

Banks in Sweden

Published March 2023



Svenska
Bankföreningen
Swedish Bankers' Association



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CONTENTS

The Swedish financial market	4
Banks in Sweden	6
Banks' functions	8
Banking structure	10
The major banking groups	12
Other credit market companies	13
Household loans	14
Household savings	16
Payment services	18
Mutual fund companies	20
Supervision of Swedish banks	21
Covered bonds	22
Banking laws	23
Financial crisis management	24
Banks in society	26

The Swedish financial market

The economic role of the financial sector

The main functions of the financial system are to convert savings into funding, to create the conditions for efficient processing of payments in the economy and to manage risks. An efficient and reliable financial system is of fundamental importance for the Swedish economy to both function and grow. These systems consist of banks and other credit institutions, insurance companies, securities companies and other companies in the financial sector.

The financial industry is important for the economic growth and employment in Sweden. In 2022, the financial industry accounted for 4.6 percent of the total output in Sweden, expressed as its GDP, and employed over 100,000 individuals, representing about 2 percent of the total workforce. This can be compared with the manufacturing industry, which employs 11 percent of the workforce, and the information and communication sector, which employs 5 percent.

Banks are also important taxpayers: in 2021, the seven largest banks in Sweden paid SEK 14 billion in corporation tax, representing around 10 percent of the total corporation tax in Sweden. In addition, the seven largest banks and two publicly owned credit institutions pay a risk tax from 2022. The risk tax amounted in total to SEK 6.3 billion in 2022.



Types of financial enterprises

Banks (commercial banks, foreign bank branches and savings banks) constitute the largest group of companies in the financial sector in Sweden as regards total assets and liabilities. The banks' total balance sheet items were SEK 10,245 billion in 2021. Credit market companies come next after the banks in size, measured in total balance sheet items. Housing credit institutions are the largest group of companies among the credit market institutions. All the housing credit institutions are owned by banks.

Securities companies conduct trade with securities in their own name on behalf of customers and on their own behalf, as well as commission trading. In this capacity they play an important role in creating an efficient market for securities.

Beyond the above-mentioned companies, there is a group of companies that fulfil an important role in the financial market as investors: insurance companies, mutual funds companies and pension funds. In addition, there are also private equity companies and FinTech. Private equity companies mediate risk capital by investing and taking part-ownership in companies. FinTech are companies that offer financial services using the latest digital technology.



The Swedish financial sector:

- 2 percent of the workforce
- 4.6 percent of the GDP
- 10 percent of the corporate tax

Financial companies

December 2021, SEK billion

Total balance

Commercial banks	7,973
Foreign bank branches	1,983
Savings banks	289
Housing credit institutions	4,259
Other credit market companies	1,209
Total	15,713

Source: SCB (Statistics Sweden)

Changes in the market

New technology has also paved the way for the establishment of new banks and companies offering financial services (FinTech), and in turn increased competition within banking. These new channels of distribution of banking services have enabled the development of new services whilst existing services have changed.

Bank branch offices now have become less important for bank customers' daily bank services. Today these services are almost exclusively performed using computers, mobile phones and tablets. Other ways of performing bank services are, for example, real time payments between customers (Swish) and e-invoices.

Mutual funds and insurance savings have been among the most important forms of household savings for many years. Around 75 percent of the population have some of their savings in mutual funds. Bank savings are, however, the largest household savings type.





Banks in Sweden

In December 2022, Sweden had a total of 123 banks. They can be divided into four main categories: commercial banks, foreign banks, savings banks and co-operative banks.

The number of commercial banks and foreign bank branches in Sweden has increased from 66 in 2012 to 77 in 2022. The increase has occurred above all among Swedish commercial banks, when several credit market institutions have transformed into commercial banks, but also when European banks have opened bank branches in Sweden.

Commercial banks

Commercial banks are divided into three groups. The largest are the three big Swedish banks: Swedbank, Handelsbanken and SEB. These banks are important actors on most segments of the financial market.

The second group consists of savings banks that have been converted into joint stock companies, often with Swedbank as a shareholder.

The third group constitutes other Swedish commercial banks with a diverse business focus and ownership structure. The majority of the other commercial banks were formed from the mid-1990s onwards. The first banks to be established were focused on the retail banking market and distributed their products and services through telephone and online, but also through, for example, retail stores. There are later examples of new banks with a background in securities trading and several new banks with a background in the financing business.

The newly established banks have, in the course of time, increased the selection of financial products and many of these are today regarded as full-service banks for private customers.

1986

The first foreign bank was established in 1986, when foreign banks were first allowed to open subsidiaries in Sweden.

Foreign banks

The first foreign bank was established in 1986, when foreign banks were first allowed to open subsidiaries in Sweden. In the space of 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 started to increase again.

In December 2022, the foreign banks amounted to 36. After Nordea moved its headquarters to Finland in October 2018, the bank became by far the largest foreign bank in Sweden. Danske Bank is the second largest foreign bank in Sweden. Nordea and Danske Bank have services and products for all types of customers. Most other foreign banks focus on the corporate banking and securities market.

Savings banks

There are numerous independent savings banks in Sweden and they are 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 declined for several years due to small savings banks having merged.

