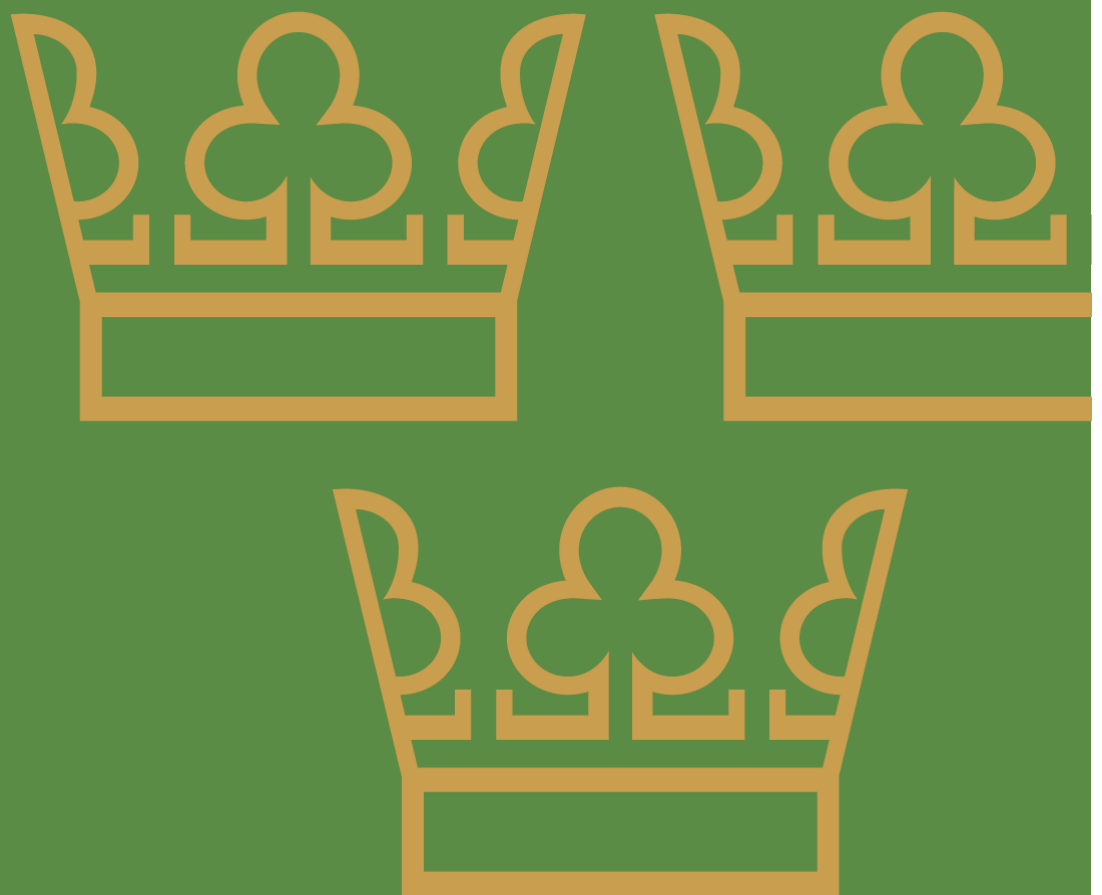


# CRISIS PREPAREDNESS OF SWEDISH BANKS

Compliance with the MREL requirement, Q3 2021



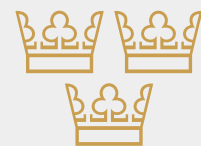
## The Debt Office's mandate for financial crisis management

The Swedish National Debt Office shall, in collaboration with the Ministry of Finance, Finansinspektionen (the Swedish Financial Supervisory Authority) and the Riksbank, work to maintain stability in the financial system. This is an important responsibility, as a serious disturbance in the financial system could result in significant costs to the Swedish economy in the form of decreasing production and higher unemployment. The Debt Office's primary financial stability roles include the provision of precautionary support to viable banks and financial institutions, management of systemically important institutions that are no longer viable, and responsibility for the deposit insurance scheme.<sup>1</sup>

The procedure for managing systemically important institutions that are no longer viable is called resolution. This entails that the central government, via the Debt Office, assumes control of a crisis-afflicted institution either to restructure it or to wind it up in an orderly manner, in order to avoid using taxpayers' money. Throughout the resolution process, all or part of the institution's functions are maintained so that depositors and other customers have access to their accounts and services.

### **The Minimum Requirement for own funds and Eligible Liabilities (MREL requirement)**

In resolution, the institution's losses are managed by shareholders and creditors first bearing the costs, (through a so-called write-down or bail-in).<sup>2</sup> For such a write-down to be possible, the institution must therefore have a certain amount of own funds and liabilities that can absorb losses and restore capital. The minimum requirement for own funds and eligible liabilities (MREL requirement) ensures there are sufficient own funds and liabilities that can be written down or converted so that the institution's viability may be restored.



