Tier 1 (CET 1) capital is decided in accordance with the distribution of capital in Pillar 1 (including the combined buffer requirement except the countercyclical capital buffer) for the four major banks and the other six firms.

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. When calculating the capital requirement resulting from the risk weight floor, all capital requirements relating to Pillar 1 are to be included, counting the countercyclical capital buffer for Sweden. For the four major banks this also includes the total capital buffer requirement associated with systemic risk which amounts to 5 per cent. In connection to

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 will, instead of implementing the measures, 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 the firms which are subject to these measures but are yet to calculate the actual size of the capital requirement, FI is using an indicative risk weight of 25 per cent. This risk weight could be adjusted depending on the outcome and certainty of the firms individual calculations based on the measures introduced by Finanstilsynet.

When calculating the capital requirement for Norwegian mortgages all capital requirements relating to Pillar 1 are to be included, counting 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 cents.

Systemic risk in Pillar 2. 2 per cent of the total risk-weighted amount for the major banks. Covered in its entirety by common equity Tier 1 (CET 1) capital.

Systemic risk buffer. 3 per cent of the total risk-weighted amount for the major banks. Covered in its entirety by common equity Tier 1 (CET 1) capital.

Countercyclical capital buffer. The Swedish and Norwegian countercyclical buffer rate of 1 per cent separately has been used in the calculation. 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 with the countercyclical buffer rate of each country.

The forthcoming increase in the Swedish and Norwegian countercyclical buffer rate, from 1 to 1.5 per cent, will be taken into account as they come into effect as of the 27th of June 2016 and the 30th of June 2016 respectively.

The capital requirement for Swedish banks in terms of foreign countercyclical buffers will be included in the analysis as they come into force. Currently, no member of the European union has as of yet implemented a countercyclical buffer rate other than zero per cent.[4]

Capital conservation buffer. 2.5 per cent of the total risk-weighted exposure amount. Covered in its entirety by common equity Tier 1 (CET 1) capital.

Capital planning buffer. The capital planning buffer is not being considered in this memorandum.

Basel I-floor. According to Swedish law, the Basel I-floor represents a minimum capital requirement calculated in Swedish kronor. The capital requirement is 8 per cent of the total risk weighted assets calculated in accordance with the Basel I rules. The minimum own funds requirement is 80 per cent of the capital requirement calculated according to the Basel 1 rules.

The definition of own funds has changed in CRR and CRD 4 compared to the Basel 1 regulation. Own funds, to be compared with the Basel 1 floor, shall be adjusted in accordance with Article 500(4) of CRR. The adjustment aims to neutralize the impact that the expected loss amount, calculated with the internal model for credit risk, has on the size of the own funds. In this memorandum, own funds are illustrated without the adjustment in accordance with Article 500(4) which results in less comparability between capital requirements based on risk exposure amount and the requirements based on Basel 1 floor.

[4] For an overview of the current countercyclical buffer rates, see ESRB's web-page: https://www.esrb.europa.eu/mppa/html/index.en.html