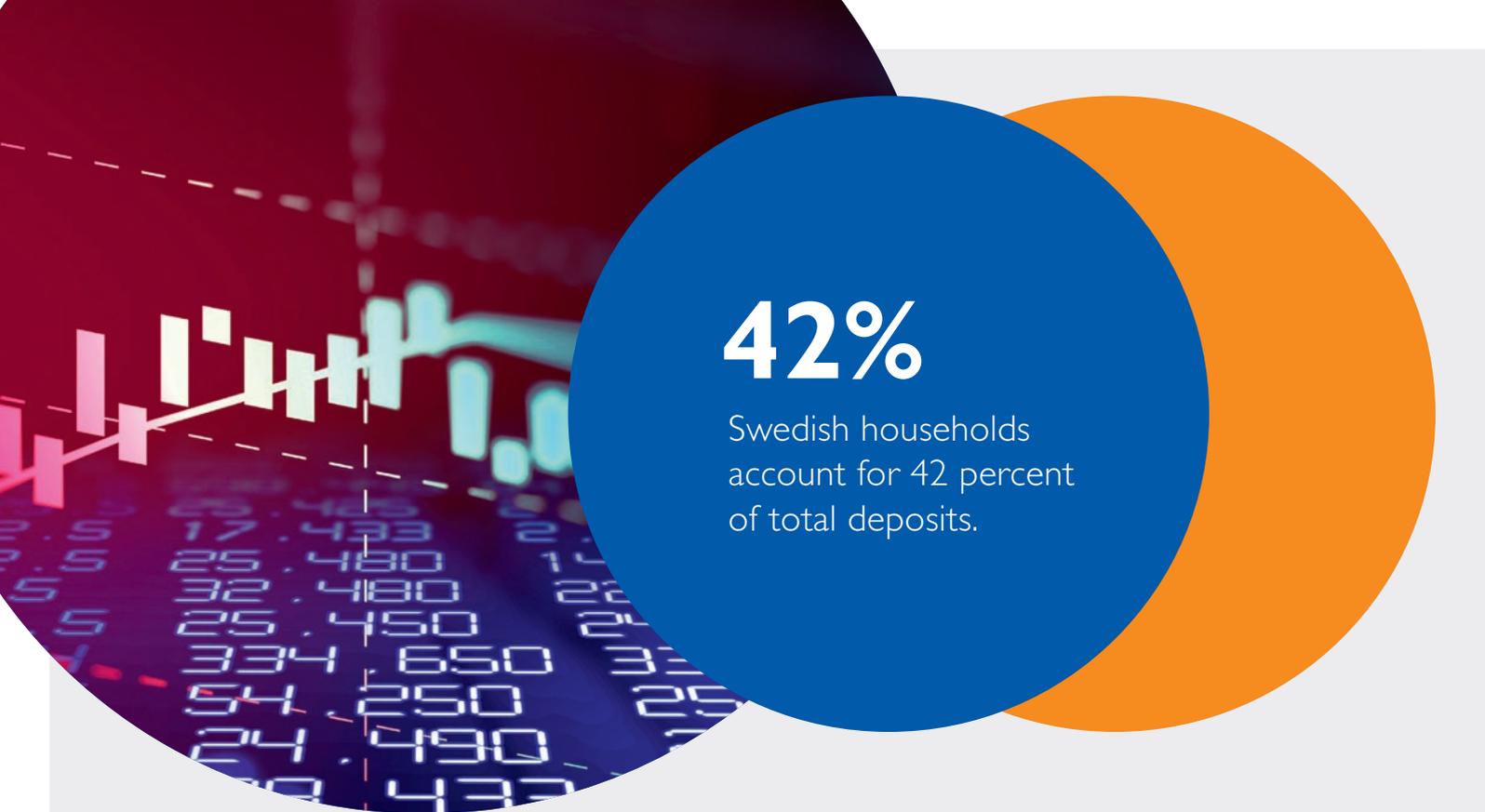
Co-operative banks

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

Number of banks

Type of bank	2022 (Dec)	2012 (Dec)
Commercial banks	41	37
– of which are large Swedish banks	3	4
– of which are former savings banks	15	14
– of which are other Swedish commercial banks	23	19
Foreign banks	36	29
– of which are subsidiaries	0	2
– of which are branches	36	27
Savings banks	44	49
Co-operative banks	2	2
Total	123	117

Source: Finansinspektionen (The Swedish Financial Supervisory Authority)



42%

Swedish households account for 42 percent of total deposits.

Banks' functions

Convert savings into funding

Banks' core business is to accept deposits from the public and provide credit. In this way banks make it possible to convert savings into funding.

In December 2022, the banks' deposits from the public, i.e. primarily households and non-financial companies, amounted to SEK 6,306 billion. The bulk of these deposits – 42 percent – come from Swedish households. Swedish companies account for 27 percent of the deposits and the foreign public for 21 percent. Foreign public consists mainly of corporate and private customers in the Swedish banks' foreign branches.

The Swedish deposit insurance scheme was introduced in 1996. The deposit insurance scheme has been extended on several occasions and today all deposits in banks and credit market institutions are covered. 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 scheme. The law regulating deposit companies has expired from 2021 and only a few of the previously registered deposit companies are allowed to continue operating.

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. Lending to the public from banks amounted to SEK 5,335 billion in December 2022. Swedish businesses account for 33 percent of total lending to the public, while Swedish households account for 29 percent. In addition, foreign borrowers, i.e. foreign business and private customers, account for 30 percent of bank lending to the public.

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.

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 advanced and has high efficiency. These systems for payments and transactions belong to the financial infrastructure, which is an important part of Sweden's total infrastructure.

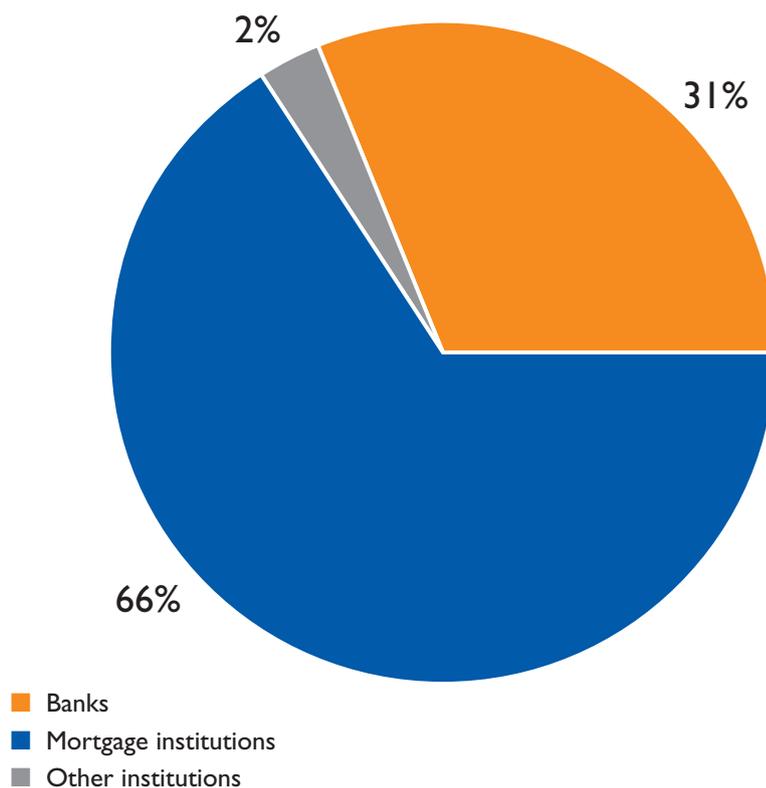
In order to maintain its position as one of the most efficient payment systems, Sweden and several Nordic countries develop a new, modern payment infrastructure. The new payment infrastructure is adapted to the current and future needs of payment services, with the opportunities that new European rules and standards provide. For example, the new payment infrastructure will handle payments in real time and have a format that allows more information to be sent with the payment. Sweden will be the first country in the Nordic region to switch to the new Nordic payment infrastructure.

Risk diversification

A third task for the banks is to offer individuals and corporate customers the opportunity to reduce, redistribute and spread risks. One example is mutual funds, where portfolios of securities are constructed and where the risks in single securities are spread within the mutual fund.

Lending to Swedish households

Total, broken down by type of institution, December 2022



Source: Sveriges Riksbank



Banking structure

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 them we find the large Swedish banks – Swedbank, Svenska Handelsbanken and SEB, as well as Nordea (currently a Finnish bank). Together they have a strong position in the Swedish market but their market shares vary in different niche markets. The four banks' market share of the deposit market amounts to 60 percent as of December 2022.

The big banks share many similarities, but they also differ in many ways. For example, there is a difference in terms of client type and focus areas.

Most of the bank services nowadays are performed through computers and mobile phones. This has meant that customers visit the banks' offices to a lesser extent and the number of branch offices has decreased slowly over many years. At the end of 2021, Svenska Handelsbanken and Swedbank have the most branch offices in the Swedish market, 214 and 153, respectively.

