



MREL for Swedish Banks

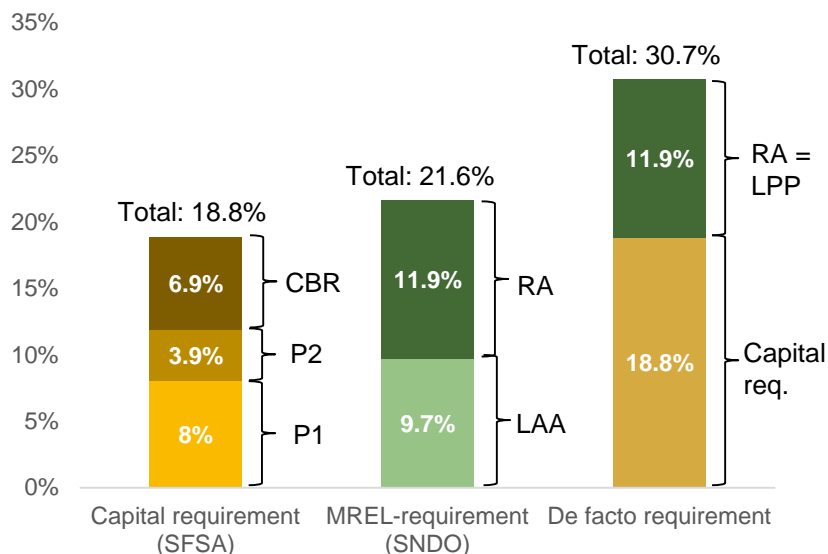
Investor meetings

New York September 2019

Pär Holmbäck and Mattias Persson

Riksgälden's current MREL policy

Institutions are bound by the de facto requirement*



*Average requirements for the three largest Swedish banks. Data as of Q4 2018.

Riksgälden's current calibration formula:

$$\text{MREL} = \underbrace{P1 + P2R - P2macro}_{\text{Loss absorption amount}} + \underbrace{P1 + P2R}_{\text{Recapitalization amount}}$$

Liabilities proportion principle (SEK bn)*

Institution	Amount	Issued**
Handelsbanken	88	8
SEB	91	-
Swedbank	75	-
Other	42	5,5
Total	297	13,5

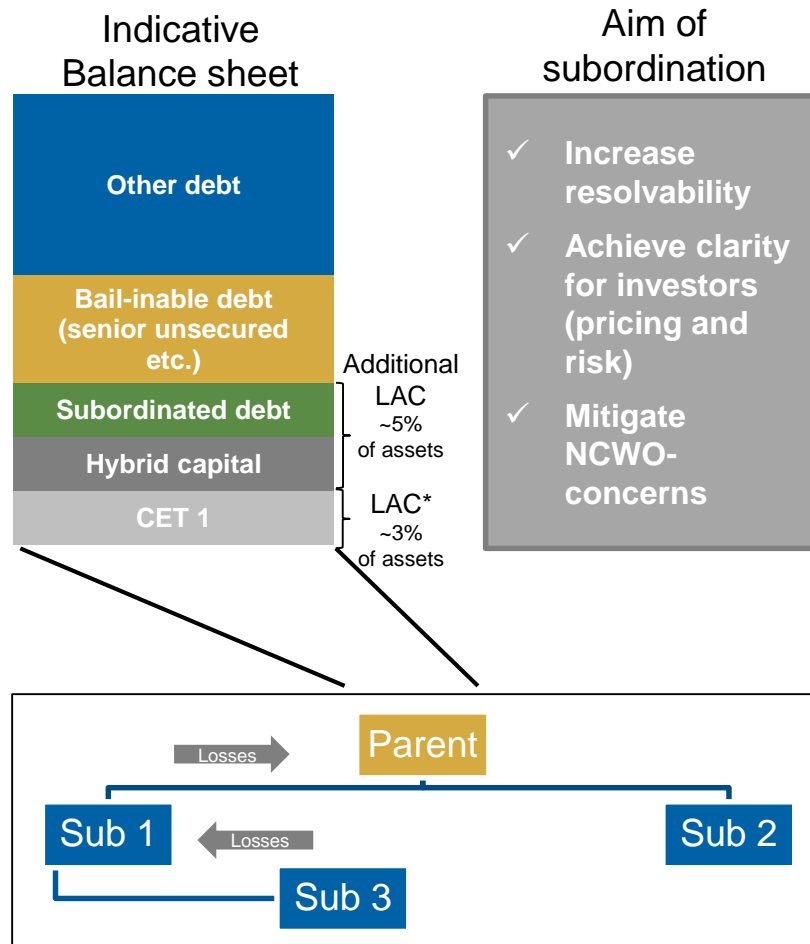
*Based on capital requirements as of Q2 2019. Possible maturity and management buffers not accounted for. **Subordinated