---

<sup>1</sup> The formal definition of institutions includes *credit institutions* (including banks and credit market companies) and *investment firms*. See Chapter 2, Section 1 of the Resolution Act (2015:1016). In this publication, the terms banks and institutions are used interchangeably.

<sup>2</sup> If the losses exceed a certain share of the balance sheet, the Debt Office may make use of the resolution reserve, a supplementary fund financed by the financial sector. Deposits covered by the deposit insurance scheme are always protected from the write-down of liabilities. See also the information box on pages 10 and 11.

## Summary

In order for the Debt Office to be able to carry out resolution, the institution that is to be resolved must have sufficient own funds and liabilities so that losses can be absorbed and capital restored. Therefore, the Debt Office makes annual decisions on minimum requirements for own funds and eligible liabilities (MREL requirements) for all systemically important Swedish institutions.<sup>3</sup>

This report shows how well the systemically important institutions met the set requirements as of the end of Q3 2021. The Debt Office has currently deemed there to be nine systemically important institutions in Sweden: Skandinaviska Enskilda Banken (SEB), Svenska Handelsbanken, and Swedbank; as well as the mid-sized institutions Landshypotek, Länsförsäkringar, SBAB, Skandiabanken, Sparbanken Skåne; and the Swedish Export Credit Corporation (SEK).

The report also presents how the institutions comply with the principles applied by the Debt Office: the liabilities proportion principle and the subordination principle. In accordance with the liabilities proportion principle, the institutions shall have eligible liabilities that at least correspond to the Pillar 1 and Pillar 2 requirements set by Finansinspektionen. In accordance with the subordination principle, starting 1 January 2024, the liabilities are to consist of a specific type of debt instrument called subordinated liabilities. These absorb any losses after own funds but before other financing.

The Debt Office intends to make new decisions on MREL in December 2021, in accordance with the changes to the Swedish Resolution Act (2015:1016) that entered into force on 1 July 2021. This means that, starting 1 January 2022, the above mentioned resolvability principles will cease to apply because proposed changes to the Resolution Act contain stipulations that essentially replace the function of these principles.<sup>4</sup>

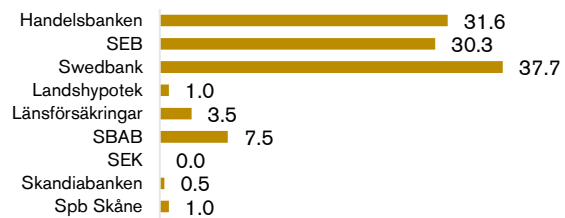
The report establishes that all systemically important institutions met the set requirements as of the end of the third quarter of 2021. All institutions also had a sufficient amount of liabilities as required to comply with the liabilities proportion principle. In addition, the systemically important institutions had issued SEK 113 billion in subordinated liabilities as of 30 September 2021. On this date, own funds and subordinated liabilities amounted to 98 per cent of the institutions' total de facto requirements (see Figures 1 and 2).

---

<sup>3</sup> Other institutions that are not deemed systemically important are subject to so-called simplified obligations and are not included in this report.

<sup>4</sup> See the Debt Office's website: (<https://www.riksdagen.se/en/press-and-publications/press-releases-and-news/press-releases/2021/the-debt-office-decides-on-new-application-of-the-minimum-requirement-for-own-funds-and-eligible-liabilities-mrel/>)

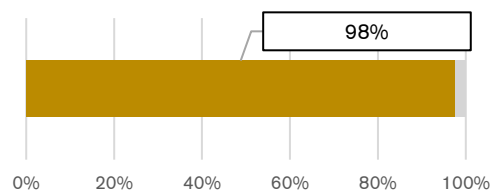
**Figure 1. Subordinated liabilities issued, SEK billion**



Note: Issuance per institution in SEK billion. Data as of 2021-09-30.

Source: the Debt Office

**Figure 2. Own funds and subordinated liabilities as share of de facto requirement, per cent**



Note: Sum of de facto requirements. See the information box on pages 10 and 11 for an explanation of the de facto requirement. Data as of 2021-09-30.