Other banks and foreign banks

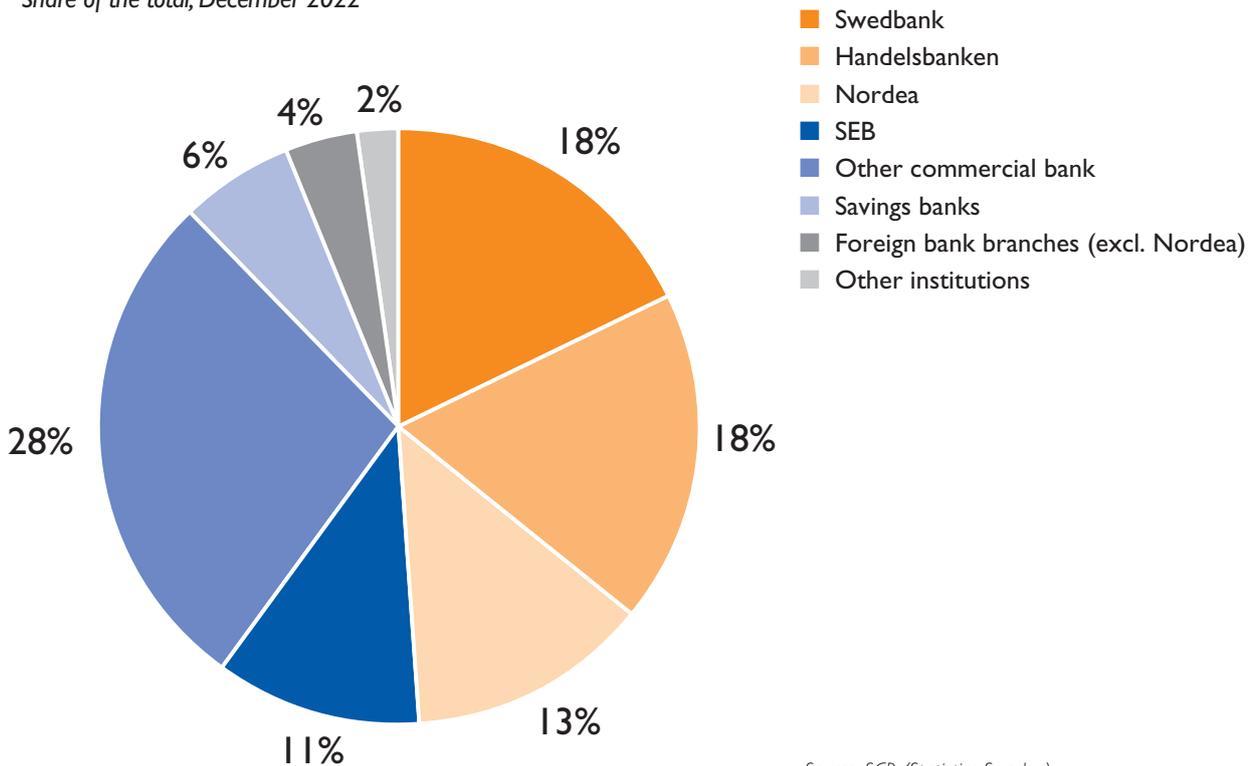
Since the end of the 1990s other commercial banks and foreign bank branches have emerged as important players on the Swedish banking market and, among other things, have gained market shares within households' deposits.

60%

The four largest banks' market share of the deposit market amounts to 60 percent as of December 2022.

Deposits from Swedish households

Share of the total, December 2022



Source: SCB (Statistics 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 and many of them are nowadays considered as universal banks, they are still mainly focused on household retail banking.

Another category of banks are those with a background in securities trading. These banks are primarily focused on trading and asset management, such as the banks Avanza and Nordnet.

Another category of banks are former credit market institutions, for example Volvofinans Bank and Marginalen Bank.

The presence of foreign banks in Sweden has been significant for many years, partly due to Danske Bank, with 27 branch offices. From October 2018 Nordea Bank moved its head office from Sweden to Finland and thereby became the largest foreign bank in Sweden. In certain segments, such as investment banking, other foreign banks have large market shares.

Savings banks

The independent savings banks and the limited company savings banks operate in the local or regional markets. The savings banks and the limited company savings banks have a market share of over 10 percent of households' deposits in Sweden, but an individual savings bank's local market share can be much higher. At the end of 2021, the savings banks had 124 branch offices, representing 12 percent of the 1,029 branch offices in Sweden.

The major banking groups

From the mid-1990s, Sweden's leading banks have evolved into financial groups with extensive international activities. This development is due to areas such as mortgage lending, fund management and pension saving becoming an increasingly important part of the groups' business activities alongside traditional banking and the fact that the groups have expanded internationally.



Other Nordic financial groups

Other Nordic financial groups with a strong position in Sweden are Danske Bank, Länsförsäkringar, SBAB and Skandia.

Danske Bank is Denmark's largest bank and has banking operations in all the Nordic countries.

Länsförsäkringar consists of 23 regional insurance companies in co-operation, and together they own Länsförsäkringar Bank.

The state owned **SBAB** is originally a mortgage institution but received a banking licence in 2010 and expanded its operations to deposit activity, among other things.

Skandiabanken is owned by the insurance group Skandia, which has operations in occupational pension and pension insurance, among other things.

Svenska Handelsbanken (SHB) has 214 branch offices in Sweden. The bank has operations in several countries, including a subsidiary in the United Kingdom and bank branches in Norway and the Netherlands. 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.

Nordea has been a Finnish bank since October 2018, but with major operations in Sweden, partly through its Swedish bank branches. Nordea is the largest financial company in the Nordic region with over 27,000 employees. The group includes leading banks and bank branches, which are among the largest in Sweden, Finland, Denmark and Norway. The bank's Swedish operations, besides the bank branches, also include one of the largest finance companies and major players in fund management and mortgage credits.

SEB is the name of the financial group formed around Skandinaviska Enskilda Banken. SEB has developed an extensive international business. The bank primarily has significant foreign operations in the Nordic countries and the Baltics. 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.

Swedbank has a network of around 153 bank branch offices in Sweden. In addition, Swedbank works in close co-operation with independent savings banks and partly-owned banks within 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.

Four largest banking groups

	Employees (2022)		Lending to the public (2022)	Total balance (2022)
	Total	of which Sweden	SEK billion	SEK billion
Nordea ¹	27,453	6,103	3,845	6,615
SEB	16,987	8,710	2,065	3,533
Handelsbanken	10,954	6,911	2,316	3,454
Swedbank	18,538	10,177	1,843	2,855

Source: Annual reports of the respective banks

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

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 way in which a company can invest without having to tie up capital. Factoring allows customer invoices to be converted into liquid funds.

There are around 25 finance companies in Sweden, with aggregate credit and leasing outstanding of SEK 298 billion in December 2022. Even though 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 bonds and certificates on the securities market. Finance companies are also allowed to offer deposits to households.

