



## Capital at SEB

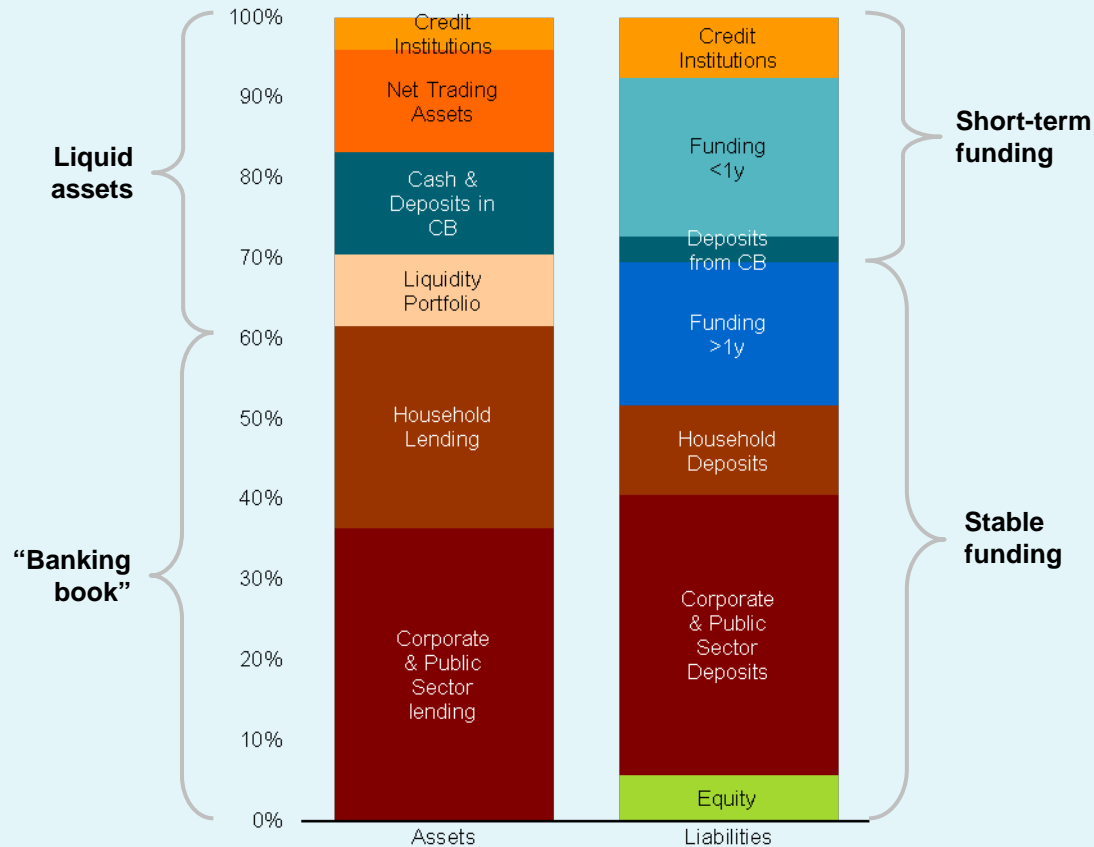
Hampus Brodén

Head of  
Group Financial Management

# Capital – one of the four main perspectives of our balance sheet

Jun 2013

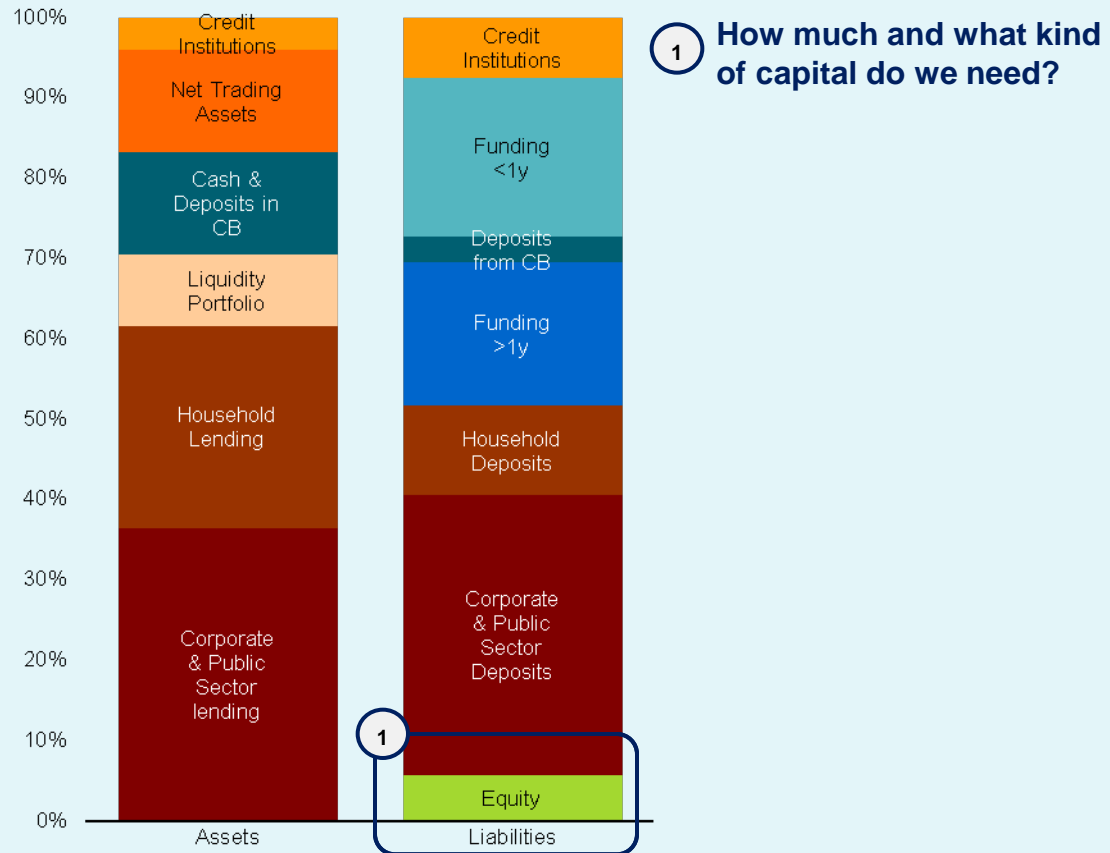
## Balance Sheet Structure, Jun 2013



# Balance sheet considerations at SEB

Jun 2013

