

# Banks in Sweden

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Banks in Sweden is a general description of the Swedish banking and financial markets.



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# The Swedish financial market

## The economic role of the financial sector

Efficient and reliable systems for saving, financing, mediating payments, and risk management are of fundamental importance for Sweden's economic prosperity. These systems are operated by banks and other credit institutions, insurance companies, securities companies and other companies in the financial sector. The financial sector efficiently channels savings in society to investment and consumption, such as household needs to smooth out the consumption of various life stages and the need for companies to finance investment.

In 2011, the financial industry accounted for 4.0 per cent of the total output in Sweden, expressed as its GDP. Around 85,000 people, representing about two per cent of the total workforce, work in the financial industry. This can be compared with the manufacturing industry that employs 13 per cent of the workforce and hotel- and restaurant sector that employs 3 per cent.

## Types of financial enterprise

The financial companies' overall balance sheet in 2011 was SEK 14 830 billion. It can be seen in relation to Sweden's GDP in 2011 of SEK 3,490 billion. The three largest groups of companies on the Swedish financial market, measured in total assets, are banks, mortgage institutions and insurance companies. Banks' share of the total assets of the financial market was 40 per cent at the end of 2011. In addition to the above mentioned companies, there are also private equity companies. Private equity companies mediate risk capital by investing and taking a part of the ownership in companies.

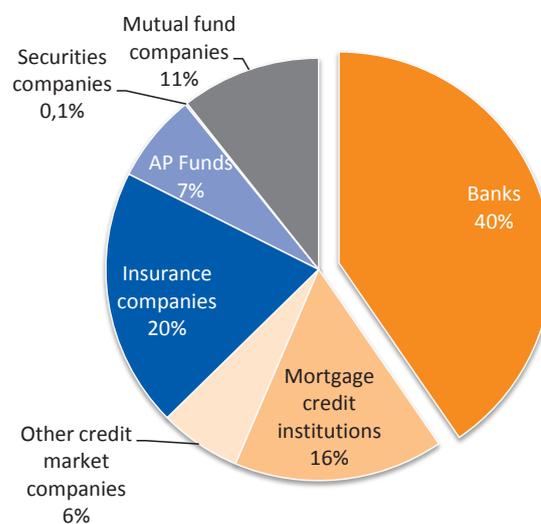
## Market changes

The financial sector is experiencing a significant change in its structure. Established companies have broadened the scope of their business, while many new companies, both Swedish and foreign, have entered the market. One important change has been the industry slip between banking and insurance.

Another change is that branch offices have become less important for bank customers' daily services. Instead the customers tend to make normal bank services through their Internet bank and cell phones. Moreover, new ways to perform bank services have been created, e.g. credit applications in chain stores, e-invoices, etc. These new channels of distribution have enabled the development of new services while existing services have changed. The new technology has also paved the way for the establishment of new banks and increased competition in banking.

Mutual funds and insurance savings have become some of the most important forms of household savings. Bank savings are, however, the largest household savings type. At the same time, savings in bonds have declined in importance. Over 75 per cent of the population have some of their savings in mutual funds.

## Players on the financial market, Dec 2011



Source: Sveriges Riksbank

# Structure of the banking industry

## Number of banks

There are four main categories of banks on the Swedish market: Swedish commercial banks, foreign banks, savings banks and co-operative banks. In December 2012, Sweden had a total of 117 banks. The number of commercial banks and foreign bank branches in Sweden has increased from 42 in 2000 to 66 in 2012. The increase is due to the fact that, among other things, more foreign banks have been established in Sweden. In addition, the number of Swedish commercial banks have increased, including new Internet- and telephone banks as well as securities firms and credit market companies that has become banks

## Swedish commercial banks

Swedish commercial banks are divided in three categories. The largest are the four big banks: Swedbank, Handelsbanken, Nordea and SEB. These banks are important players on most segments of the financial market. The second category is savings banks that have been converted into joint stock companies, often with Swedbank as a shareholder. The third category constitutes other Swedish commercial banks with a diverse business focus and ownership structure. Most of the other commercial banks were formed during the mid-1990s and ahead. At first these banks were mainly focused on the retail banking market and distributed their products and services online, but also through e.g. retail stores. In recent years several new banks have a background in securities trading and financing business. The new established banks have in course of time increased the selection of financial products and many of these banks are today regarded as universal banks.

## Foreign banks

The first foreign bank was established in 1986, when foreign banks were first allowed to open subsidiaries. During a few years, in connection with the financial crisis in the beginning of the 1990s, the number of foreign banks declined. Foreign banks were permitted to open branches in 1990 and, since then, they have increased. In December 2012, they amounted to 29. Most foreign banks focus on the corporate banking and securities market. The largest foreign bank is Danske Bank which at the same time is the fifth largest bank in Sweden.

## Savings banks

There are numerous independent savings banks in Sweden. Generally, they are small and active in regional or local markets. Most savings banks operate in co-operation with Swedbank as regards technical solutions and the provision of a common range of products and services. The number of savings banks has declined due to small savings banks having merged.

## Co-operative banks

A co-operative bank is an economic association that has as its purpose to produce bank services for its members. To be able to use the bank services of a co-operative bank the customer must become a member by paying a member share. There are two small co-operative banks in Sweden.