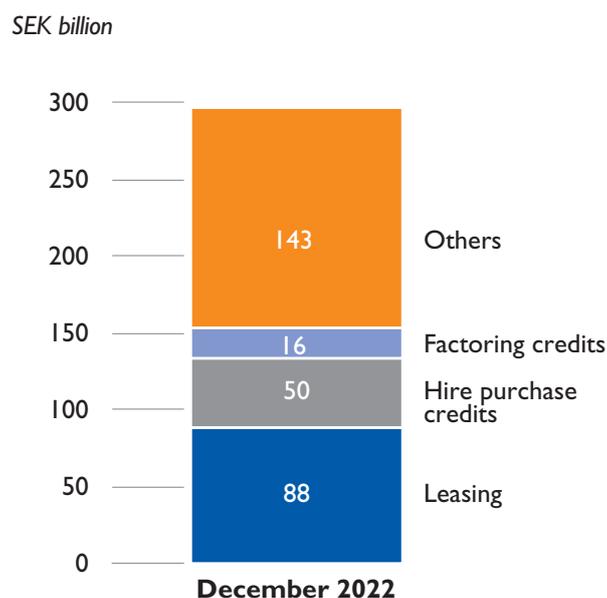
Finance companies grew fast in the 1980s, partly as a result of the tightly regulated nature of the bank market. At the end of the 1980s, Sweden had almost 300 finance companies, but in connection with the turbulence on the financial markets during the first half of the 1990s, this number fell sharply. The number of finance companies has continued to diminish in recent years. This is due, among other things, to the fact that several such companies have chosen to operate as financial institutions instead of as finance companies on the Swedish market.

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 through the issuing of bonds and certificates.

The largest of these companies is Kommuninvest, which is owned by several municipalities and grants credit to its members. The second largest is Svensk Exportkredit (SEK), owned by the Swedish state, which specialises in providing credit to Swedish export companies.

Finance companies lending and leasing



Source: SCB (Statistics Sweden)

Household loans

Households borrow above all to finance housing. Swedish households' loans amounted to SEK 4,936 billion in December 2022. Household lending secured on housing, i.e. one-family homes and tenant-owned apartments, makes up 83 percent of total household lending or SEK 4,101 billion.

Around 65 percent of Swedish households own their dwelling. Of these households, 80 percent 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.

Households also have loans secured in property that are not homes, for example, farming and forest properties and multi-family houses. These loans make up 8 percent of households' total loans.

Loans without security, blank credits, constitute 6 percent of households' total loans.

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

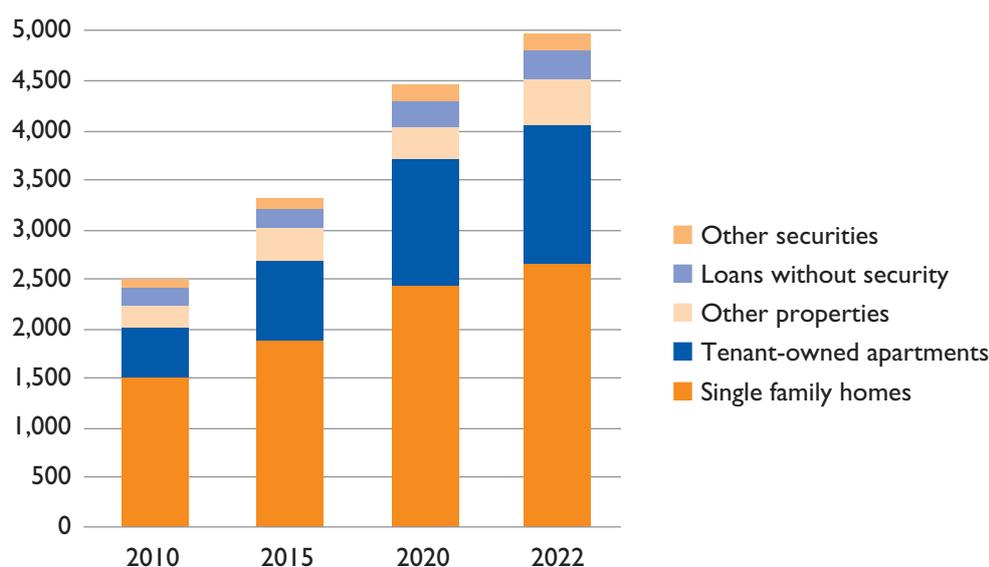
Household lenders

Mortgage institutions are the largest providers of loans to Swedish households: 66 percent in December 2022. Mortgage institutions' lending is secured on homes and buildings, for example single-family homes, tenant-owned apartments and apartment buildings. Since 2017, so called mortgage credit companies have been allowed to offer mortgage loans in Sweden. A couple of mortgage credit companies currently offer mortgage loans. They are now important competitors for new mortgage loans. Their total market share among outstanding mortgages loans is still limited, making up slightly more than 1 percent of total household loans.

Beside the mortgage institutions, banks are also a major provider of household loans and accounted for 31 percent of total household loans in December 2022. A significant part of bank lending is secured on homes and buildings. Household loans from banks are also secured in, for example, bonds and guarantees. Banks also offer blank credits, unsecured loans, to households.

Household loans by security

SEK billion



Source: SCB (Statistics Sweden)

Finance companies and other credit market institutions account for 2 percent of loans to households. Finance companies typically finance cars, boats, appliances, etcetera, and the object of the loan is normally the security. However, more than 60 percent of the finance companies' lending to households is unsecured lending, to a large extent credit card debts. Among other credit institutions, you find companies that specialise in lending to farming and forestry.

Amortisations

In October 2010, Finansinspektionen (the Swedish Financial Supervisory Authority) introduced new rules regarding mortgage lending, which means that new mortgage loans shall not exceed 85 percent of the market value of the property. In June 2016 the amortisation requirements on mortgage loans entered into force. Requirements from Finansinspektionen imply that new mortgages with a loan-to-value over 50 percent must amortise. Mortgages with a loan-to-value above 70 percent must amortise yearly an amount that corresponds to at least 2 percent of the mortgage loan. Mortgages with a loan-to-value between 50 and 70 percent should amortise at least 1 percent of the mortgage loan annually.

From March 2018 stricter amortisation requirements entered into force. The stricter amortisation requirements imply that new borrowers, with a housing loan, and whose housing debts exceed 4.5 times gross income, must amortise at least 1 percent additional to the fundamental amortisation requirements.

Due to the Covid-19 pandemic in 2020, a grace period for amortisations on both new and existing housing loans was introduced. The general grace period started in April 2020 and ended in August 2021.

66%

Mortgage institutions are the largest providers of loans to Swedish households in December 2022.