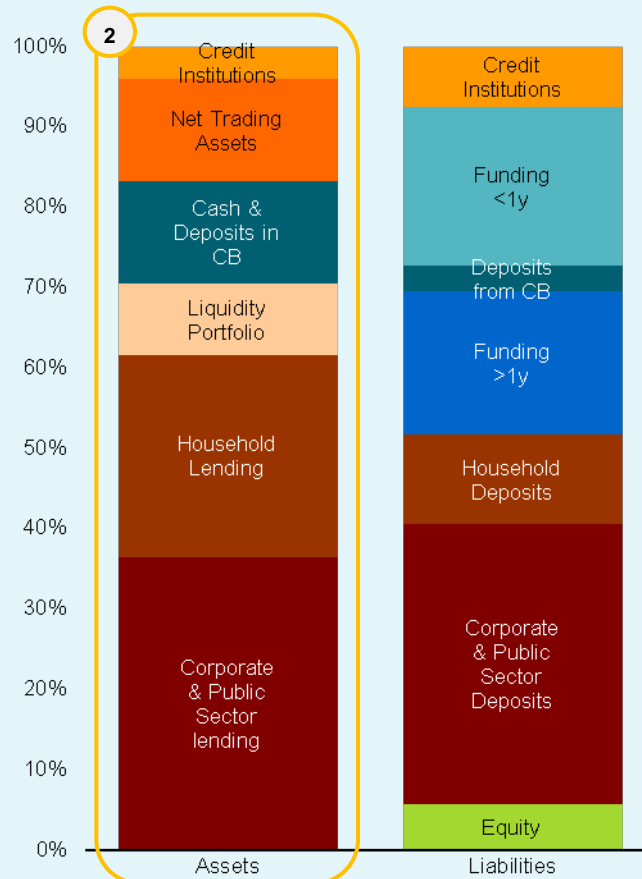
## Balance Sheet Structure, Jun 2013



# Balance sheet considerations at SEB

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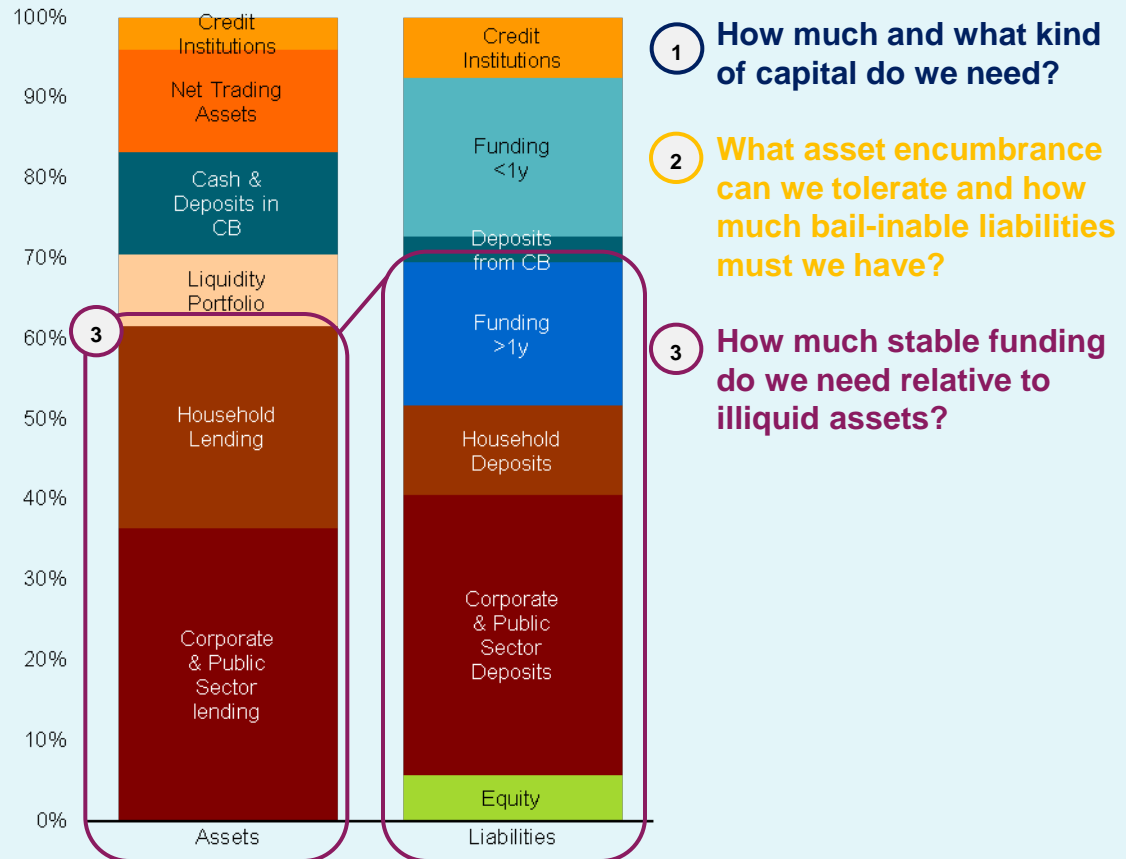
1 How much and what kind of capital do we need?