## Number of banks in Sweden

Type of bank	2000 (Dec)	2012 (Dec)
Swedish commercial banks	22	37
- of which four big banks	4	4
- of which former savings banks	9	14
- of which other Swedish commercial banks	9	19
Foreign banks	21	29
- of which subsidiaries	2	2
- of which branches	19	27
Savings banks	79	49
Co-operative banks	2	2
<b>Total</b>	<b>124</b>	<b>117</b>

Source: The Swedish Financial Supervisory Authority (Finansinspektionen)

# Banks function

## Deposits and lending

Banks' core business is to accept deposits and provide credit. In December 2012, the banks' deposits from the public amounted to SEK 2,950 billion. The bulk of these deposits – 43 per cent - come from Swedish households. Swedish companies account for 24 per cent of the deposits and foreign public for 23 per cent.

Since 1 July 2004 credit market institutions, besides banks, are also allowed to receive deposits. From 2008, all credit institutions that are permitted to accept deposits in accounts are covered by the deposit insurance. In addition, the so-called deposit companies may, with some restrictions, receive deposits. However, deposits in deposit companies are not covered by the deposit insurance.

Lending to the public in Sweden takes place mainly through banks and mortgage institutions. Banks provide loans with different types of security and also smaller loans without collateral. Banks, like mortgage institutions, also provide loans secured on homes and other buildings and property. Unlike mortgage institutions, banks can above first mortgages also provide second mortgages. Lending to the public from banks amounted to SEK 3,264 billion in December 2012. 36 per cent of lending to the public goes to Swedish businesses, while households and foreign borrowers account for 30 per cent each.

## Interest rates

The interest rates that banks set for their deposits and credits are highly dependent on the interest rates prevailing on the money market. Other factors affecting interest rates include the borrower's creditworthiness, the risk in the undertaking, the banks' financing costs, the competition among credit institutions, and the competition between different savings and loan forms. The banks' average deposit and lending rates have shown a clear downward trend since the early 1990s. In recent years, the interest rates have varied but are still generally lower than in the 1990s.

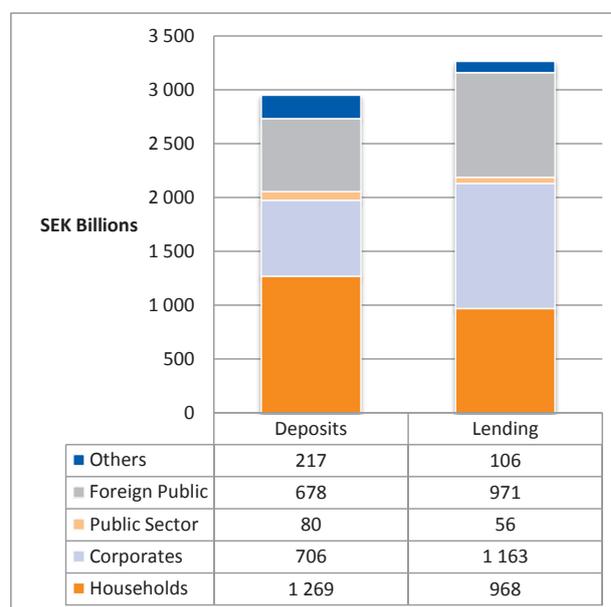
## Mediation of payments

In addition to depositing and lending money another important function of a bank is to provide a means of payment. The Swedish payment system is represented by among other things the bank giro, commonly owned by the banks. The Swedish payment system is technically advanced, and has high efficiency. This means that payments are transacted quickly, safely and at low cost. These systems for payments, but also securities transactions, belong to the financial infrastructure. The financial infrastructure is an important part of Sweden's total infrastructure.

## Risk diversification

A third task for the banks is to offer corporate and retail customers the opportunity to reduce, redistribute and spread risks, for example by offering trading in futures and options.

## Bank deposits from and lending to the public, December 2012



Source: Sveriges Riksbank

# The major banking groups

## Swedish banking groups

From the mid-1990s, Sweden's leading banks have evolved into financial groups with extensive international activities. This development is partly due to areas such as life insurance, fund management and mortgage lending becoming an increasingly important part of the groups' business activities alongside traditional banking. It has also involved geographical expansion by the groups, especially within the Nordic and Baltic regions.

**Nordea** is the largest financial company in the Nordic region with around 33,000 employees. The group includes leading banks in Sweden, Finland, Denmark and Norway. Nordea's lending consists of 75 per cent of lending from countries outside Sweden. The Bank's Swedish operations include one of the largest finance companies and major players in fund management and mortgage credits. Nordea also owns the credit transfer payment system Plusgirot.

**SEB** is the name of the financial group formed around Skandinaviska Enskilda Banken. SEB has developed extensive international activities among others in the Baltic region and Germany. In Sweden, SEB has a strong position in fund management and life insurance, as well as in the mortgage and finance company sectors. SEB is also a strong player on the stock market and in currency trading as well as international payments.

**Svenska Handelsbanken (SHB)** has more than 460 branch offices in Sweden. From the 1990s the bank has also expanded in the Nordic region, both through acquisitions and by opening branch offices. The wholly owned mortgage institution Stadshypotek belongs to the largest players on the Swedish mortgage credit market. Handelsbanken also has extensive operations in the fund management and finance company sectors.

**Swedbank** has an extensive network of around 320 bank branch offices in Sweden. In addition, Swedbank is in close co-operation with the independent savings banks and partly owned banks among the savings banks movement. Swedbank also has major activities in the Baltic region. The group includes Swedbank Robur, Sweden's largest fund management company, and Swedbank Hypotek, which is one of the largest mortgage finance institutions.