Household savings

Household financial assets

The financial assets of Swedish households have increased by 164 percent since the year 2005 and amounted to SEK 6,796 billion in December 2022. The increase since 2005 has occurred above all in bank savings, but also in mutual funds. 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

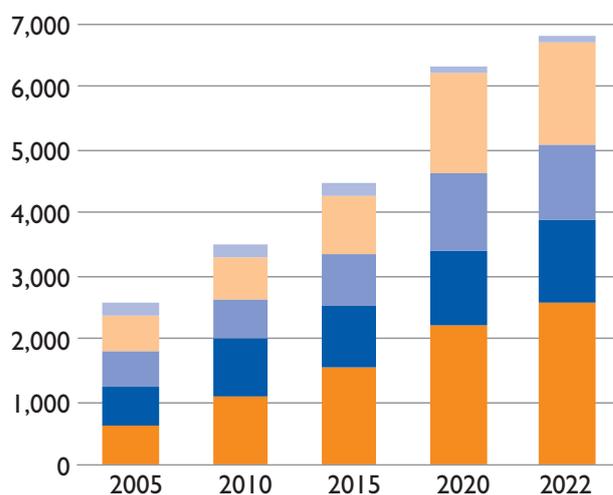
Bank deposits today constitute the largest share of total household financial assets. In relation to total household financial assets, the share of bank deposits diminished during the 1990s down to less than 20 percent. Household bank deposits have increased thereafter and amounted in December 2022 to 38 percent of household financial assets. In the beginning of the 1980s bank deposits made up around 50 percent of household financial assets.

164%

The financial assets of Swedish households have increased by 164 percent since the year 2005 and amounted to SEK 6,796 billion in December 2022.

Household financial assets

SEK billion



Others	216	248	190	120	121
Mutual funds	550	659	943	1,584	1,552
Shares	565	605	784	1,266	1,271
Insurance savings	629	932	1,016	1,155	1,263
Deposits	615	1,081	1,534	2,231	2,589

Source: SCB (Statistics Sweden)



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, around half of the Swedish adult population owns mutual funds directly or through investment savings accounts. When including mutual funds owned through the premium pension system PPM (the share of the public pension invested in commercial or government mutual fund companies) and contractual pensions from employers, almost all adult Swedes have parts of their pension funds in mutual funds.

Investment savings account

Investment savings accounts were introduced in Sweden in 2012 as a new savings option with a standard taxation. The holder of an investment savings account can deposit money at the account and thereafter buy and sell financial instruments, for example stocks and mutual funds, without declaring the transactions to the tax authority. Neither interest rates nor dividends must be declared. Instead a yearly standard tax is levied on the holdings.

Insurance saving

Insurance and pension savings' share of the household financial assets have increased from 15 percent in the early 1990s to 30 percent around 2000. The share has declined thereafter and in December 2022 was around 19 percent.

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.

In 2016 tax subsidies on pension savings were abolished, which has led to that part of pensions savings being moved to other kinds of savings.

Life insurance companies

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

Payment services

Means of payment

Besides 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, 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. A survey from 2022 by the Riksbank (the Swedish central bank) about the payment habits of Swedes shows that we in Sweden prefer to use electronic payments, for example 90 percent have used bank cards in the last month and 82 percent have used Swish (mobile phone-transfer and payment system). At the same time, the proportion using paper-based means of payment has

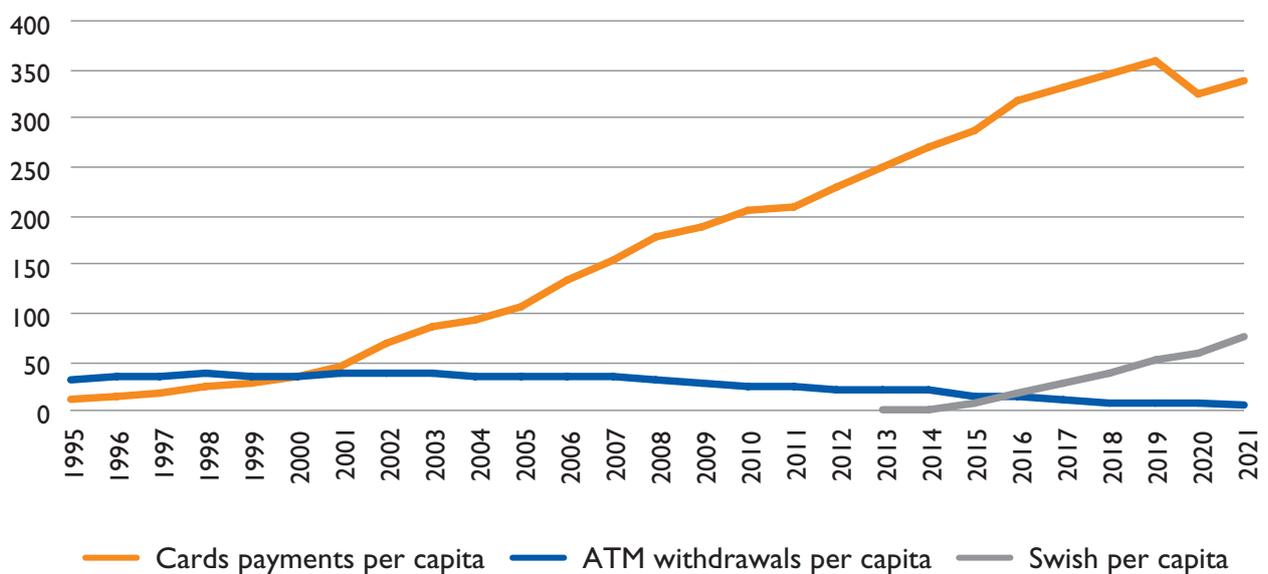
decreased. Private individuals who paid with cash in the last month amounted to 34 percent and those who used paper-based giro forms amounted to 4 percent.

One of the different electronic payment means is e-invoice. With e-invoice, a bill is received electronically directly into the customer's Internet bank including all the necessary information. All the customer needs to do is to approve payment. During 2020, the number of e-invoices to private customers amounted to 155 million.

The mobile phone-based transfer and payment system Swish started in the end of 2012. At that time, customers were introduced to the potential to send money by smart phone just by knowing the smart phone number of the recipient. The money is recorded in real time directly within the recipient's bank account. Swish quickly became a real alternative to cash payments between individuals. Swish services for payments to businesses and associations have also successively been launched and these are taking an increasing share of the total number of payments.

Number of card payments, Swish payments and ATM withdrawals per capita

1995–2021



Source: Sveriges Riksbank

During 2022 the number of transactions in Swish amounted to 916 million, of which half were between private individuals and half were to businesses and associations.

Giro payment system

The majority of all payments between individuals and most companies are managed through Bankgirot, which handles retail payments on the Swedish market. The Bankgirot system can handle a number of different transactions, for example bank giro payments, account-to-account transfers, clearing of card payments and ATM withdrawals.

The ATM network

The Swedish ATM network is also highly developed, with approximately 2,304 ATMs nationwide. In 2021, ATM withdrawals amounted to 58 million and the average withdrawal was around SEK 1,350.

Future payment infrastructure

There are major changes under way at present in the payments area. Changes in customer behaviour are creating expectations of fast, secure and more efficient payment services.

In order to maintain its position as one of the most efficient payment systems, Sweden and the other Nordic countries are developing a new, modern payment infrastructure. It should be adapted to the current and future needs of payment services, with the opportunities that new European rules and standards provide.

The new payment infrastructure will be based on the Nordic payment rules, which were established by Nordic Payment Council. These will, for example, handle payments in real time and have a format that allows more information to be sent with the payment. Sweden will be the first country in the Nordic region to switch to the new Nordic payment infrastructure, which will be supplied by the clearing organisation P27 Nordic Payments.



34%

Private individuals who paid with cash in the last month amounted to 34 percent.