Sources: the Debt Office and Finansinspektionen

## Compliance with MREL requirement

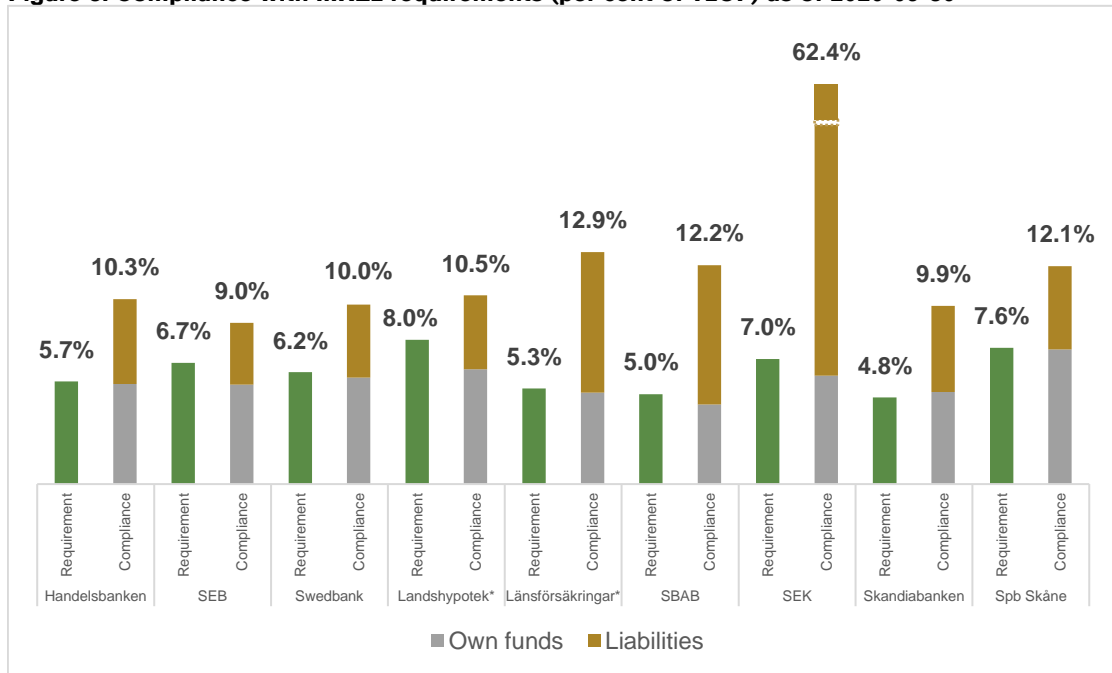
The disclosure of how well the institutions meet their MREL requirements is based on information reported to the Debt Office as of 11 November 2021.

In this report, compliance is reported in relation to the MREL requirements set in December 2020. For Länsförsäkringar, the compliance is reported in relation to the MREL requirement set in June 2021.<sup>5</sup>

The MREL compliance reported in this publication refers to the requirements that are set at the consolidated level.<sup>6</sup> For further information on the Debt Office's MREL requirements and the principles involved, see the information box on pages 10 and 11.

The MREL requirements are expressed as a share of total liabilities and own funds (TLOF). Figure 3 below shows the institutions' compliance as a proportion of TLOF.

**Figure 3. Compliance with MREL requirements (per cent of TLOF) as of 2020-09-30**



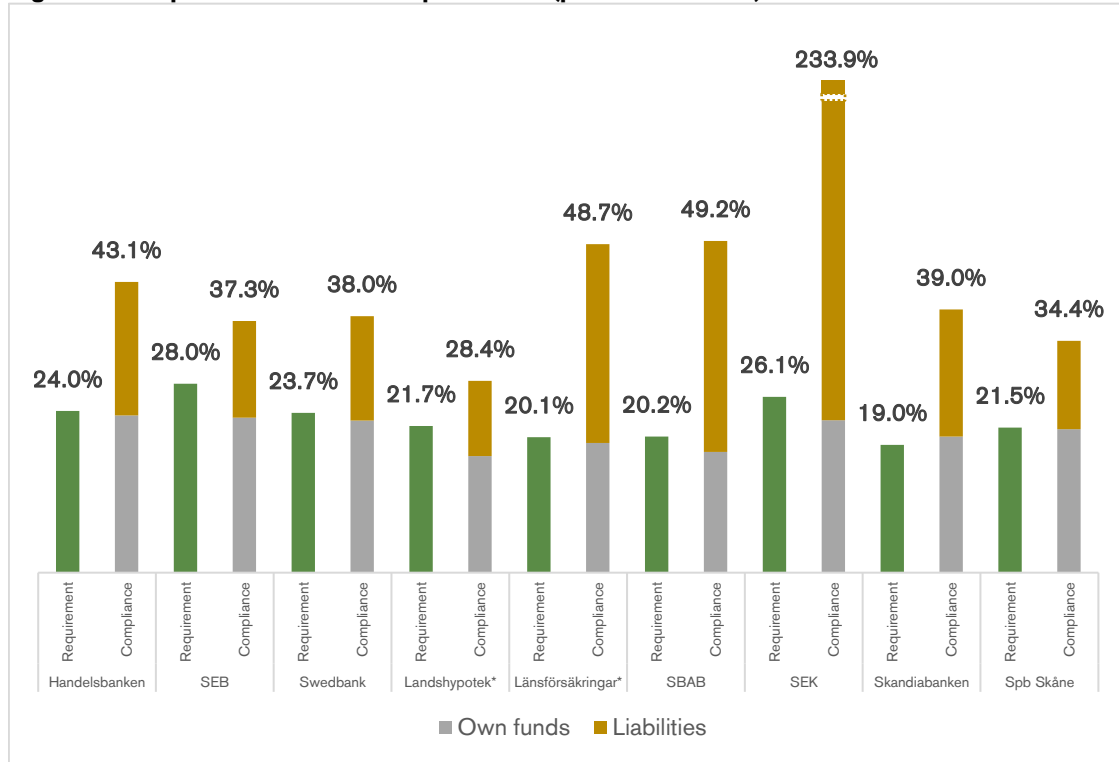
Note: The figure shows MREL requirements as well as total holding of own funds and eligible liabilities for each institution.  
 \*The own funds differ from the own funds on a consolidated basis for the entire group. See the information box on pages 10 and 11 for further information including an explanation of what constitutes an eligible liability.  
 Source: the Debt Office