## The "big four" banking groups, 2011

	Employees		Lending to the public.	Total Balance
	Total	Of which Sweden	SEK Billions	SEK Billions
Nordea <sup>1</sup>	32 983	7 530	3 005	6 383
Handelsbanken	11 184	7 648	1 591	2 454
SEB	18 912	8 839	1 186	2 363
Swedbank	16 287	8 305	1 211	1 857

<sup>1</sup> The figures for Nordea relate to the entire Nordea Group, where the bank's activities in the other Nordic countries are also included.

## Other Nordic financial groups

Other Nordic financial groups with a strong position in Sweden are Danske Bank, Länsförsäkringar and Skandia. Danske Bank is Denmark's largest bank and has banking operations in all the Nordic countries. Danske Bank is, after Nordea, the largest financial group in the Nordic region. Länsförsäkringar consists of 23 regional insurance companies in co-operation, and together they own Länsförsäkringar Bank. Skandia is the market leader in life insurance but also has a strong position in mutual fund investments. SkandiaBanken is owned by the insurance company Skandia.

# Banks in Sweden

## Universal banks

Banks that are represented in the major part of the financial market and that offer all kinds of financial services are categorised as universal banks. Among the Swedish universal banks, we find the “big four” banks – Nordea, Swedbank, Svenska Handelsbanken and SEB. Together they have a strong position on the Swedish market although the market shares vary in different niche markets. Their market share on the deposit market is 66 per cent, but on most other markets it is normally lower. The big four banks share many similarities, but they also differ in many ways. For example, there is a big difference in terms of client-type, pricing of services and distribution channel. It is, therefore, incorrect to refer to these banks as a homogeneous group – in fact, they compete not only with all other banks on the market but also with each other.

On the Swedish market, Svenska Handelsbanken and Swedbank have the most branch offices, 461 and 317, respectively. Many of the banks also offer their services in co-operation with other players, such as supermarkets and petrol stations. Most of the services offered by banks’ branch offices are also offered through their Internet channels. Branch offices have, therefore, to a large extent shifted their focus to providing advisory services and selling the banks’ products and services.

## Other banks

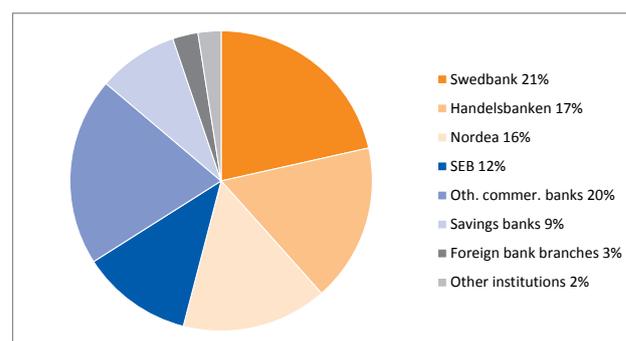
Over the past ten years, other commercial banks and the foreign bank branches have gained market shares in Sweden. Banks, such as SkandiaBanken, Länsförsäkringar Bank and Ikano Banken, established telephone- and Internet banks in the mid-1990s and ICA Banken in the early 2000s. Although they have gradually expanded their range of services, they are still mainly focused on retail banking. Several of the newest banks started as securities firms and are primarily focused on trading and asset management, such as the banks Avanza and Nordnet. Another category of new banks are former credit market institutions, for example Volvofinans Bank and Marginalen Bank.

The presence of foreign banks in Sweden is significant, mainly due to Danske Bank, with some 45 branch offices. In certain segments, such as investment banking, foreign banks have large market shares.

## Savings banks

The independent savings banks operate on the local or regional markets. The savings banks have a market share of almost 10 per cent in Sweden, but an individual savings bank’s local market share can be much higher. At the end of 2011, the savings banks had 180 branch offices, representing around 10 per cent of the 1,830 branch offices in Sweden.

## Deposits from Swedish households, share of the total. December 2012



Source: Statistics Sweden (SCB)

# Mortgage lending

## Mortgage loans

More than 70 per cent of Swedish households own their dwelling. Of these households, 96 per cent have a mortgage loan. The comparably high share of households with mortgage loans is a sign of a mature mortgage market. Other countries with similar shares are Norway, Denmark and the Netherlands.

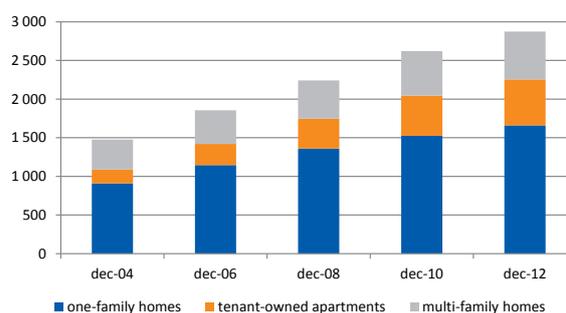
Mortgage credit institutions, but also banks, provide mortgage loans in Sweden. The total volume of outstanding loans secured on residential buildings amounted to SEK 2,874 billion at the end of 2012. Mortgage loans are secured by collateral, normally as a mortgage on the property. The lending consists of a first mortgage, which involves pledging the property for up to 75-85 per cent of its value. Additional credit is normally provided as a second mortgage by the bank that owns the mortgage institution or by which the institution co-operates. Second mortgages are offered up to 85 per cent of the market value of the property. From October 2010, the Swedish FSA introduced new rules regarding mortgage lending, which means that new mortgage loans shall not exceed 85 per cent of the market value of the property. Banks and mortgage institutions also normally require amortisation on new mortgage loans over 75 per cent loan-to-value.