Mutual fund companies

Fund saving

Households' savings in mutual funds increased steadily until 2000 when around 20 percent of Swedes' financial assets consisted of mutual funds. The share of mutual funds in households' financial assets has varied slightly since then and amounted in December 2022 to 23 percent, which is a high figure in an international comparison. Households also invest indirectly in mutual funds through for example life insurances and endowment insurance.

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. Today almost all Swedes have savings in mutual funds through private savings and the premium pension system.

Over a long period, the total assets of Swedish mutual funds have increased, interrupted by occasional decreases when stock markets have fallen. In 1990 the total assets of mutual funds amounted to SEK 120 billion. In December 2022 mutual fund assets amounted to SEK 6,067 billion. Excluding the state premium pension, mutual fund assets amounted to SEK 4,238 billion.

In December 2022 some 64 percent of mutual fund assets were equity funds, 21 percent were mixed funds, 14 percent interest funds, and 2 percent hedge and other 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 and at present there are a large amount of different mutual funds available for savers on the Swedish market. The big banks' fund companies are important players on the Swedish mutual fund market. As the mutual funds market has grown, a lot of new actors have entered the market, both Swedish and foreign.

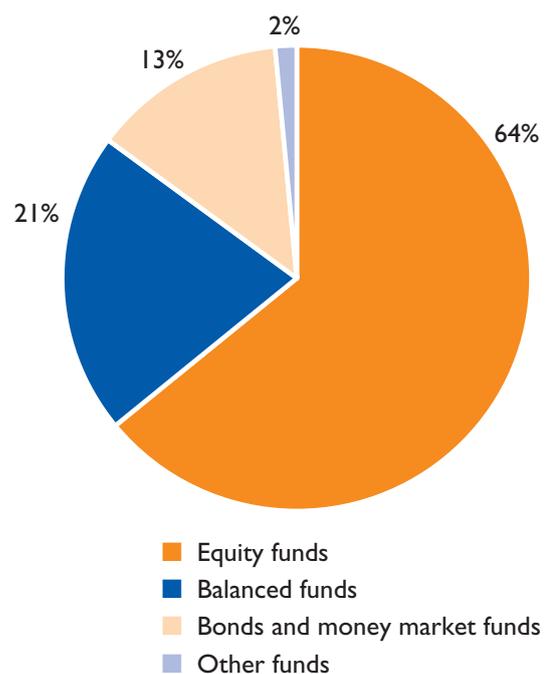
Among the largest players on the Swedish fund market are Swedbank Robur, SEB Fonder, Nordea Fonder and Handelsbanken Fonder. These fund companies all have a wide range of funds focusing on different geographical regions, sectors of industry or type of instruments like equities or bonds. It has also become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

Sustainable mutual funds

Mutual fund savings are an opportunity to spread the risks of savings in different countries and regions, security types and industries. Another factor, which has become of great importance for the mutual fund investors, is that the investment should support sustainable development as regards environmental and social conditions, for example. In Sweden, funds that, according to the EU's regulations, "promote environmental or social characteristics" (light green funds) dominate, and they amounted to 89 percent of the fund's assets at the end of the first half of 2022. The funds that, according to the same regulations, "have sustainable investments as a goal" (dark green funds) amounted to 4 percent of the fund's assets at the end of the first half of 2022.

Mutual fund assets

Share of net assets split by type of mutual fund, December 2022



Source: Swedish Investment Fund Association

Supervision of Swedish banks

It is of great importance that the function and reputation of the financial 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. The responsibility of keeping the financial system stable is shared by several authorities: Finansinspektionen (the Swedish Financial Supervisory Authority), the Riksbank (the Swedish central bank), Riksgälden (the Swedish National Debt Office) and the Ministry of Finance. Finansinspektionen is responsible for supervision of financial institutions on both an institute level (micro) and on a system level (macro). The Riksbank has an overall responsibility to promote a stable function of the financial system. The task of the Debt Office in terms of financial stability is to handle banks in crisis and to be responsible for the deposit insurance scheme. The Ministry of Finance is responsible for drawing up laws and regulations that will apply in the financial system.

Finansinspektionen, the Riksbank and Riksgälden, together with the Ministry of Finance, form the forum called the Financial Stability Council. In the Financial Stability Council, members discuss issues of financial stability and how financial imbalances could be counteracted. The Council also meets to discuss measures in the event of a financial crisis. The Financial Stability Council does not make any decisions. Instead, the government and the authorities within their respective areas of responsibility, make decisions independently.

Finansinspektionen

Finansinspektionen is a public authority under the jurisdiction of the Finance Ministry. Finansinspektionen is responsible for supervising the institutions in the financial market and the financial marketplaces. Finansinspektionen also has an overall objective to contribute to the stability and efficiency of the financial system, and to promote consumer protection. Finansinspektionen has also been mandated by the Government to be responsible for the stabilisation of the credit market.

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 in order for them to be considered as carrying out sound activities. Finansinspektionen is the authority that issues permits and licences for different activities on the financial markets, for example, bank licences.

To monitor compliance with the laws, regulations and general guidelines, Finansinspektionen supervises financial institutions. The supervision is performed in different ways, for example, on-site inspections of financial institutions or by requiring different information that Finansinspektionen wants to control and analyse. The supervision also includes identifying, analysing and monitoring systemic risks, such as financial imbalances on the credit market.

Sveriges 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.

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 financial stability by regularly monitoring and analysing risks and threats to the stability of the financial system. For this purpose, the Riksbank, besides the payment system, also analyses the major banking groups, the banks borrowers and the macroeconomic development.

In a financial crisis, the Riksbank can supply liquidity to the financial system. This could entail liquidity assistance to individual institutions, or general measures to improve liquidity like offering loans in Swedish krona at longer maturities than normal or loans in currencies other than Swedish krona.

Riksgälden, The National Debt Office

Historically Riksgälden is the authority which is responsible for the central government debt and raising loans. The assignment of the authority has increased step by step in the field of financial stability. In terms of financial stability, Riksgälden is responsible for handling banks in crisis and the deposit insurance scheme.

Covered bonds

Mortgage loans constitute a large share of public lending in Sweden. This applies in particular to loans to households, where 83 percent 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 turn funding for the loans. The most common funding sources are bank deposits together with certificates and bonds (short-term and long-term securities). However, the major share of the institutions' funding of mortgage loans comes from a specific type of bond – covered bonds.

The development of covered bonds

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

The total amount of outstanding covered bonds amounted to SEK 2,505 billion at the end of 2022. During 2022 the institutions issued new covered bonds amounting to SEK 536 billion.

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 meet its commitments and to repay the value of the covered

bond, for example, due to bankruptcy, the holder has a priority to the covered bond's cover pool.

The cover pool of a covered bond consists of loans secured on one-family homes and tenant own apartments, and in some cases also loans secured by agricultural and commercial properties. Loans to local authorities or loans to public sector counterparties could also be included in the cover pool.

With the directive concerning covered bonds that the European Commission decided on in 2019, changes have been made to the Swedish act on covered bonds in 2022.