2 What asset encumbrance can we tolerate and how much bail-inable liabilities must we have?

# Balance sheet considerations at SEB

Jun 2013

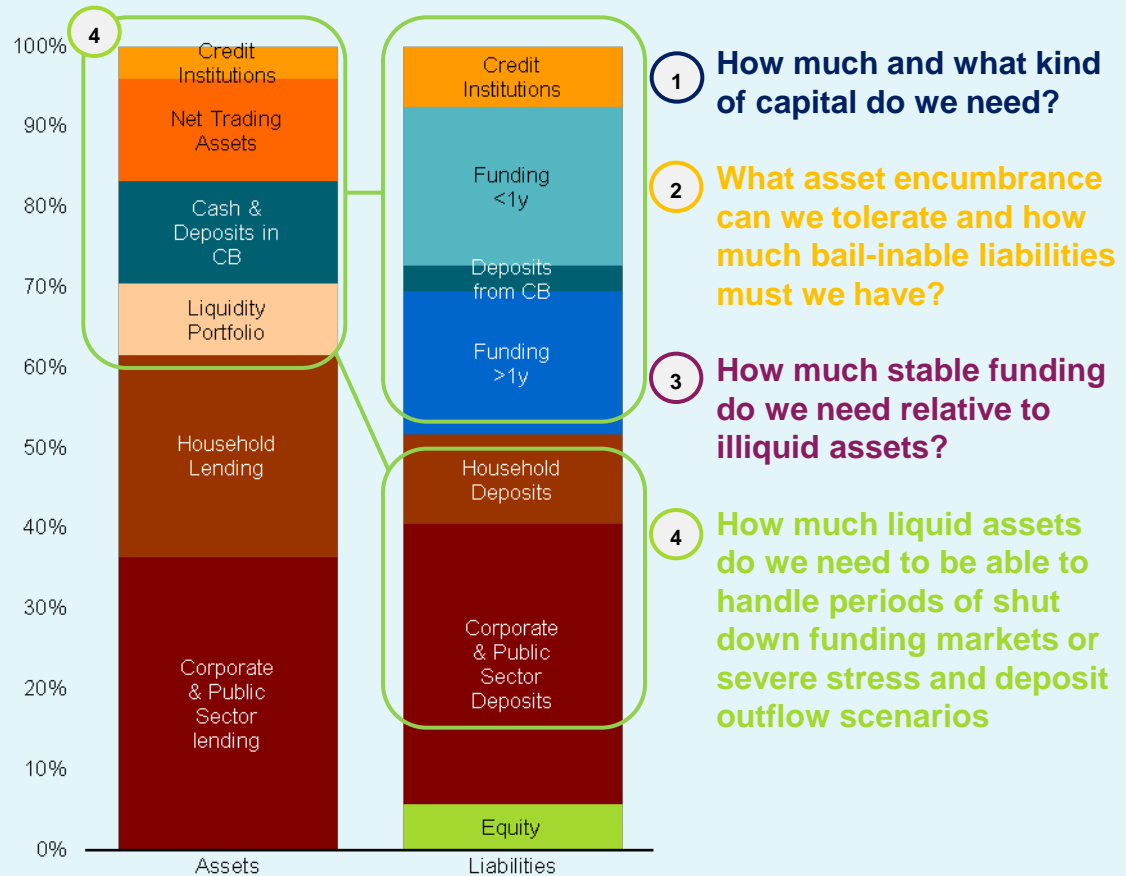
## Balance Sheet Structure, Jun 2013



# Balance sheet considerations at SEB

Jun 2013

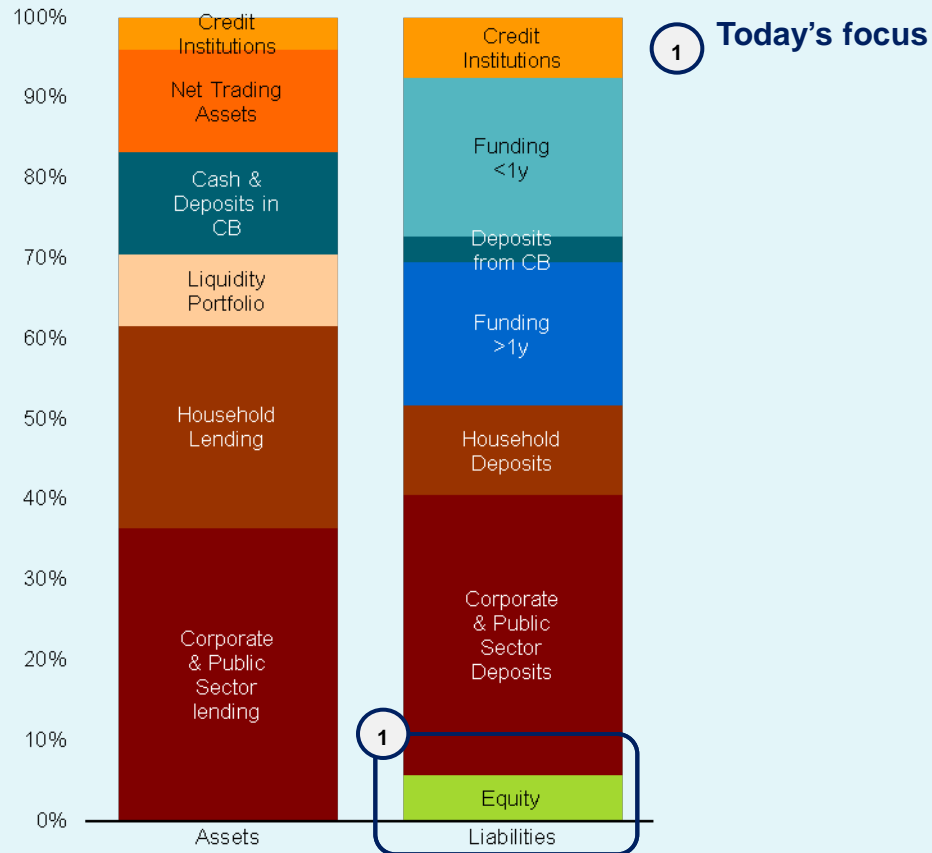
## Balance Sheet Structure, Jun 2013



# Balance sheet considerations at SEB

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## Balance Sheet Structure, Jun 2013

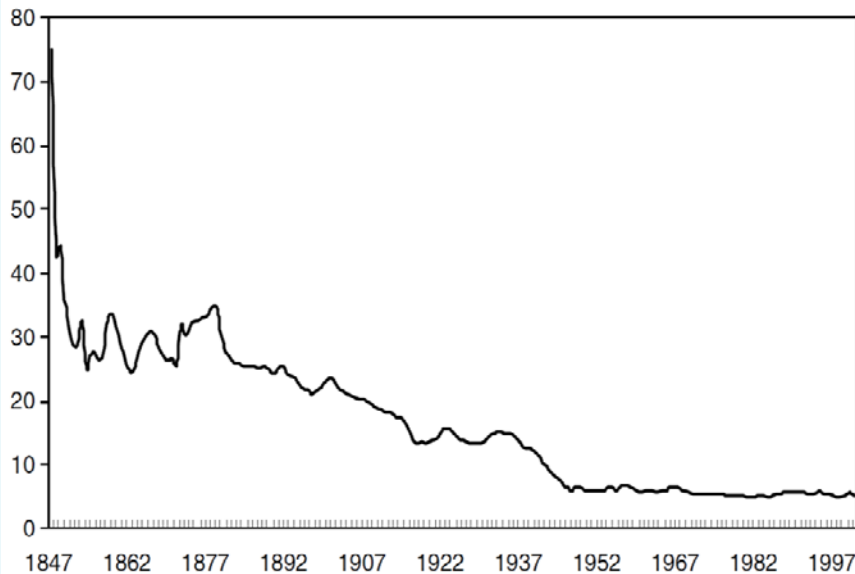


# Capital – not what the crisis primarily was about

Excessive liquidity risk, insufficient underwriting and increased complexity were most important drivers of crisis.