## Mortgage credit institutions and banks

The mortgage credit institutions provide credit primarily for residential property, but also for commercial and office buildings. Loans secured on one-family homes and tenant owned apartments represent 72 per cent of the mortgage institutions total lending. Lending by mortgage institutions to Swedish households exceed the volume of bank lending to households. The three largest mortgage credit institutions are owned by Swedbank, Handelsbanken and Nordea. SEB offers residential loans directly through the bank. SBAB is a state-owned company that originally only financed mortgages provided or guaranteed by the state, but

which since the early 1990s competes fully with the other institutions. Länsförsäkringar Hypotek also offers mortgages, and banks such as Danske Bank and SkandiaBanken also sell mortgage loans. The smaller mortgage institutions are in some cases important players on the market as they can have relatively large market shares on new mortgage lending.

## Total residential lending, SEK Billions



Source: Statistics Sweden

## Other companies

There are also financial institutions that offer mortgage products, which are different from traditional mortgages. One example is companies that provide mortgage loans to borrowers who, for various reasons, do not qualify for loans in mortgage institutions. Another example is companies specialised in offering retired persons, with low mortgages on their houses, to release capital from their homes with amortisation- and interest-free credits with the home as a security. The credit and interests are repaid from the value of the home when it is sold, or if the borrower dies. Similar products are also offered by banks.

## Forms of funding

The credits provided by mortgage credit institutions are mainly financed by the issue of covered bonds and commercial papers. The bank-owned institutions also finance their lending by raising loans from their parent banks.

# Other credit market companies

Among the credit market companies, the mortgage credit institutions comprise the largest group. Finance companies as well as corporate and municipal financing institutions are normally referred to as “other credit market companies.”

## Finance companies

The finance companies mainly direct their business towards corporate customers (instalment finance, leasing, factoring etc.), but also to the retail market (credit and debit cards, hire purchase finance etc.). The use of instalment finance enables companies to spread out the cost of a major investment. Leasing is a means whereby a company can invest without having to tie up capital. Factoring allows customer invoices to be converted into liquid funds.

### Total assets of the ten largest companies in the “other credit market companies” segment

SEK million, Dec. 2011	
Svensk Exportkredit	325
Kommuninvest i Sverige	245
Landshypotek	71
Nordea Finans Sverige	51
Handelsbanken Finans	49
Swedbank Finans	37
Volkswagen Finans	19
Wasa Kredit	12
Entercard Sverige	9
SEB Kort	8
Total ten largest	826
Total “other credit market companies”	920

Source: Sveriges Riksbank

There are approx. 40 finance companies in Sweden, with aggregate credit and leasing outstanding of SEK 328 billion at the end of 2011. Although the largest finance companies are owned by banks, the majority are owned by non-financial enterprises that wish to offer financing facilities to their customers. The main source

of financing for the finance companies is loans from other credit institutions, mainly banks. Some of the larger finance companies also issue their own certificates on the securities market. From 1 July 2004, it is legally possible for finance companies to give deposits.

Finance companies grew fast in the 1980s, partly as a result of the tightly regulated nature of the bank market. At the end of the 1980s, Sweden had almost 300 finance companies, but in connection with the turbulence on the financial markets during the first half of the 1990s, this number fell sharply.

## Corporate and local government financing companies

Corporate and municipal financing companies focus on certain sectors of the industry or on lending to the local government sector. They are financed by issuing bonds and certificates.

The largest of these companies is Svensk Exportkredit (SEK), which is owned by the Swedish state. SEK is specialised in providing credit to Swedish export companies. Kommuninvest is owned by several municipalities and grants credit to its members. The third largest company in this group is Landshypotek, which provides loans secured on first mortgages to the agricultural and forest industry.

# Household Savings

## Household financial assets

The financial assets of Swedish households have increased by more than 130 per cent since 1995 and amounted in December 2012 to SEK 3,273 billion. The increase has occurred above all in insurance and mutual fund savings and, since the first years after year 2000, in bank savings. Parts of the household financial assets are tied to developments of different stock exchanges in the world; shares, mutual funds and to some extent insurance-/pension savings. The value of these financial assets varies with the developments on the international stock markets.

## Bank deposits

The stock of bank deposits was relatively stable in the 1990s but has increased since the year 2000. Bank deposits now constitute the largest share of total household financial assets. In relation to total household financial assets, bank deposits have declined for several years, but from 2006 the share has increased and amounts to 39 per cent in September 2012. During the 1980s, the share was around 50 per cent.