<sup>6</sup> See the Debt Office's website: ([https://www.rikskalden.se/globalassets/dokument\\_eng/financial-stability/mrel-table-june-2021-eng.pdf](https://www.rikskalden.se/globalassets/dokument_eng/financial-stability/mrel-table-june-2021-eng.pdf)).

<sup>7</sup> The Debt Office also sets individual requirements for institutions within groups. These are not presented in this report. For SEK (the Swedish Export Credit Corporation), Skandiabanken and Sparbanken Skåne, the group consists of only one institution.

Figure 4 shows the institutions' compliance with the MREL requirements expressed as a share of their total risk exposure amount (TREA). This is presented for informational purposes to enable comparison with Finansinspektionen's capital requirements.

**Figure 4. Compliance with MREL requirements (per cent of TREA) as of 2020-09-30**



Note: The figure shows MREL requirements as well as total holding of own funds and eligible liabilities for each institution. The requirement and compliance are adjusted based on TREA as of 30 September 2021.

\*The own funds differ from the own funds on a consolidated basis for the entire group. See the information box on pages 10 and 11 for further information including an explanation of what constitutes an eligible liability.

Source: the Debt Office

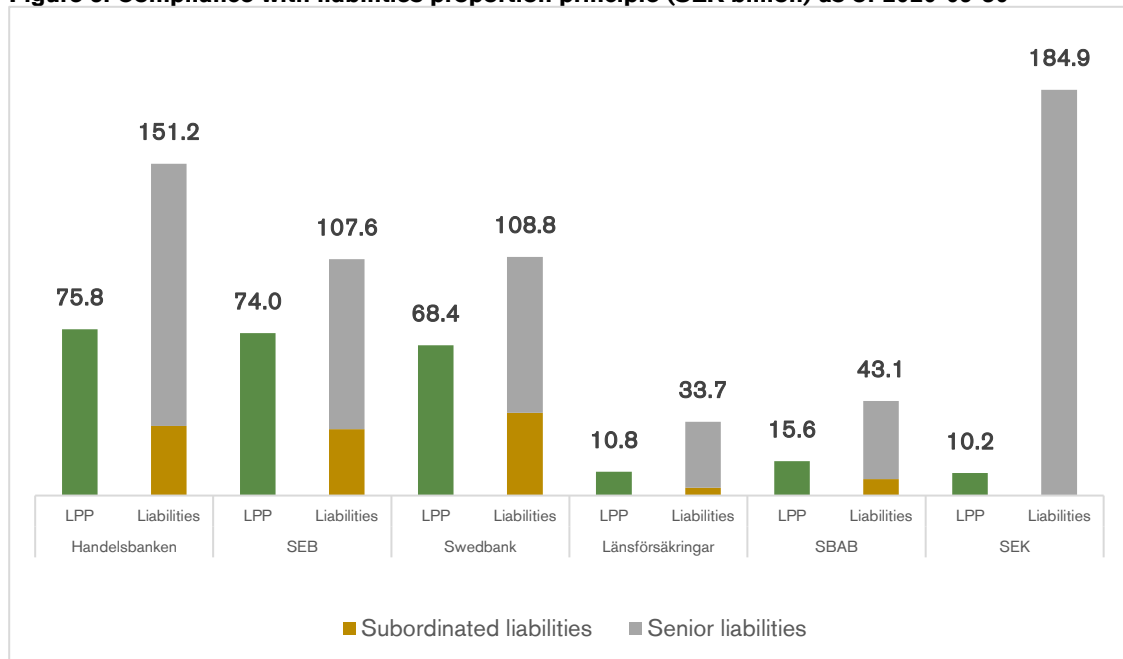
## Liabilities proportion principle and de facto requirement