Banks however still will need to increase capital.

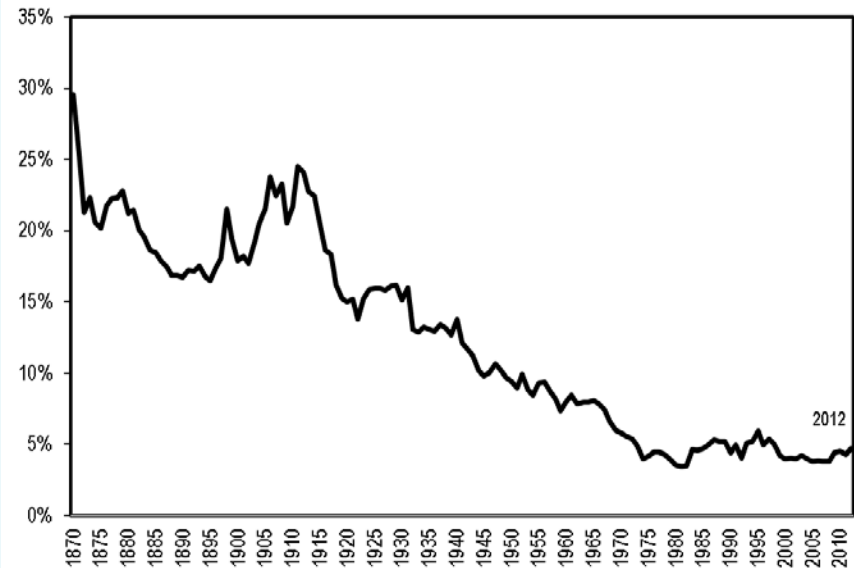
Equity/assets, European commercial banks, 1847-2001



Note: Unweighted average based on 10 countries: Denmark (1847+), Norway (1851+), Germany (1872+), UK (1880+), Italy (1891+), Netherlands (1900+), Switzerland (1906+), Spain (1923+), Finland (1934+) and Belgium (1935+)

Source: Harald Benink and George Benston (2005)

Equity/assets, Swedish banks, 1870-2012



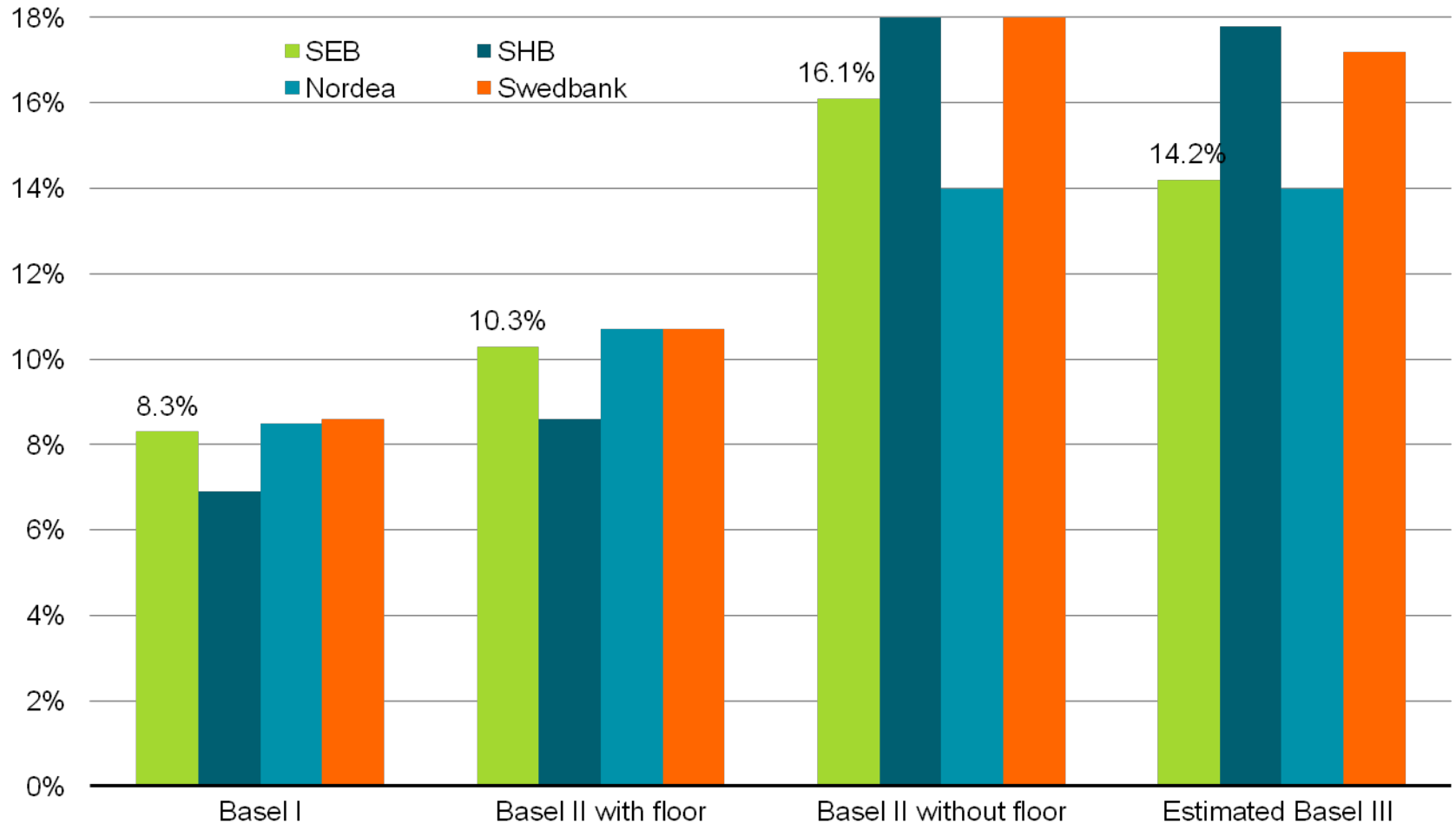
Source: Per Hortlund (2005) "Do Inflation and High Taxes Increase Bank Leverage" and SEB