## Fund saving

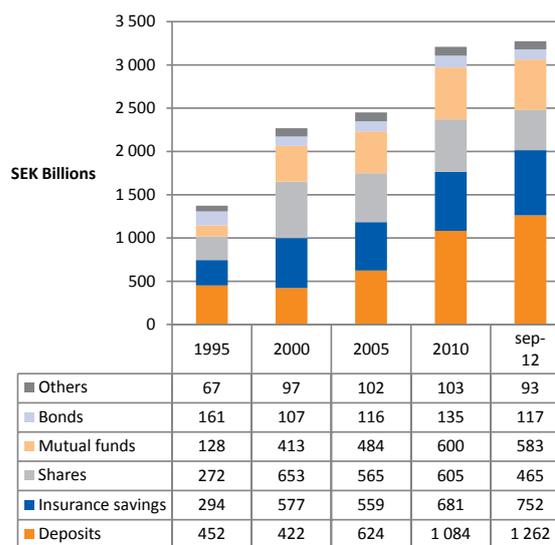
Already in the early 1980s, many Swedes began to invest parts of their savings in mutual funds, partly because of the tax breaks available on certain types of such savings. Today, 76 per cent of the Swedish population have some of their private savings invested in mutual funds (excluding the Premium Pension). The new pension system has resulted in almost all adult Swedes having parts of their pension funds in mutual funds since a percentage of an individual's pension premiums are invested in mutual funds.

## Insurance saving

Insurance and pension savings' share of the household financial assets increased from the early 1990s until around 2000 to a share of almost 30 per cent. The share has declined thereafter and is in 2012 slightly more than 20 per cent. One of the most common forms of insurance savings is traditional life insurance. Another is unit-linked life insurance, which is a form of insurance whereby investments are placed in mutual

funds of the investor's choice. Another form of pension saving, but without the insurance factor, is IPS (Individual Pension Saving), whereby the investor can invest in equities, mutual funds, bonds or bank accounts.

## Household financial assets



Source: The Swedish Financial Supervisory Authority, (Finansinspektionen)

## Life insurance companies

All of Sweden's major commercial banks have their own life insurance companies. The largest bank-owned insurance company is SEB Trygg Liv, which together with Alecta and Skandia, has the largest market share for life insurance and unit-linked life insurance.

# Household loans

## Household lenders

Mortgage institutions are the largest providers of loans to Swedish households; 63 per cent in December 2012. Mortgage institutions lending is secured on homes and buildings, e.g. single-family homes, tenant-owned apartments and apartment buildings.

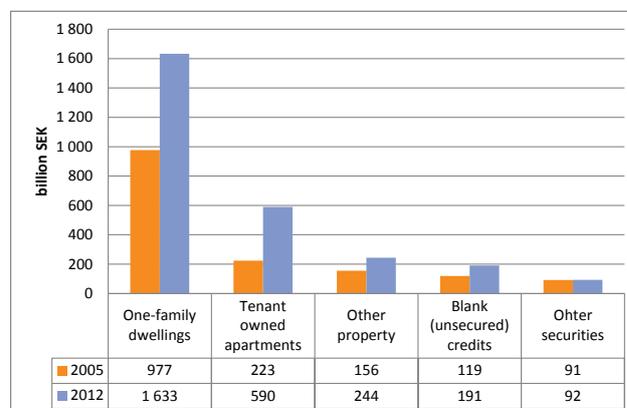
Banks are also a major provider of household loans and accounted for 35 per cent of total household loans in December 2012. A significant part of the bank lending is secured on homes and buildings. Household loans from banks are also secured in for example bonds and guarantees. It is also common for banks to give blank credits, unsecured loans, to households.

Finance companies and other credit market institutions account for 2 per cent of loans to households. Finance companies typically finance cars, boats, appliances, etc. and the object of the loan is normally the security. However, more than 40 per cent of the finance companies' lending to households is unsecured lending. Among other credit institutions, you find companies that are specialised in lending to farming and forestry.

## Household mortgages

Households borrow above all in order to finance housing. In December 2012, single family homes and tenant-owned apartments were used as a security for 81 per cent of the household loans. Normally mortgage institutions only offer a first mortgage, i.e. a loan pledged up to around 75-85 per cent of the market value of the property. The second mortgage, i.e. a loan pledged above the first mortgage up to 85 per cent of the market value. In October 2010, Finansinspektionen (Swedish FSA) has introduced new rules regarding mortgage lending, which state that new loans secured on residential property are limited to 85 per cent of the market value of the property. Unlike mortgage institutions, banks can offer both first and second mortgages. In December 2012, the households' residential loans amounted to SEK 2,223 billion.

## Household lending by security



Source: Statistics Sweden

## Other securities and blank credits

The households also have loans secured in property that are not homes, e.g. farming- and forest properties and multi-family homes. These loans make up 9 per cent of the households' total loans. Loans without security, blank credits, constitute 7 per cent of the households' total loans. Blank credits are an important product for finance companies, but it is the banks that are the biggest lenders of blank credits to households.

Other securities make up 3 per cent of the households' loans. Other securities consist of, among others, securities and different kinds of guarantees.

# Mutual fund companies

## Fund saving

Households' savings in mutual funds increased steadily until 2000 when around 20 per cent of the Swedes' financial assets consisted of mutual funds. The share of mutual funds in the households' financial assets has varied slightly since then and amounted in September 2012 to 18 per cent. At present households also to a larger extent invest indirectly in mutual funds through e.g. life insurances. 76 per cent of all Swedes have private savings in mutual funds.

In the 1980s, fund saving was stimulated both by the strong performance of the stock market and favourable tax rules. This attracted many Swedes, which in turn generated widespread knowledge of mutual funds.

The total assets of Swedish mutual funds rose from SEK 120 billion in 1990 to nearly SEK 900 billion in early 2000. After that, the total assets of mutual funds have diminished in some years when stock markets have fallen. In the long run there has been a long-term rise in the mutual fund values and in December 2011 the mutual fund assets amounted to SEK 1,802 billion.