The Liabilities proportion principle (LPP) mandates that institutions hold an amount equal to the recapitalization amount in subordinated debt instruments.

This ensures a separation of going and gone concern resources, and that capital buffers may be used as intended

Sweden's framework allows for statutory subordination

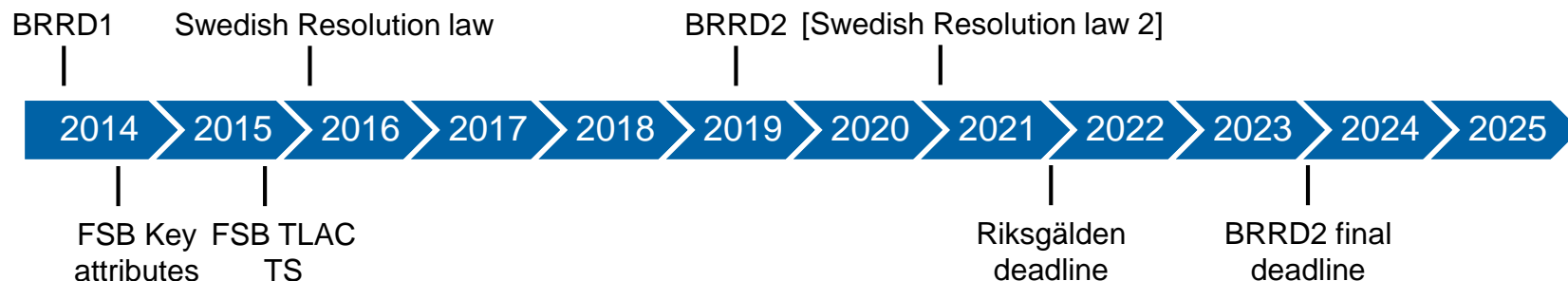
- Legislation specifying insolvency priority in place since 1st of January 2019
- This allows for issuance of senior non-preferred (SNP) instruments with statutory subordination
- Contractual and structural subordination (e.g. senior instruments issued from a HoldCo) allowed, but not expected in practice
- Swedbank and SEB received rating uplifts (Moody's) for senior unsecured debt in April 2018 due to expectation of increased additional loss absorbing debt*
- Internal (subordinated) MREL-requirements allow for upstreaming of losses to the resolution (parent) entity



*Moody's takes rating actions on four large Swedish banks due to MREL requirements, Moody's Investors Service, 2018-04-20

*Loss absorbing capacity. Moody's accounts for loss absorbing debt within its loss given failure framework while S&P uses the term ALAC.

BRRD2 finalized on EU-level



- BRRD2 introduces additions and changes to the current directive, mainly regarding MREL
- The calibration (including internal MREL) will be set in law to a higher degree
- Mandatory subordination is introduced
- Possibility of M-MDA restrictions implies that capital buffer requirements are added on top of the MREL-requirement
- Additional measures to deal with breaches of the MREL-requirement are also introduced
- The transposition in Sweden is subject to a public inquiry. Specific changes to the current MREL-policy is not yet known. Riksgälden has however communicated the following:
 - The current MREL-policy is largely compatible with BRRD2
 - It is essential that banks begin their issuances of subordinated debt instruments. The banks shall act with the intention to achieve the target levels by 1st of January 2022.