# Capital benchmarking

## SEB has high quality capital across all regulatory metrics

Different regulatory Equity Tier 1 ratios  
June 2013



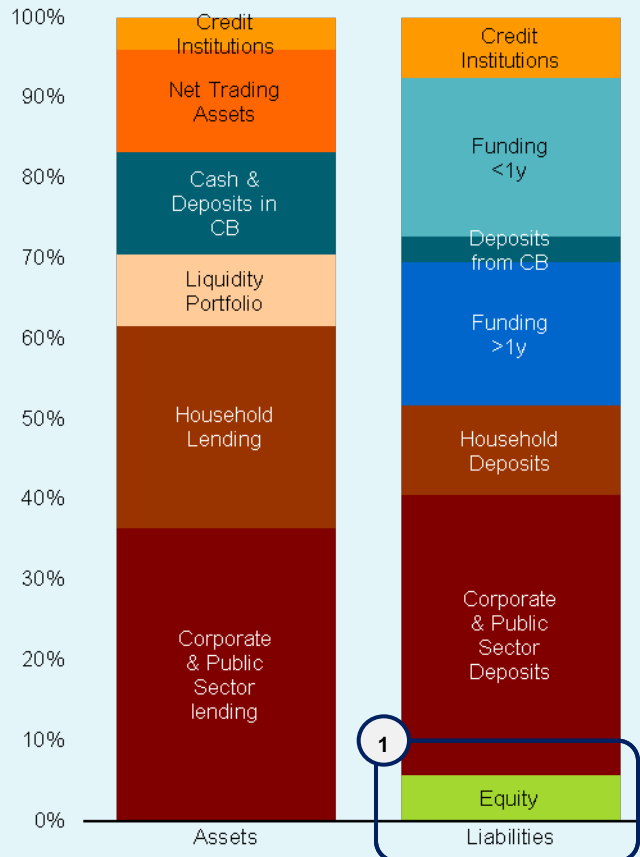
# But what is the optimal capital structure?



# Several factors impacting what will be the optimal capital structure

Jun 2013

## Balance Sheet Structure, Jun 2013



1

### Decisive factors

- Economic Capital
- Basel
- CRD4/CRR
- RRD
- Swedish finish
- Rating agencies
- Investors
- Deposit holders

National discretion so large it doesn't say much

### Metrics to watch

- CaR
- CET1
- AT1
- T2
- Leverage ratio
- RAC ratio

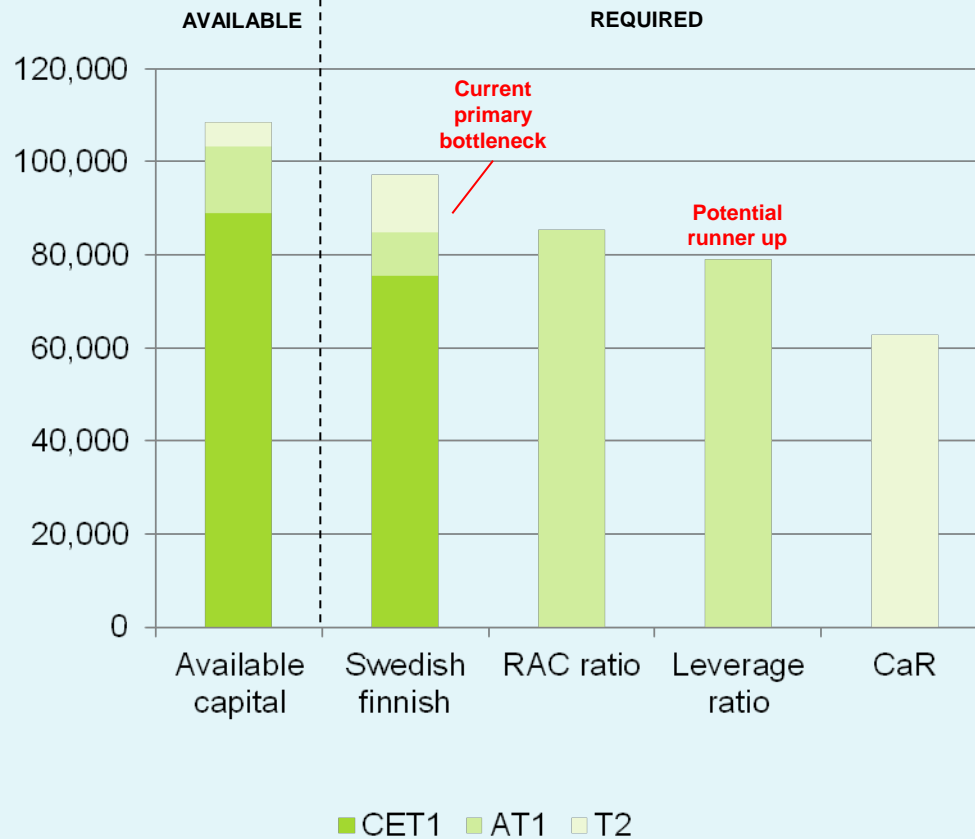
Swedish finish still what will be the decisive framework

Basel has toughened the leverage ratio definition

# Capital – what are the bottlenecks

Jun 2013

## Capital, SEKm



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**Available capital**  
Actual CET1, AT1 and T2 capital on Basel III basis

**Swedish finish**  
CET1 >12% (14.2%)  
AT1 >1.5%  
T2 >2%

**RAC ratio**  
TAC/S&P RWA >7% (7.8%)  
Picture on the left is a simplification as TAC is not exactly = T1

**Leverage ratio**  
T1/adj. assets >3% (3.7%)

**CaR**  
Capital at Risk  
Capital required to cover losses modeled to occur in 99.97% of years.

# Three different buffers to mitigate systemic risk

- **Global Systemic Institution Buffer**

- Following EP proposed amendments the political agreement includes a mandatory systemic risk buffer of CET1 capital for banks that are identified by the competent authority as globally systemically important. This buffer ranges between 1 – 3.5%.




- **Other Systemic Institution Buffer**

- In addition to the mandatory Global SII buffer the political agreement provides for a supervisory option for a buffer on “other” systemically important institutions. This includes domestically important institutions as well as EU important institutions. This buffer is maximised to 2%.