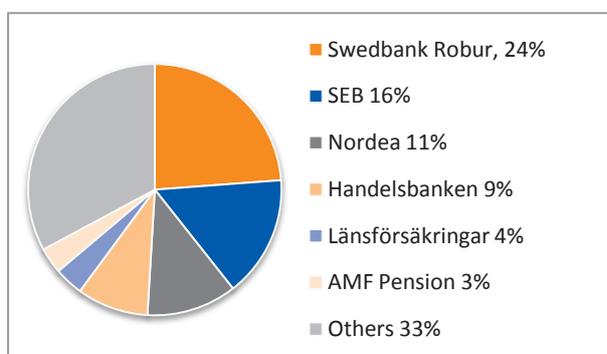
In the third quarter 2012 some 52 per cent of the mutual fund assets were equity funds, 24 per cent were interest funds, 19 per cent mixed funds, and 5 per cent hedge funds. The proportions vary over time depending on, among other things, falling stock markets, when interest rate funds tend to increase and equity funds to diminish and the opposite when stock markets increase.

## Fund managers

The number and variety of mutual funds has increased in pace with the growing interest of investors. In the Swedish market, there are 75 fund management companies, which together with foreign fund management companies offer investments in around 5,000 funds. For a long time, the big four banks' fund companies have had a relatively large market share of the mutual funds market, but for several years other fund companies on the market have been expanding due to their relatively high share of new fund investments.

The largest players on the Swedish fund market are Swedbank Robur, SEB Fonder, Nordea Fonder and Handelsbanken Fonder. These fund companies all have a wide range of funds focusing on different geographical regions, sectors of industry or type of instruments like equities or bonds. It has also become more common for fund managers to extend their own portfolio of funds with those from other fund managers, particularly large international ones.

## Mutual fund companies in Sweden. Share of total assets managed by Swedish mutual fund companies, December 2011



Source: The "Fond & Bank" newsletter

# Payment services

## Means of payment

Besides for minor cash payments, virtually all payments in Sweden are transmitted through banks or credit card companies. The most common means of payment are the various charge cards and electronic giro systems. Most payments are linked to bank transaction accounts, which register salary deposits, ATM withdrawals, credit and charge card purchases and automatic transfers.

## Electronic payments

Over the past few decades, the use of paper-based payments such as giro forms, cheques and cash payments have rapidly been replaced by electronic payments of various types. As an example, the use of different kinds of cards has increased from 100 million transactions in the middle of the 1990s to 1,956 million transactions in 2011. During the same period, the use of cheques has in practice ceased.

While the share of electronic giro payments, mainly online, has increased, the share of paper-based giro transactions has decreased. The share of Swedes older than 15 years, who pay their bills through an Internet bank, has increased from 9 per cent in 1999 to 79 per cent in 2012. In the younger age groups (aged up to 34 years), up to 96 per cent pay their bills through the Internet. During the same period, the use of paper based payments, such as giro forms, diminished from almost 79 per cent in 1999 to 12 per cent in 2012.

There is an increasing demand for e-invoice in Sweden. With e-invoice, the bank customer receives the bill electronically directly at the customer's Internet bank with all the necessary information and the customer must thereafter simply approve it. During 2011, e-invoices to private customers constituted 17 per cent of all private customers' credit transfers through the Internet and amounted to 60 million.

## Giro systems

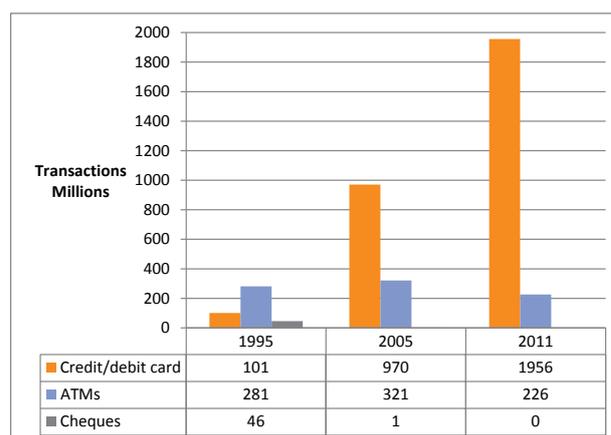
There are two different giro (credit transfer) systems in Sweden. The Bank giro is owned jointly by the banks, while Nordea owns the Plus giro. Both of these compe-

ting systems are technically advanced and provide quick, secure payment facilities. The giro systems can handle a number of different transactions, like giro payments by paper forms or by the Internet, bank transfers and bank deposits.

## ATM network

The Swedish ATM network is also highly developed, with approx. 3,566 ATMs nationwide. In 2011, the ATM withdrawals amounted to 226 million and the average withdrawal was slightly more than 900 SEK. The system is designed rationally in that any bank's ATMs can be used by the customers of more or less any other bank.

## Use of means of payment 1995, 2005, and 2011



Source: Sveriges Riksbank

# Supervision of Swedish banks

## Supervision of Swedish banks

The main functions of the financial system are to accept deposits and provide credit, mediate payments and to diversify risks. It is of great importance that the function and reputation of the system is maintained and, therefore, society has found it necessary to create laws that regulate the institutions that constitute the financial system. Among these institutions, the banks play an important role and there are a number of laws and regulations that regulate their activities. Finansinspektionen (the Swedish Financial Supervisory Authority) and The Riksbank (the Swedish central bank) have the main responsibility of monitoring compliance with these laws and regulations, and to maintain financial stability. Finansinspektionen has a direct responsibility to supervise the individual institutions on the financial market. The Riksbank has an overall responsibility to promote a stable function of the financial system. The task of promoting stability in the financial system is shared between the two authorities.