The Debt Office applies a principle by which institutions should have eligible liabilities that at least correspond to the recapitalisation amount (RCA). The RCA is the nominal amount of the Pillar 1 and Pillar 2 requirements as set by Finansinspektionen.

In accordance with the subordination principle, starting 1 January 2024, these liabilities are to consist of a specific type of debt instrument called subordinated liabilities. The Debt Office's principles are further described in the information box on pages 10 and 11.

Figure 5 shows the institutions' total compliance with the liabilities proportion principle (LPP), expressed in SEK billion, and the amount of subordinated liabilities each institution has issued.

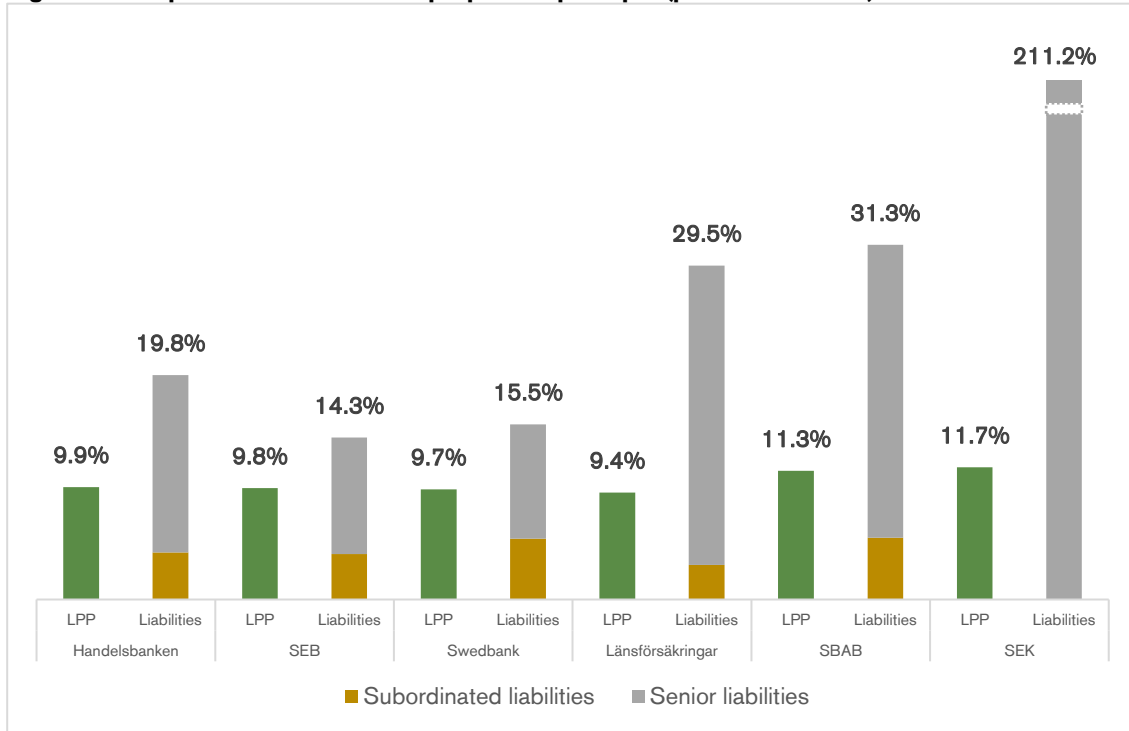
**Figure 5. Compliance with liabilities proportion principle (SEK billion) as of 2020-09-30**



Note: The figure shows the liabilities proportion principle and the total holding of eligible liabilities. Landshypotek, Skandiabanken and Sparbanken Skåne are not shown here because Finansinspektionen does not make Pillar 2 requirements for the institutions public. However, the Debt Office monitors the institutions' compliance in the same way as for other systemically important institutions. See the information box on pages 10 and 11 for further information including an explanation of what constitutes an eligible liability.  
Sources: the Debt Office and Finansinspektionen

Figure 6 shows the institutions' compliance with the liabilities proportion principle expressed as a share of their total risk exposure amount (TREA). Compliance is presented for informational purposes to enable comparison with Finansinspektionen's capital requirements.

