Memorandum

Datum	2025-02-28	FI dnr	25-3319
Författare	Finansinspektionen		

Finansinspektionen
Box 7821
103 97 Stockholm Sweden
Tel +46 8 408 980 00
finansinspektionen@fi.se
www.fi.se

Effective CET 1 capital headroom for banks

Summary

As of February 2025, Finansinspektionen (FI) will publish the effective Common Equity Tier 1 (CET 1) capital headroom for banks in its memorandum *Capital requirements for the Swedish banks*. The effective CET 1 capital headroom shows how much of a bank's own buffer of CET 1 capital – in relation to the risk-weighted capital requirement and the Pillar 2 guidance – is available to cover losses without the bank breaching a regulatory requirement or Pillar 2 guidance.

The effective CET 1 capital headroom for the banks in Categories 1 and 2 are set out in Figure 9 of *Capital requirements for the Swedish banks*.

Background

A bank often holds a buffer of capital in addition to the capital that FI expects the bank to hold. When publishing its annual and interim reports, a bank also usually publishes information on the size of the buffer of CET 1 capital (hereafter referred to as the CET 1 capital headroom) it holds in relation to its need for CET 1 capital. The size of the banks' CET 1 capital headroom is also presented in Figures 3 and 4 in FI's quarterly memorandum *Capital requirements for the Swedish banks*.

However, the banks are subject to several regulatory requirements where CET 1 capital can be used for compliance with several of the requirements. Therefore, there is no guarantee that a bank can use all of its CET 1 capital headroom without risking a breach of other risk-weighted capital requirements, the leverage ratio requirement, or minimum requirements on own funds and eligible liabilities (MREL)[1]. At the same time, it should be noted that breaches of different requirements can have different consequences.

The aim of FI publishing the effective CET 1 capital headroom for the banks is to show how much of the banks' CET 1 capital is available to cover losses before a bank breaches any of its regulatory requirements and its Pillar 2 guidance. FI aims to facilitate the interpretation of the capital situation for market participants and other stakeholders. We have shown in two previous FI Analyses[2] that, in some cases, banks cannot use their entire CET 1 capital buffer or their regulatory capital buffers without breaching either the MREL or the leverage ratio requirement.

Method

A bank has several different regulatory requirements to comply with at any given point in time. Therefore, a bank's effective CET 1 capital headroom is defined as the amount in SEK – recalculated to a per cent of the risk exposure amount (REA) – for which the headroom between the bank's available capital and eligible liabilities and its regulatory requirement and Pillar 2 guidance is smallest. The Pillar 2 guidance is included in this case in the bank's regulatory capital requirement in accordance with how the guidance is illustrated in *Capital requirements for the Swedish banks* even though the Pillar 2 guidance does not constitute a formal requirement.

Example

As an example it can appear that a bank has a CET 1 capital headroom that in terms of the risk-weighted exposure amount amounts to 200 basis points (two percentage points). At the same time, the bank might only have a margin of CET 1 capital of 150 basis points before it breaches another requirement. The *effective CET 1 capital headroom* is thus 150 basis points according to our definition.

[1] The Swedish National Debt Office publishes an assessment every quarter of how the systemically important banks and institutes live up to the MREL requirements.

[2] See FI Analysis No. *7 Bruttosoliditet som minimikrav minskar bankernas buffertar* (FI Ref. 16-16546) and FI Analysis No. *39 Uppnår kapitalbuffertarna sitt syfte? Samspelet mellan MREL och kapitalkraven* (FI Ref. 22-28337). English translations are available at FI's website.