## Finansinspektionen

Finansinspektionen is a public authority under the jurisdiction of the Finance Ministry. Finansinspektionen is responsible for supervising the institutions on the financial market and the financial marketplaces. Finansinspektionen has also an overall objective to contribute to the stability and efficiency of the financial system, and to promote consumer protection.

The laws regulating banks and other financial institutions are passed by the Swedish parliament. The laws are in some cases in the form of framework legislation and within this framework Finansinspektionen issues detailed regulations for financial activity. Finansinspektionen also issues general guidelines that, unlike laws, are optional, but should be followed by financial institutions to be considered as carrying out sound activities. Finansinspektionen is the authority that issues permits and licences for different activities on the financial markets, e.g. bank licence.

To monitor compliance with the laws, regulations and general guidelines, Finansinspektionen supervises financial institutions. The supervision is performed in different ways, e.g. on-site inspections of financial institutions or by requiring different information that Finansinspektionen wants to control and analyse. Finansinspektionen may also appoint its own accountants in institutions supervised by them. The authority also carries out regular analysis of the institutions' risks and financial performances.

## The Riksbank

The Riksbank is an authority with an independent status under the jurisdiction of the Swedish parliament. The main task of the Riksbank is to maintain price stability. The Riksbank interprets the task of price stability as keeping inflation low and stable.

A second important task for the Riksbank is to promote stability in the financial system and particularly in promoting a safe and efficient payment system, and to be ready to handle a possible financial crisis. The payment system includes, among other things, the whole infrastructure for payments and securities transactions. The Riksbank promotes the financial stability by regularly monitoring and analysing risks and threats to the stability of the financial system. In this purpose, the Riksbank, besides for the payment system, also analyses the four major banking groups, the banks borrowers, and the macroeconomic development. The findings of the Riksbank are communicated e.g. through regular publications, articles and speeches.

# Banking Laws

## Banking and Financing Business Act

The act on Banking and Financing Business is the fundamental act regarding the business of banks and financing companies. The act contains rules concerning, among other things, requirements to obtain a licence to conduct banking and financing business, what kind of financial operations these companies may perform, credit assessment, cross-border operations, what kind of property credit institutions may hold and rules on supervision and interventions by authorities. The Act is applicable to both banks and financing companies.

## The Capital Adequacy Act

The Act on Capital Adequacy and Large Exposures has rules that aim to ensure that bank and credit market companies have sufficient capital to meet the risks in the business. There are capital requirements on credit risks, market risks and operational risk. The Act states how to calculate capital requirements depending on the type of assets, commitments and investments of the financial institutions. The Act also contains limits of the level of exposures that a financial institution may have with a customer or a group of customers.

## Consumer Credit Act

The Act states what the credit institutions shall observe when granting loans to consumers. The Act states information obligations regarding marketing of credits, prior information and the content of a credit agreement. It also states the conditions for changing the interest rate to the disadvantage of the customer and for repaying a loan prematurely.

## The Covered Bond Act

Banks and credit market institutions can issue covered bonds according to a certain act, provided that the bonds have preferential rights on the assets of the issuing institution and that these assets meet certain criteria.

## Payment Services Act

In this act, it is stated as to what obligations a supplier of payment services shall fulfil, among other things information to costumers and how long a payment transaction may take. By this new act, a new category of financial institutions is introduced; payment institutions.

## The Act on Deposit Guarantee Scheme

The act guarantees every customer an amount equivalent to a maximum EUR 100,000, for deposits in all kinds of accounts at banks, credit market institutions and other institutions. The guarantee covers losses if an institution goes bankrupt or due to a decision made by Finansinspektionen.

## The Act on Money Laundering

The Act applies to banks and credit market institutions, but also to a number of other companies. It is forbidden to take part in money laundering and the institutions are obliged to report to the police those transactions suspected as money laundering or the financing of terrorism.

## Other acts

Most of the acts mentioned are mainly based on EU-directives. The acts are completed with more detailed provisions in the regulations and general guidelines, as issued by Finansinspektionen, which is the Swedish Supervisory Authority.

Most of the Swedish banks are universal banks. This means that securities trading, asset management and corporate finance also constitute significant parts of their operations. In these different areas, there is further legislation. An important act among these is the act on the market for financial instruments. The Markets in Financial Instruments Directive (MiFID) is implemented in Sweden by this act.

# Financial stability measures

After the financial crisis in 2008 and 2009, different programmes for guarantees and capital infusions to protect financial stability were introduced. The Swedish National Debt Office has a central role in state measures to protect financial stability. The Debt Office is responsible for issuing loan guarantees, capital infusions and providing emergency support.

## Bank guarantee programme

The guarantee programme, which ceased in June 2011, gave banks, mortgage institutions and certain credit market companies an opportunity to contract with the government for a guarantee covering part of their borrowing. Put simply, this meant that the government promised, for a charge, to intervene if the institution could not pay its lenders.

There are still loans guaranteed by the programme, but after they expire, the stock of guaranteed loans diminishes. In October 2012, the total issued guarantees in the programme amounted to SEK 38 Billion. The total limit of the programme was SEK 1500 Billion.