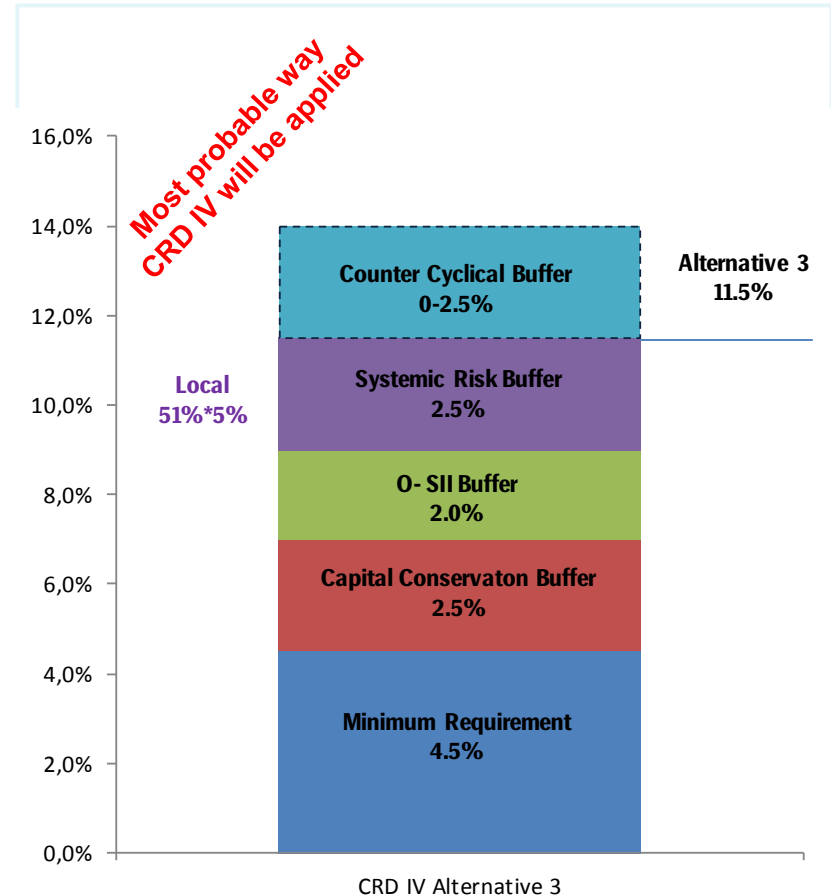
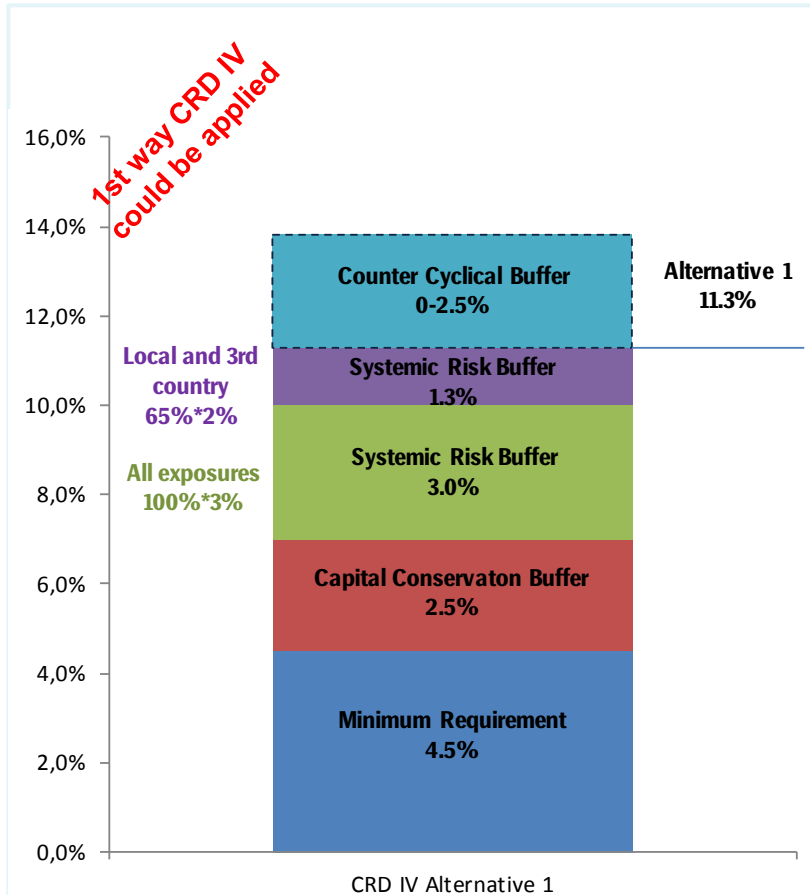
- **Systemic Risk Buffer**

- Each Member State may introduce a Systemic Risk Buffer of Common Equity Tier 1 for the financial sector or one or more subsets of the sector, in order to prevent and mitigate long term non-cyclical systemic or macroprudential risks with the potential of serious negative consequences to the financial system and the real economy in a specific Member State.
  - Until 2015, a buffer rate of 3% could be imposed to all exposures.
  - From 2015 and onwards a buffer rate of 5 % can be imposed for local and third country exposures.
  - Even higher buffers after adoption of implementing act by the EU-Commission ('unlimited')

# 'Systemic risk buffers' dependent on location of exposures

	Exposure in	Approximate SEB share of exposures based on location of counterparty
	Sweden	51% (incl. op-risk and market risk)
	Other EU	35%
	Outside EU	14%

# CRD IV here but even Pillar 1 requirement still unclear



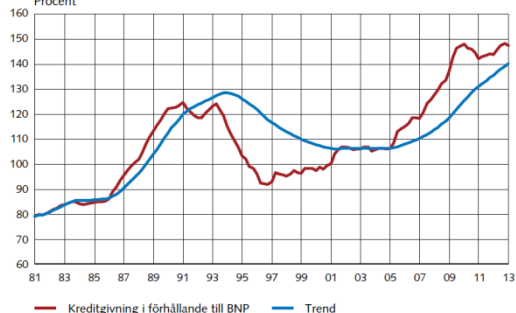
However – national discretion regarding Counter Cyclical Buffer and Pillar II add-on is so large that the Swedish authorities can settle for a range of requirements.

# Main uncertainty – counter cyclical buffer

Permanent and high or intellectually honest

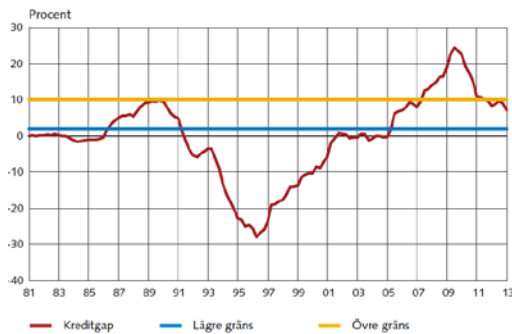
Private sector debt/GDP proposed...