Calculations in detail

The effective CET 1 headroom is always calculated in relation to the requirement or the Pillar 2 guidance that the bank risks breaching first, i.e., where the buffer is smallest. For the risk-weighted MREL and the risk-weighted subordination requirement, the headroom has been calculated using the level where a bank can receive a decision on distribution restrictions, which is called the effective risk-weighted MREL and the effective risk-weighted subordination requirement. The effective CET 1 headroom is also affected by how a bank chooses to fulfil its other regulatory requirements since CET 1 capital can be used to meet all requirements. A bank's effective CET 1 headroom, in other words, is affected by how much additional Tier 1 capital (AT1), Tier 2 capital, and eligible liabilities the bank has and that it can use to meet its other requirements. Therefore, the calculation takes into consideration whether a bank needs to use parts of its CET 1 capital to meet its additional capital and MREL requirements.

The buffer to the other regulatory requirements and Pillar 2 guidance included in the calculation of the effective CET 1 headroom is calculated as follows.

Capital requirement

- CET 1 capital headroom – calculated as the difference between the bank's CET 1 capital and its CET 1 capital requirement and Pillar 2 guidance.
- Tier 1 capital headroom – calculated as the difference between the bank's Tier 1 capital (sum of CET 1 capital and additional Tier 1 capital) and its Tier 1 capital requirement and Pillar 2 guidance.
- Total capital headroom – calculated as the difference between the bank's total own funds (sum of CET 1 capital, additional Tier 1 capital, and Tier 2 capital) and its total own funds requirement and Pillar 2 guidance.
- Leverage ratio requirement headroom – calculated as the difference between the bank's Tier 1 capital and its leverage ratio requirement and Pillar 2 guidance.

MREL

- Risk-weighted MREL headroom – calculated as the difference between the bank's total own funds (excluding an amount corresponding to the bank's combined buffer requirement), subordinated debt and other eligible liabilities and its risk-weighted MREL requirement.
- Non-risk-weighted MREL headroom – calculated as the difference between the bank's total own funds, subordinated debt and other eligible liabilities and its non-risk-weighted MREL requirement.
- Risk-weighted subordination headroom – calculated as the difference between the bank's total own funds (excluding an amount corresponding to the bank's combined buffer requirement) and subordinated debt and its risk-weighted subordination requirement.
- Non-risk-weighted subordination requirement headroom – calculated as the difference between the bank's total own funds and subordinated debt and its non-risk-weighted subordination requirement.

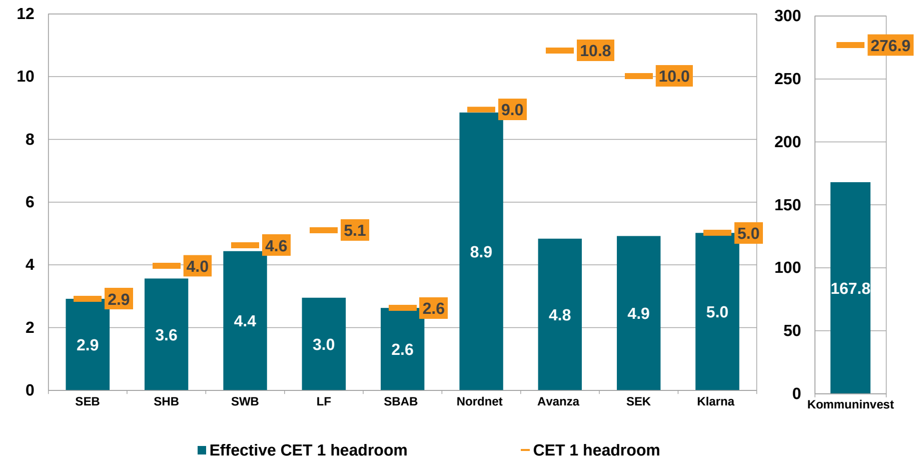
Effective CET 1 capital headroom for banks

Figure 1 below shows the effective CET 1 capital headroom for each bank.[3] The orange box shows the bank's CET 1 capital headroom, in other words the difference between the bank's CET 1 capital and its CET 1 capital requirement, including its Pillar 2 guidance. This difference is also shown in Figure 2 below. The turquoise bar in figure 1 shows the effective CET 1 capital headroom calculated according to the method described above.