MREL instrument considerations



Maturity

- Maturities of 5 years or longer are expected
- Refinancing risks are a function of funding mix, including maturity, as well as the level of the MREL-requirement
- M-MDA article in BRRD2 stipulates that current market environment shall be taken into account before deciding on any measures to limit dividend payments
- Refinancing risks are a matter for the SFSA under going concern



Callability

- European banks have started to issue callable SNP-bonds although some legal uncertainty remain under current legal framework
- BNP Paribas was first (early 2019) to issue EUR-denominated callable SNP-bond
- Riksgälden has not communicated any position on callability
- Clarification is expected through EBA RTS



Subordination levels

- Riksgälden's general conclusion is that the current MREL-policy is largely compatible with the new legislative framework
- The prudential formula for subordination, $2*(P1+P2)+CBR$ is equal to the current de facto requirements for Swedish banks
- BRRD2 introduces the possibility for senior allowance
- Riksgälden's general view is that subordination is of high importance to ensure investors certainty, and to mitigate NCWO concerns. The subordination requirement was thus set at 100% for the current MREL-policy.

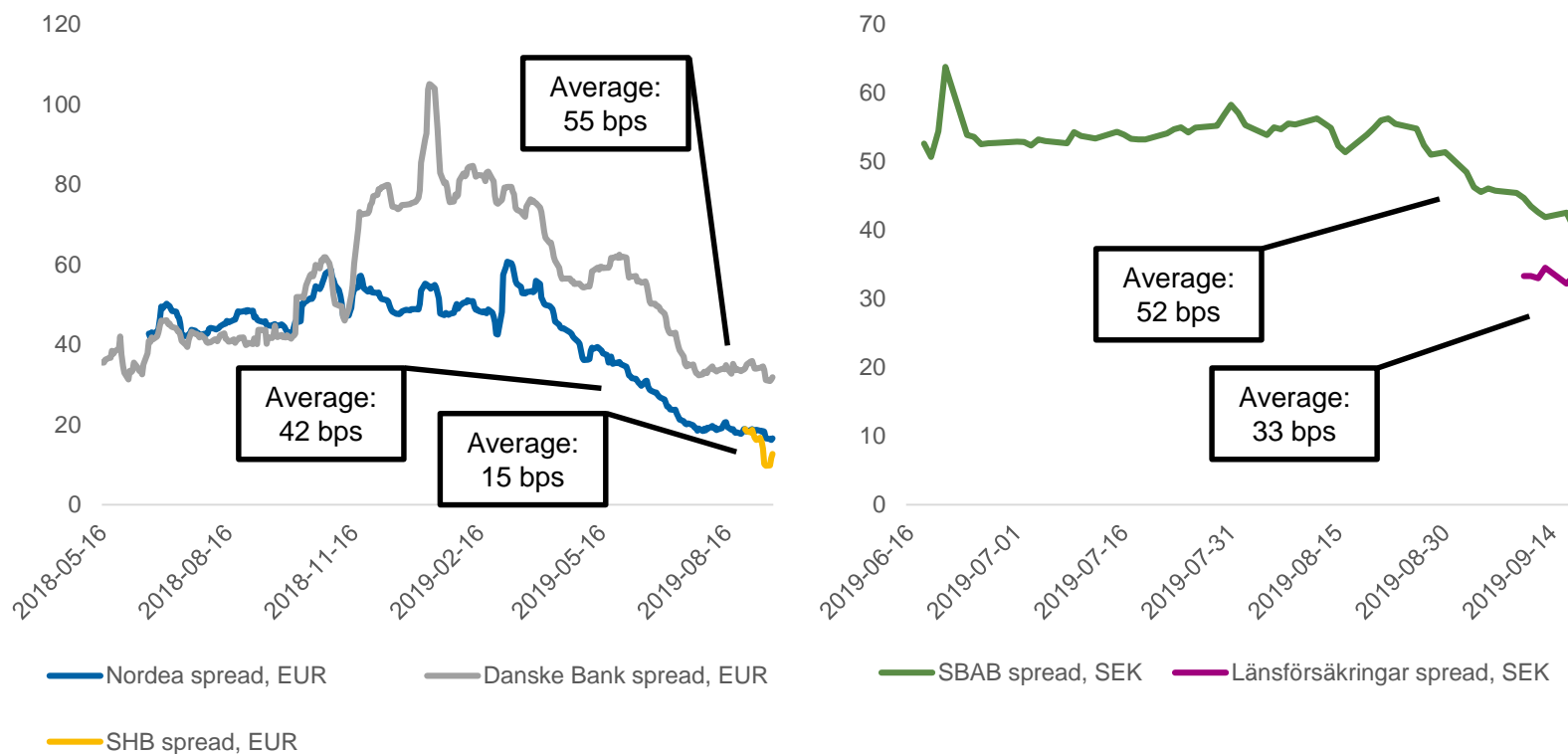


FX-mix

- SEB, Swedbank and Handelsbanken are likely to issue large parts of their subordinated debt requirements in EUR and USD
- Smaller Swedish systemic banks are likely to issue larger parts in SEK
- The current senior unsecured SEK-denominated market is limited in size, but may increase in subordinated space due to higher yields?

Subordinated debt for Nordic banks

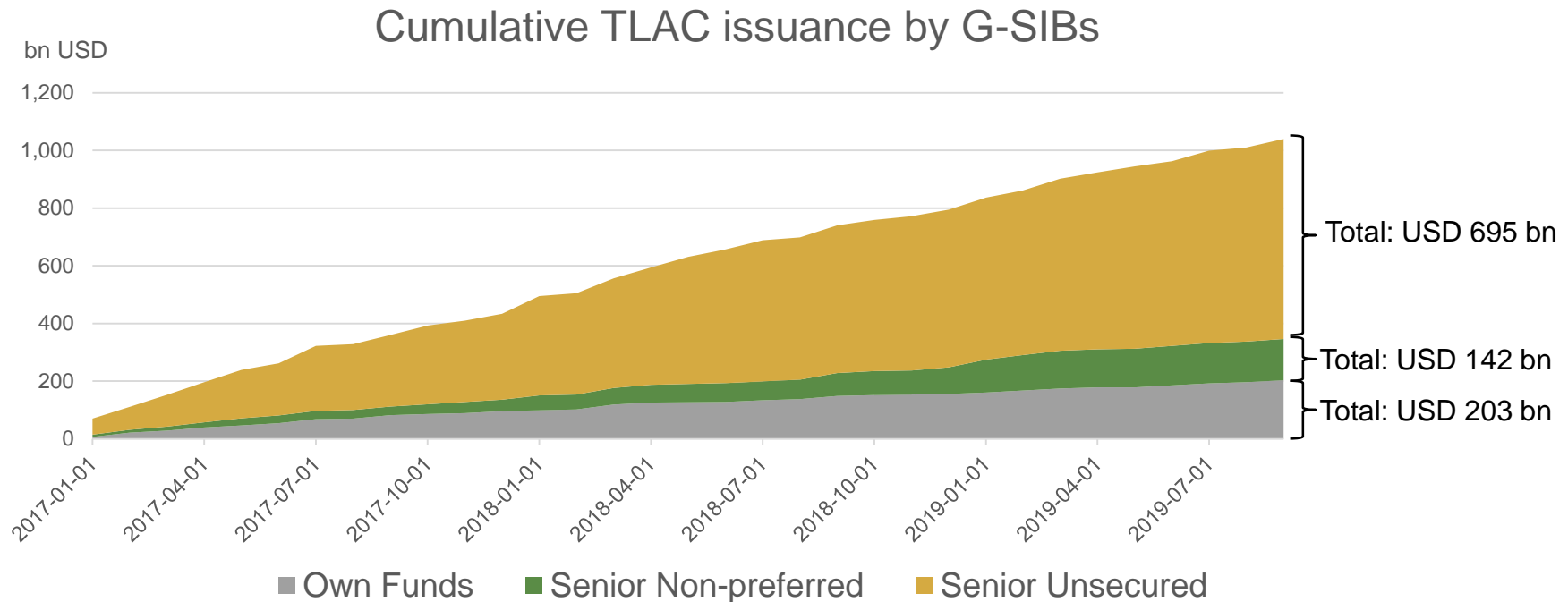
Difference in spreads between senior unsecured and senior non-preferred bonds for selected Nordic banks



Note: Mid Z-spread (bps)

Source: Riksgälden based on Bloomberg

The global TLAC/MREL market has been established



Source: Riksgälden based on Bloomberg.



The activity in 2019 has generally been good, and the supply is well absorbed by the market



Riksgälden is monitoring developments and is in a continuous dialogue with the banks