Figur 3. Tillämpning av Baselkommitténs standardmetod på Sverige  
Procent



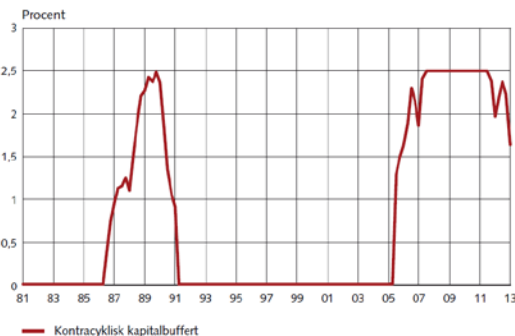
Sources: Statistics Sweden and the Riksbank

...as a driver of CCB by Basel...



Sources: Statistics Sweden and the Riksbank

...and trending down in Sweden



Sources: Statistics Sweden and the Riksbank

- Swedish FSA's application of the counter cyclical buffer will be key
- Could be based on the above and/or:
  - various asset prices
  - funding spreads
  - CDS spreads
  - credit condition surveys
  - real GDP growth
  - data on the ability of non-financial entities to meet their debt obligations on a timely basis

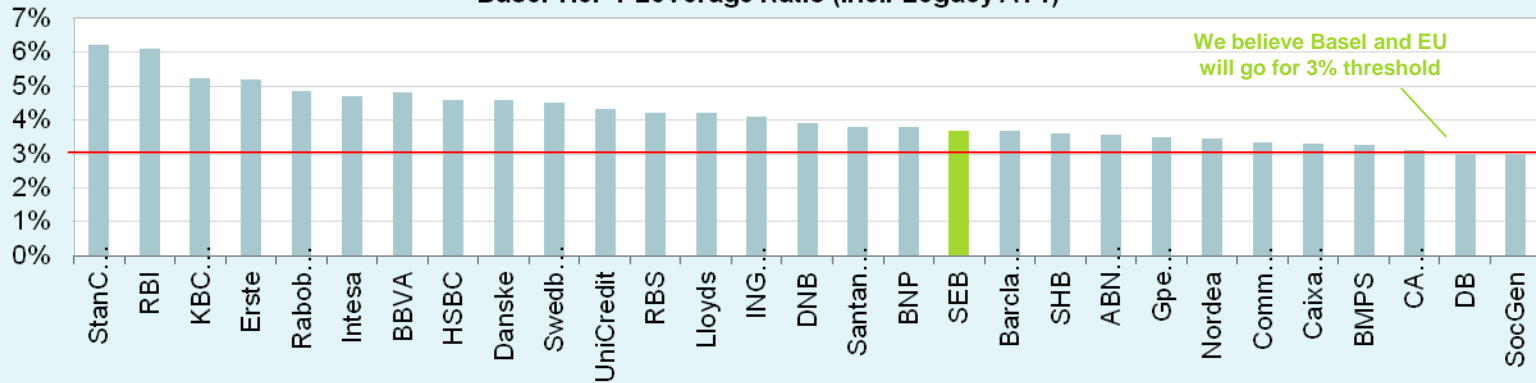


# RAC and Leverage Ratio

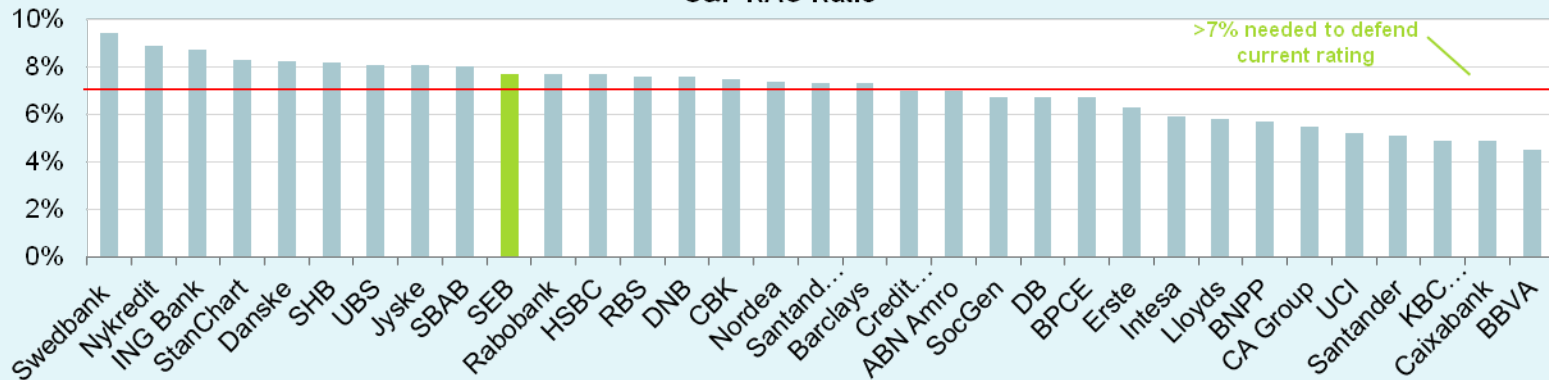
Based on latest reported

SEB's leverage ratio and RAC ratio compared to estimates for the European banks

Basel Tier 1 Leverage Ratio (incl. Legacy AT1)