[3] Figure 1 is included in the memorandum *Capital requirements for the Swedish banks, fourth quarter 2024* as figure 9.

1. Effective CET 1 headroom

Percentage of REA

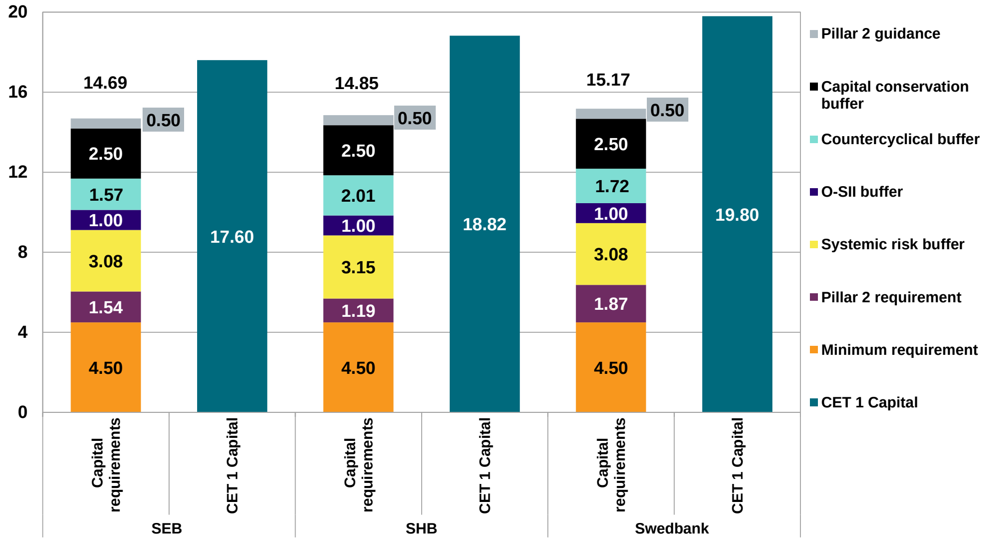


Source: FI and Swedish National Debt Office.

Note: The orange box shows the size of a bank's headroom to its CET 1 capital requirement and its Pillar 2 guidance. The turquoise bar shows the percentage of the total requirement that is effectively available for the bank to use without the bank breaching any of its requirements. This considers each bank's individual capital requirements, Pillar 2 guidance, and, if applicable, MREL. The turquoise bar is impacted by the extent to which a bank meets its requirements using additional Tier 1 capital, Tier 2 capital, and eligible liabilities, if applicable. Requirements that are calculated as a percentage of the leverage ratio exposure amount have been recalculated to a per cent of REA.

2. CET 1 capital and CET 1 capital requirement, three major banks

Percentage of REA



Source: FI

Note: The diagram corresponds to figure 3 in the memorandum *Capital requirements for the Swedish banks, fourth quarter 2024*.

Table 1 below shows which of the banks' regulatory requirements – and which Pillar 2 guidance, if applicable – that the bank has the smallest headroom to, i.e., the most restrictive regulatory requirement. A bank's most restrictive requirement can change over time.

1. Most restrictive regulatory requirement

	CET 1 capital requirement	Tier 1 capital requirement	Total capital requirement	Leverage ratio requirement	Risk-weighted MREL	Risk-weighted subordination requirement in	Non-risk-weighted MREL	Non-risk-weighted subordination
SEB	X							
SHB		X						
Swedbank			X					
Länsförsäkringar						X		
SBAB	X							
Nordnet			X					
Avanza			X					
Kommuninvest				X				
Svensk Exportkredit			X					
Klarna	X							

Source: FI and Swedish National Debt Office.
Note: The table specifies the regulatory requirement – and the Pillar 2 guidance, if applicable – for the bank to which the CET 1 capital headroom is smallest. In other words, the requirement that is the binding requirement in figure 1. Gray-marked cells entail that the bank is not subject to these requirements.