**Figure 6. Compliance with liabilities proportion principle (per cent of TREA) as of 2021-09-30**

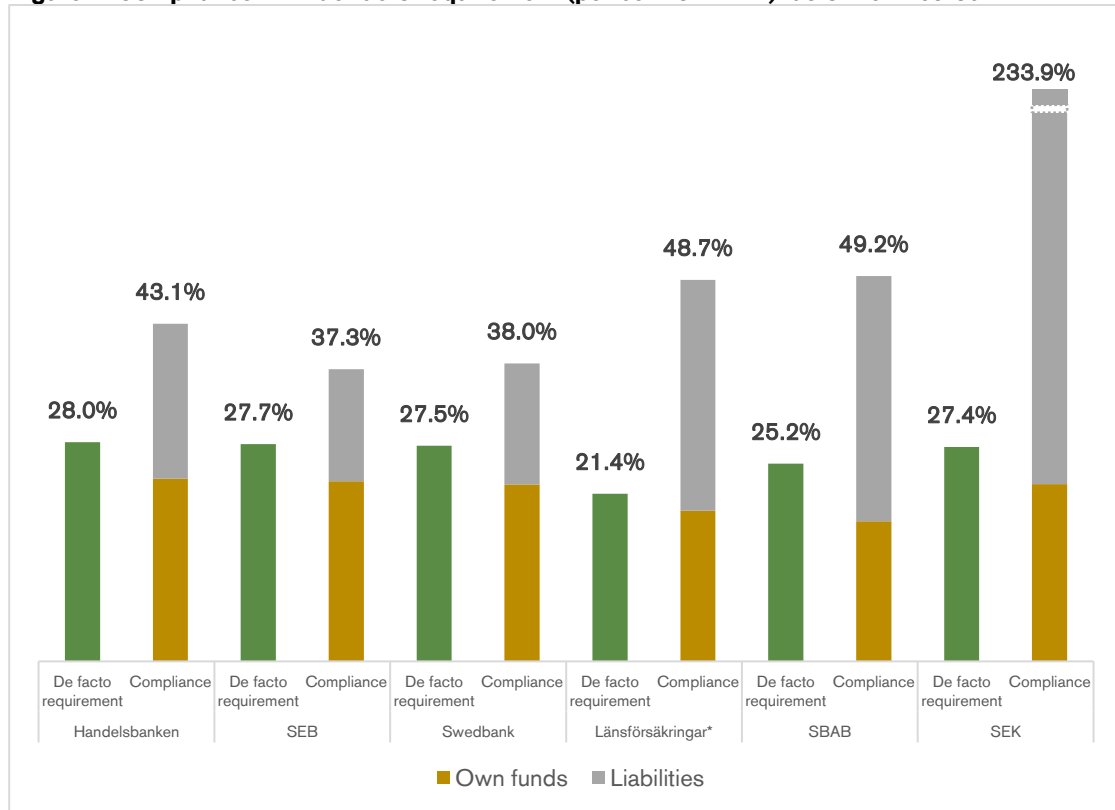


Note: The figure shows the liabilities proportion principle and the total holding of eligible liabilities. Landshypotek, Skandiabanken and Sparbanken Skåne are not shown here because Finansinspektionen does not make Pillar 2 requirements for the institutions public. However, the Debt Office monitors the institutions' compliance in the same way as for other systemically important institutions. See the information box on pages 10 and 11 for further information including an explanation of what constitutes an eligible liability.  
Sources: the Debt Office and Finansinspektionen



Figure 7 shows the institutions' compliance with the total capital requirement plus the liabilities proportion principle – called the de facto requirement. Compliance is expressed as a share of the total risk exposure amount (TREA) and is presented for informational purposes to enable comparison with Finansinspektionen's capital requirements.

**Figure 7. Compliance with de facto requirement (per cent of TREA) as of 2021-09-30**



Note: The de facto requirement corresponds to the amount of the institutions' total capital requirements set by Finansinspektionen and the liabilities proportion principle established by the Debt Office. The requirement is shown in relation to TREA. The figure shows the de facto requirement and total holding of own funds and eligible liabilities. Landshypotek, Skandiabanken and Sparbanken Skåne are not shown here because Finansinspektionen does not make Pillar 2 requirements for the institutions public. However, the Debt Office monitors the institutions' compliance in the same way as for other systemically important institutions. See the information box on pages 10 and 11 for further information including an explanation of what constitutes an eligible liability.  
Sources: the Debt Office and Finansinspektionen

## Calculating and meeting MREL

### The purpose of the MREL requirement

In order to carry out resolution, systemically important institutions must have a certain amount of own funds and liabilities that can be written down or converted into new equity. Therefore, The Debt Office sets the minimum requirement for own funds and eligible liabilities (MREL requirement). The requirement is set both at the group level and for individual institutions.