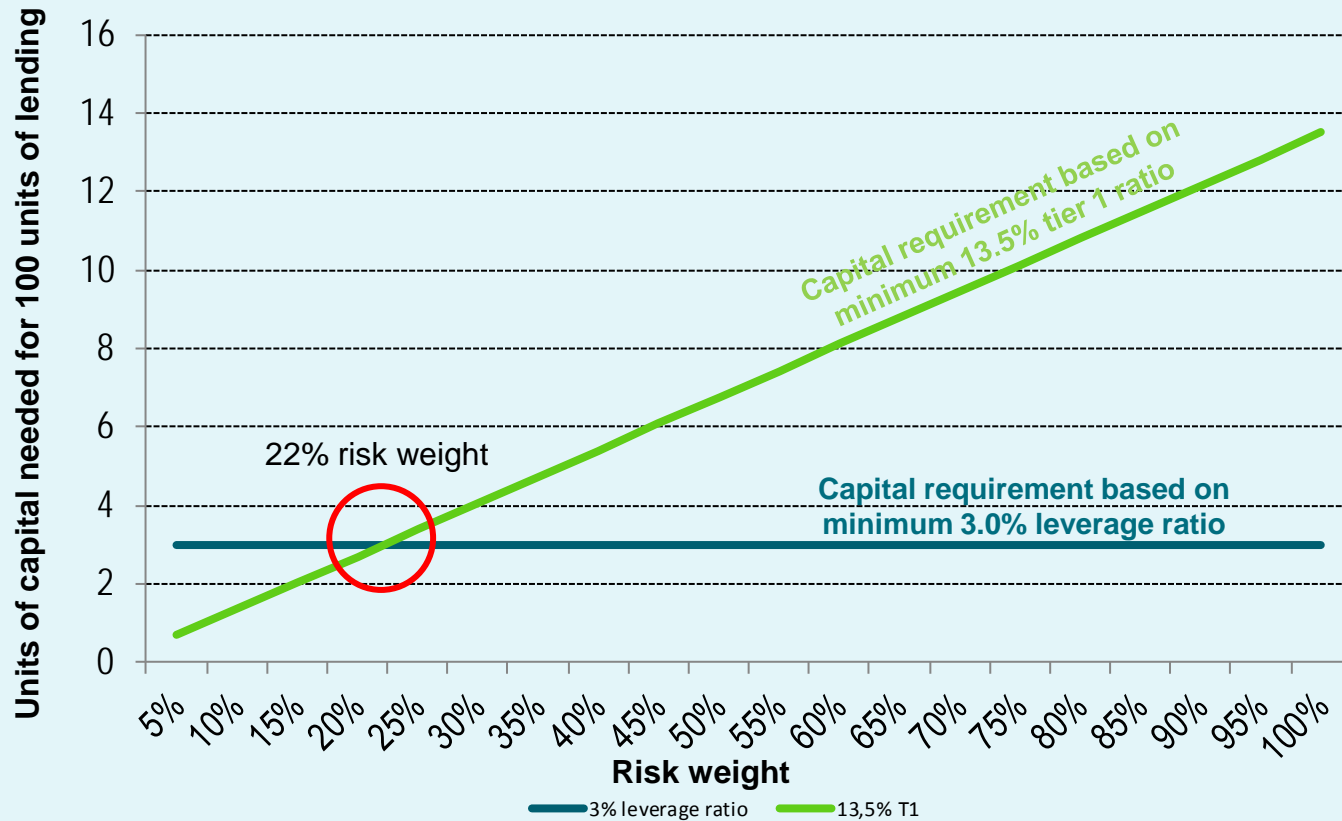
S&P RAC Ratio



# Leverage ratio – runner up bottleneck and essentially a risk weight floor

3% leverage ratio equals 22.2% risk weight floor when aiming for 13.5% T1 ratio

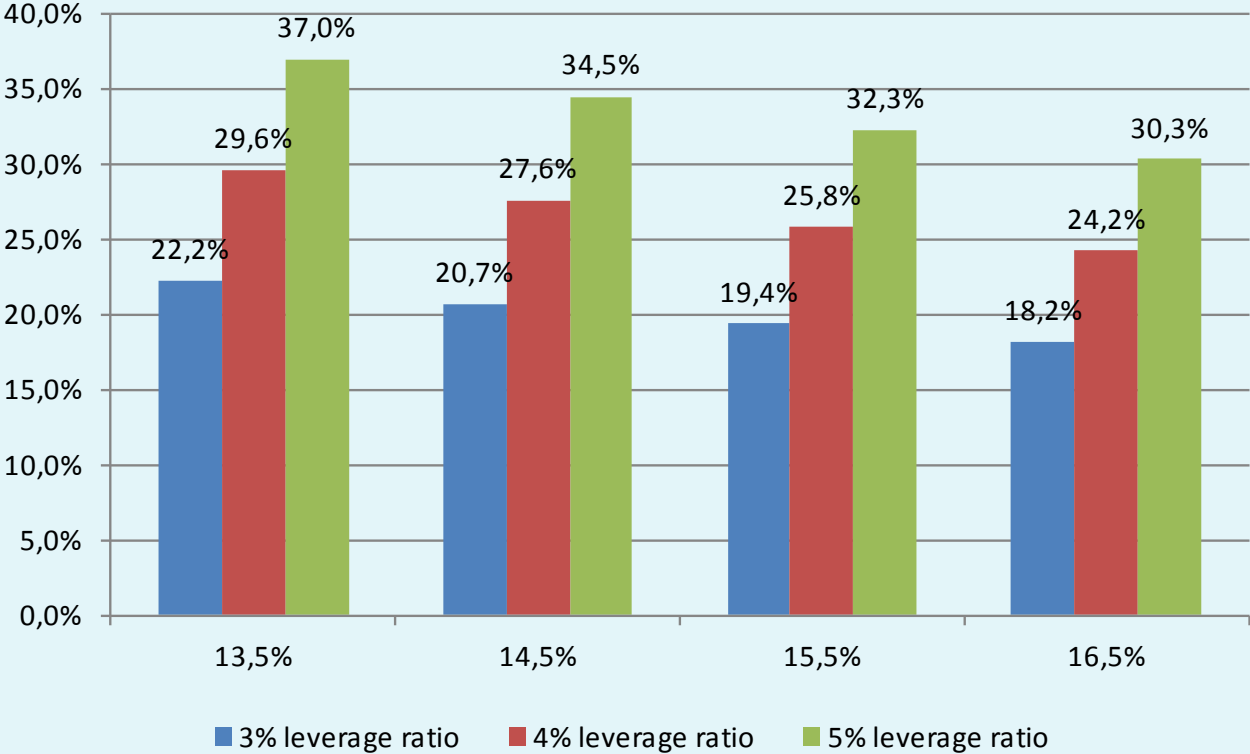
Required capital for 100 units of lending



# Implicit risk weight floors on different T1% and leverage ratio requirements

Different implied risk weight floors at different combinations of T1% and leverage ratios

## Implicit risk weight floors



# What capital should be included in SEB's capital structure

Remains to be seen. Many considerations and rules aren't clear yet.

## What capital instrument provides the most value

	Common Equity Tier 1 ("CET1")	High Trigger Additional Tier 1 ("AT1")	Low Trigger Additional Tier 1 ("AT1")	High Trigger (Tier 2) CoCo	Tier 2 Capital	Bail-in Debt
Improve Leverage?	✓	✓	✓			
Raise Tier 1 Capital?	✓	✓	✓			
Improve RAC Capital?	✓	✓	✓	✓		
Provide Going Concern Capital?	✓	✓	✓	✓		
Increase Total Capital?	✓	✓	✓	✓	✓	
Bail-in Capital?	✓	✓	✓	✓	✓	✓

# Any adjustment will be from a position of strength

Currently there seems to be little doubt that the market verdict is – “sufficiently capitalized”

## European sovereign and individual banks' 5 year senior unsecured CDS spreads