## Capital infusion programme

The capital infusion programme was created for already financially strong banks. It implied that these banks could obtain a government capital infusion in the form of share capital or so-called hybrid capital. The programme was limited to SEK 50 Billion and applied until the 30 June 2011. In April 2009, the state subscribed for Nordea shares amounting to SEK 5.6 Billion.

The capital infusion provided to a bank might correspond to an increase of at most two percentage points of the capital adequacy ratio. Furthermore, the remuneration for senior executives of the banks participating was restricted.

## Emergency support for banks

The Debt Office can intervene on behalf of the government if a financial institution should encounter such grave financial difficulties that there is a risk of serious disruption to the financial system. The Debt Office has a broad mandate to implement measures and it is difficult to predict measures considered necessary. Examples are liquidity support and capital reinforcement.

## Stabilisation fund

To finance state measures to support the financial system the parliament, The Riksdag, has decided to build up a stabilisation fund. Banks and other credit institutions will pay an annual fee to the fund. The fee amounts to 0.036 per cent of a reference base derived from the institute's balance sheet. In 2011, the total amount of fees paid to the stabilisation fund by the banks and credit market institutions amounted to more than SEK 3 Billion. The objective is for the fund to accumulate a sum corresponding to 2.5 per cent of GDP until year 2023. The Government initially provided 15 billion kronor to the fund. The total value of the fund in October 2012 was, including Nordea shares at market value, SEK 40,7 Billion.

## Deposit insurance & Investor compensation

Deposit insurance means that the state through the guarantee compensates savers for their money in all types of accounts at banks, credit market institutions and other institutions.

If an institution goes bankrupt or if the Finansinspektionen decides, the deposit insurance compensates at a maximum of 100,000 euro per customer and institution. The aim of the deposit guarantee is the protection of deposits given by the public and to contribute to the stability of the financial system. Institutions connected to the deposit guarantee pay a fee to the Debt Office.

The Investor compensation means that the state compensates for assets up to an amount of SEK 250,000. Compensation is payable if an institution goes bankrupt, and it is impossible for the investor to recover their assets.

Note: 1 SEK is approximately 0.11 EUR.

# Covered bonds

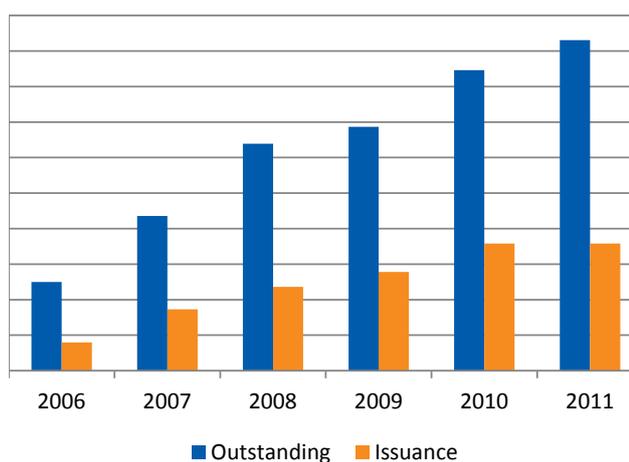
Mortgage loans constitute a large share of the lending to the public in Sweden. This applies in particular to loans to households where 81 per cent of the loans are secured against residential property (one-family homes and tenant-owned apartments).

Mortgage institutions and banks, which provide mortgage lending, need in their turn funding for the loans. The most common funding sources are bank deposits together with certificates and bonds (short- and long-term securities). However, the major share of the institutions' funding of mortgage loans comes from a specific type of bonds – covered bonds.

## The development of covered bonds

Until year 2006, the main funding of mortgages from banks and mortgage institutions consisted of mortgage bonds. A couple of years earlier, in year 2004, funding with covered bonds became possible with a new covered bonds act in Sweden. From year 2006 and a couple of years ahead, all mortgage bonds were converted into covered bonds.

### Covered bonds. Total outstanding and issued during the year, Billion SEK.



Total amount of outstanding covered bonds have grown to 1 891 Billion SEK at the end of 2012. During 2012, the institutions have issued new covered bonds amounting to 426 Billion SEK.

## The structure of covered bonds

Unlike mortgage bonds and other corporate bonds, there is a cover pool tied to a covered bond. If the issuer of the covered bond is not able to repay the value of the covered bond, e.g. bankruptcy, the holder has a direct pledge in the covered bond's cover pool. The cover pool of a covered bond consist of loans secured by one-family homes and tenant own apartments, but in some cases also loans secured by agriculture and commercial properties. Loans to local authorities or loans guaranteed by local authorities could also be included in the cover pool.

To secure the high quality of the cover pool only mortgage loans where the loan amount does not exceed 75 per cent of the market value of the residential property, are allowed to be included in the cover pool. In the same way, loans to agricultural and commercial property may be included in the cover pool if the loan amount does not exceed 70 per cent respectively 60 per cent of the value of the collateral. In the covered bonds act, there are also strict requirements regarding the following up and control of the quality of the cover pool.

### Good reputation

Swedish covered bonds have since first issued in 2006 always had good reputation among domestic and foreign investors. During 2008 and 2009 when the international financial markets periodically were very strained, the confidence in Swedish covered bonds were unaffected and Swedish banks and mortgage institutions could continue to issue new covered bonds in Sweden and abroad.