The MREL requirement can be met with own funds and liabilities that fulfil certain conditions (referred to as eligible liabilities). Eligible liabilities must, among other things, have a residual maturity of at least one year and must not be deposits protected by deposit insurance, must not be secured liabilities, and must not be liabilities that arise from derivatives.<sup>7 8</sup>

### The MREL requirement is composed of two parts

The institution's own funds and eligible liabilities must be able to cover both the losses that can arise in its operations and the need for new equity for it to continue as a going concern following resolution. The MREL requirement is therefore composed in part of a loss absorption amount (LAA) calculated on the basis of prevailing minimum capital requirements and so-called Pillar 2 requirements.<sup>9</sup> The MREL requirement also consists of a recapitalisation amount (RCA), which corresponds to the resources needed to restore capital. The RCA is also calculated on the basis of prevailing minimum capital requirements and Pillar 2 requirements, as the Debt Office plans for the systemically important institutions' entire operations to continue after resolution.

### Principles for how the MREL requirement is to be met

In addition to the MREL requirement that is set, the Debt Office applies a number of principles for how the institutions must meet the requirement.<sup>10</sup> In accordance with the subordination principle, MREL must be fully met with subordinated instruments by 2024. Subordination entails that liabilities are written down or converted after own funds but before other financing such as deposits from large corporations or bank bonds.

---

<sup>7</sup> In resolution, liabilities can also be written down that have the same order of priority as eligible liabilities (although not guaranteed deposits or secured liabilities) as well as liabilities that have a residual maturity of less than one year, even if these may not be formally used to meet the MREL requirement. The stipulated conditions increase the likelihood of the availability of a sufficient amount of resources that can be written down if, for instance, the institution can no longer raise financing in capital markets. Deposits up to SEK 950,000 by private individuals and firms subject to deposit insurance are exempted from write-down. The protection for depositors is thereby the same in the event of resolution as it is when an institution fails. See further information on the Debt Office's website: (<https://www.riksdagen.se/en/our-operations/deposit-insurance/>).

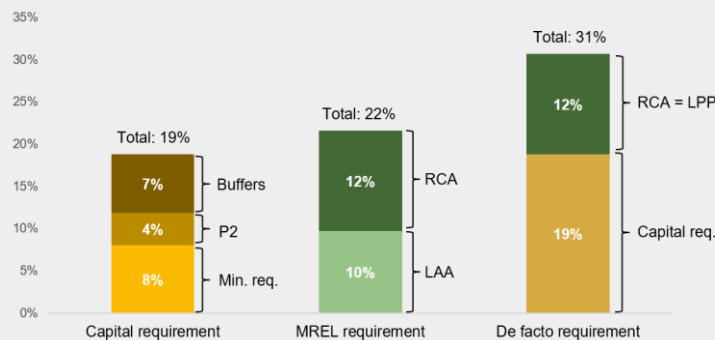
<sup>8</sup> The conditions are stated in Chapter 2, Section 2 of the Resolution Act (2015:1016) – eligible liability – and Chapter 2, Section 2 of the Debt Office's resolution regulations (RGKFS 2015:2) – MREL eligible liability.

<sup>9</sup> The Debt Office makes certain technical adjustments to the Pillar 2 requirement. Deductions from the Pillar 2 requirement are made because certain components correspond to macroeconomic risks that can be assumed to have been realised before the institution is put in resolution. The LAA is therefore generally lower than the RCA (see the figure on page 10).

<sup>10</sup> These resolvability principles will cease to apply as of 1 January 2022, because changes to the Swedish resolution regulations contain stipulations that essentially replace the function of these principles. See the Debt Office's website: (<https://www.riksdagen.se/en/press-and-publications/press-releases-and-news/press-releases/2021/the-debt-office-decides-on-new-application-of-the-minimum-requirement-for-own-funds-and-eligible-liabilities-mrel/>). For more information, see also the Debt Office's previous memorandum Application of MREL ([https://www.riksdagen.se/globalassets/dokument\\_eng/financial-stability/mrel-decision-memorandum.pdf](https://www.riksdagen.se/globalassets/dokument_eng/financial-stability/mrel-decision-memorandum.pdf)).

In accordance with the liabilities proportion principle, the institutions must have eligible liabilities that correspond to at least the RCA. The liabilities proportion principle is intended to ensure that there are sufficient eligible liabilities that can be used to recapitalise the institutions. The principle entails that the overall need for own funds and eligible liabilities that the institutions must meet is higher than the MREL requirement. This so-called de facto requirement is illustrated below.