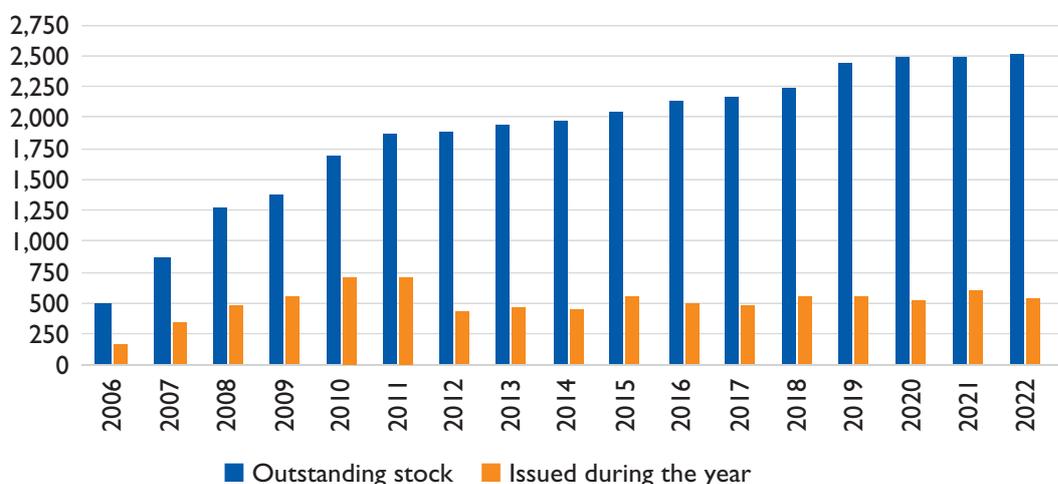
In order for the cover pool to maintain a sufficient quality, only mortgages that correspond to a maximum of 80 percent of the market value of the residential property may be included. In the same way, loans for other types of property may be included in the cover pool if the loan amount does not exceed 60 percent of the value of the collateral. In the covered bonds act, there are also strict requirements regarding follow-ups and control of the quality of the cover pool.

Good reputation

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

Covered bonds

Total outstanding and issued during the year, SEK billion



Source: Swedish Bankers' Association

Banking laws

The Banking and Financing Business Act

The Banking and Financing Business Act 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 Requirements Regulation

The EU Capital Requirements Regulation contains 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 regulation states how to calculate capital requirements depending on the type of assets, commitments and investments of the financial institutions. The regulation also contains limits of the level of exposures that a financial institution may have with a customer or a group of customers. An EU regulation is valid as Swedish law.

The 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 act includes the concept of high-cost credit, which is a credit with an effective interest rate that amounts to at least the Riksbank's reference interest rate with an addition of 30 percentage points and which is not mainly intended for credit purchases or is a housing credit. Furthermore, there are provisions on an interest rate cap and a cost cap. The interest rate cap means that the lender may not charge a higher credit interest or late payment interest than the reference interest rate plus 40 percent. The cost cap means that the borrower never has to pay more than the borrowed amount in interest and fees.

The Covered Bond Act

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

The Payment Services Act

The act states what a payment service provider is required to observe when payment services are offered in Sweden and performed in the EEA. In this act, it is stated what a payment service provider shall fulfil in order to have an authorisation to provide payment services, and in which cases exemptions from the authorisation are permitted. The act stipulates the obligation to provide payment account services, information requirements when providing payment services to customers, fees, time of execution, unauthorised transactions and sanctions, etc.

The Act on Deposit Guarantee Scheme

The act guarantees deposits in all kinds of accounts at banks, credit market institutions and investment institutions up to SEK 1,050,000 per depositor and institution. In addition, it is possible to apply for extra compensation up to SEK 5 million for deposits resulting from transactions serving a certain social purpose, for example a real estate transaction. The guarantee covers losses if an institution goes bankrupt or due to a decision made by Finansinspektionen.

The Anti-Money Laundering Act

The Act applies to banks and credit market institutions, but also to a number of other companies. The purpose of the regulations is to prevent firms from being used for money laundering and terrorist financing. The act has rules on risk assessment and procedures, customer due diligence, monitoring of transactions, reporting of suspicious transactions and sanctions, etc.

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 (the Swedish Financial Supervisory Authority) and European supervisory authorities. The European supervisory authorities, EBA, ESMA and EIOPA, are responsible for harmonising the European rules and for coordinating the supervision within the EU. These authorities issue, among other things, technical standards, which the European Commission adopts as regulations and which the Swedish banks must follow, and guidelines.

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 in this respect is the Act on the Market for Financial Instruments. The Markets in Financial Instruments Directive (MiFID) is implemented in Sweden by this act.

Financial crisis management

Riksgälden (the Swedish National Debt Office) has, as a resolution authority, a central role in handling banks in crisis. Riksgälden is also the responsible authority for the state support measures to viable banks and the deposit insurance scheme.

Managing banking crises (resolution)

In 2016 the former bank support regulation was to a large extent replaced by new rules on managing crises in banks and other financial institutions. The new rules on resolution are based on global principles and the EU Bank Recovery and Resolution Directive. The new regulation establishes a special procedure, resolution, for managing institutions in crisis without putting them into bankruptcy. The purpose of the regulation is to manage failing institutions and to avoid major disruptions to the financial system and without taxpayers bearing the cost.

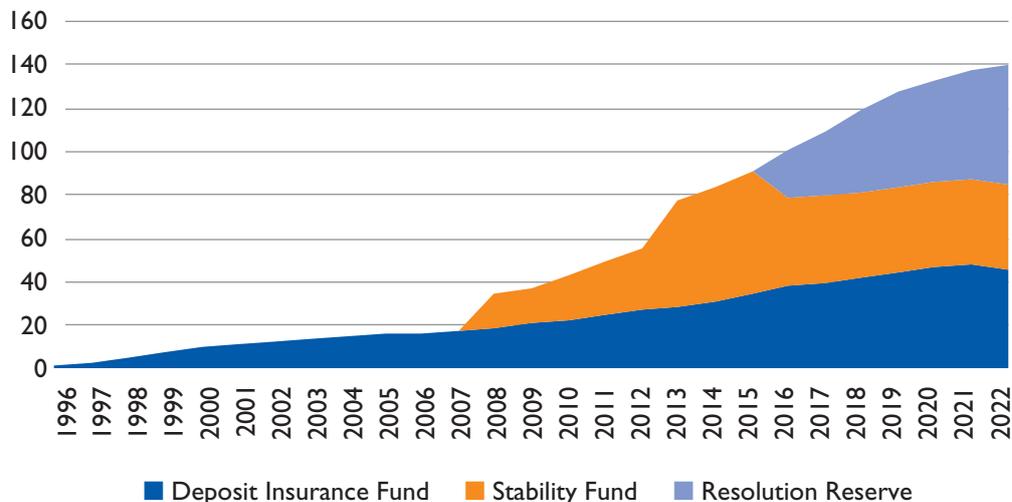
Through the resolution procedure, the government takes control of the institution in crisis and

restructures it or winds it up in an orderly way. During this procedure the institution can be kept open. The losses during the resolution procedure will be absorbed by the institution's shareholders and creditors having their holdings written down and/or converted into equity ("bail-in"). Deposits covered by the deposit insurance scheme will not be affected by "bail-in".