**Illustration – the de facto requirement for an example institution (per cent of TREA)<sup>11</sup>**



In the illustration, the total capital requirement amounts to 19 per cent of the total risk-weighted exposure amount (left bar), comprised of 8 per cent minimum requirement, 4 per cent Pillar 2 requirement, and 7 per cent buffers. The LAA corresponds to the minimum requirements and the Pillar 2 requirements, with certain technical adjustments. The RCA corresponds to the minimum requirements and Pillar 2 requirements. The MREL requirement thereby amounts to 22 per cent (middle bar). The liabilities proportion principle entails that banks must have liabilities corresponding to the RCA. The institution’s de facto requirement is therefore the capital requirement (to be met with own funds) plus the RCA (to be met with eligible liabilities), and thereby amounts to 31 per cent (right bar).

**MREL compliance for groups**

A resolution group consists of the companies within a group that the Debt Office plans to be able to manage collectively in resolution. The MREL requirement on a consolidated basis therefore corresponds to the combined loss absorption and recapitalisation requirements for the entire group. In every group, only one institution is put in resolution – the resolution entity. The Debt Office’s resolution strategy for the group determines which entity is the resolution entity. The resolution group’s consolidated own funds are counted towards meeting the MREL requirement, whereas only the eligible liabilities that are issued by the resolution entity are counted.

For the majority of the nine systemically important institutions, the resolution group coincides with the group level that Finansinspektionen reports in the publication *The Capital Requirements of Swedish Banks*. Landshypotek is an exception, where the resolution entity is an institution other than the parent company in the group (the parent company is a holding company). In this case, the parent company’s own funds is therefore not part of the own funds included in the MREL resources.

<sup>11</sup> The illustration shows the combined requirements for Handelsbanken, SEB and Swedbank as of 2018-12-31.

## Appendix table

Table 1 summarises the institutions' compliance with the MREL requirement and the liabilities proportion principle based on the Figures above.

**Table 1. Aggregate data as of 2020-09-30**

Institution	MREL requirement	MREL resources			MREL requirement	MREL resources			Liabilities proportion principle	Liabilities		
		% of TLOF				% of TREA				SEK billion		
		Total	O/w own funds	O/w liabilities		Total	O/w own funds	O/w liabilities		Total	O/w senior	O/w subordinated
Handelsbanken	5.7%	10.3%	5.6%	4.7%	24.0%	43.1%	23.3%	19.8%	75.8	151.2	119.5	31.6
SEB	6.7%	9.0%	5.5%	3.4%	28.0%	37.3%	23.0%	14.3%	74.0	107.6	77.4	30.3
Swedbank	6.2%	10.0%	5.9%	4.1%	23.7%	38.0%	22.6%	15.5%	68.4	108.8	71.1	37.7
Landshypotek*	8.0%	10.5%	6.4%	4.1%	21.7%	28.4%	17.3%	11.2%	n/a	4.1	3.1	1.0
Länsförsäkringar*	5.3%	12.9%	5.1%	7.8%	20.1%	48.7%	19.2%	29.5%	10.8	33.7	30.2	3.5
SEK	7.0%	62.4%	6.0%	56.4%	26.1%	233.9%	22.6%	211.2%	10.2	184.9	184.9	0.0
SBAB	5.0%	12.2%	4.4%	7.8%	20.2%	49.2%	17.9%	31.3%	15.6	43.1	35.6	7.5
Skandiabanken	4.8%	9.9%	5.1%	4.8%	19.0%	39.0%	20.2%	18.8%	n/a	4.6	4.1	0.5
Sparbanken Skåne	7.6%	12.1%	7.5%	4.6%	21.5%	34.4%	21.3%	13.1%	n/a	4.4	3.4	1.0

Note: The figure shows MREL requirements and MREL resources for each institution. The requirement expressed in terms of TREA is presented for informational purposes. Compliance with the liabilities proportion principle is divided into shares of subordinated liabilities and senior liabilities. The liabilities proportion principle corresponds to the Pillar 1 and Pillar 2 requirements (nominal amounts) set by Finansinspektionen.

\*The own funds differ from the own funds on a consolidated basis for the entire group. See the information box on pages 10 and 11 for further information including an explanation of what constitutes an eligible liability.

Source: the Debt Office and Finansinspektionen

**The Swedish National Debt Office is the central government's financial manager and the national resolution authority. The Debt Office thus plays an important role in the Swedish economy and financial markets.**



Visiting address: Olof Palmes gata 17 | Postal address: SE-103 74 Stockholm, Sweden | Phone:  
+46 8 613 45 00  
E-mail: riksgalden@riksgalden.se | Web: riksgalden.se