The Debt Office is Sweden's resolution authority and is responsible for dealing with crises that arise and for conducting planning work to be prepared if an institution runs into problems. This includes producing a resolution plan for every institution and deciding on requirements concerning how much bail-inable liabilities the institution should have.

Funded fees

SEK billion





C R I S I S

SEK 3.9 bn

The credit institutions paid SEK 3.9 billion (approximately EUR 350 million) in resolution fees to the Resolution Reserve in 2022.

Precautionary support

If there is a threat of a serious disturbance to the financial system, the state can in certain cases give precautionary support to viable banks and credit institutions. Riksgälden is the responsible authority and is permitted to support the funding of institutions via guarantees and in special cases also capital injections.

Resolution reserve

Losses arising during the managing of banks in crises shall primarily be covered by shareholders and creditors. In extraordinary circumstances, external financing might be required and therefore the Resolution Reserve has been created. The Resolution Reserve is financed by yearly resolution fees from banks and other credit institutions. Smaller credit institutions pay a yearly standard fee, while larger institutions pay a fee in relation to their size and the risk they form in the system. The credit institutions paid SEK 3.9 billion (approximately EUR 350 million) in resolution fees to the Resolution Reserve in 2022.

In 2008, the Riksdag (the Swedish parliament), decided to establish a stability fund to finance the measures taken by the government to support the financial system. In conjunction with the new rules from 2016 on managing crisis in banks, resolution, the design and function of the stability fund was changed. Part of the stability fund remained in place for financing eventual measures within the framework of the Precautionary Support Act. The other part of the stability fund, which consist of already paid stability fees, was then transferred to the new resolution reserve.

Deposit insurance scheme

The deposit insurance scheme counteracts the risk of a serious disturbance to the financial system by providing security for savers and reducing the risk of bank runs in times of financial unrest. The Deposit Insurance Act guarantees deposits in all kinds of accounts at credit institutions up to SEK 1,050,000 per depositor and institution. In addition, it is possible to apply for extra compensation up to SEK 5 million for deposits resulting from transactions serving a certain social purpose, for example a private residential housing transaction. The guarantee covers losses if an institution goes bankrupt or due to a decision made by Finansinspektionen.

Financial stability funds

Banks and other financial institutions have paid fees to create funds for the deposit insurance scheme and financial stability over a prolonged period. In 1996 a fee was introduced to build up a fund for the deposit insurance scheme. In 2008 another fee was introduced to create the stability fund, which was replaced in 2016 with a new fee to build up the new resolution reserve. The total size of the different funds has grown to a total of SEK 140 billion (approximately EUR 12.6 billion) in 2022.

Banks in society

Society is facing significant challenges to reduce emissions at a rate sufficient to achieve the climate goals and, thus, prevent the far-reaching costs that a high average global temperature rise entails.

The responsibility rests primarily on the political system, but the financial system has both a responsibility and the ability and willingness to assist in financing the climate transition and adapting its operations to climate-related risks and opportunities.

The role of the banking industry in the climate action is to support its customers in the move to sustainable solutions and to integrate climate-related risks and opportunities into the banks' operations and lending. The banks per se have a relatively small direct impact on the environment and climate. First and foremost, the industry can help finance the climate action by helping to reallocate capital flows to low-carbon activities.

The banks' core activities have already been adjusted to the climate aspects. For many years now, banks in Sweden have been working to adapt their advice, lending and savings products to support projects with high climate benefits and to price higher risk correctly, in the form of negative climate impacts in projects.

Sweden's climate goal of net-zero emissions by 2045 entails major demands for change. The banks wish to be instrumental in ensuring that financing issues will not be an obstacle, but rather a promoter, in reaching the climate goal.

To achieve the net-zero emissions goal, incentives and transparency need to be strengthened so as to enable an efficient distribution of capital and support the transition to a low-carbon economy. Lending activities and risk management will be adapted to include climate aspects.

The Swedish banks therefore, have the goal of going further than the EU by taking into account the EU's taxonomy for sustainable investments when granting loans. The Swedish banks undertake to comply as soon as possible with the recommendations of the Global Task Force on Climate-Related Financial Disclosure (TCFD) initiative on climate related financial disclosures. Several banks have already started on this process, and the others are encouraged to follow suit.

To achieve net-zero emissions, the following milestones have been set:

1

2021–2022

The banks identify their individually most significant positive and negative effects on society, the economy and the environment.

2

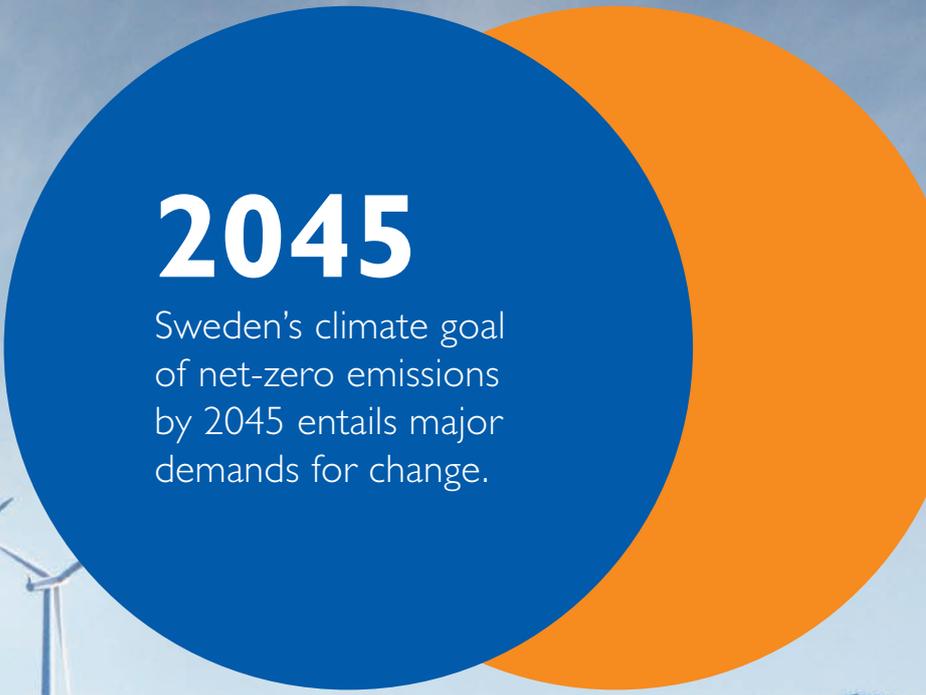
2021–2024

The banks undertake to measure the carbon footprint from their relevant financing and investment activities for their own emissions and indirect emissions (scopes 1–3).

3

2023–2026

The banks ensure that strategies and goals for the Swedish operations contribute to achieving Sweden's adopted goal of net-zero emissions by 2045. Based on the banks' climate reporting, in accordance with the PRB, the Swedish Bankers' Association will continuously compile and present the sector's common path towards the climate goals.



2045

Sweden's climate goal of net-zero emissions by 2045 entails major demands for change.



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