

COMPETITION IN THE SWEDISH BANKING SECTOR

Finance Sweden
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Preface

In 2019, Finance Sweden asked Copenhagen Economics to analyse the level of competition in the Swedish banking sector in a study entitled "Competition in the Swedish banking sector". The purpose of the study was to assess whether the level of competition in the Swedish banking sector is sufficient to ensure good quality for consumers in terms of products and services, as well as low prices.

In response to ongoing public debate and discussion on the state of the Swedish banking sector, this study has been updated and expanded several times since 2019, most recently earlier in 2026. Swedish authorities, namely the Swedish Financial Supervisory Authority and the Swedish Competition Authority, have similarly analysed the banking sector amid the higher interest rate environment following Russia's full-scale invasion of Ukraine.¹

This October 2026 update builds on our previous analyses and brings in the latest evidence and market developments. It also adds three market deep dives.

1. Final Basel III: The potential implications of the Final Basel III framework and the output floor for pricing, capital allocation, and competitive dynamics in the banking market.
2. Mortgage margins: The evolution and composition of mortgage margins over time.
3. Profitability: The profitability of Swedish banks and the extent to which profits exceed investors' required returns.

These additions complement the report's established analysis of market structure, efficiency, pricing, and profitability, and provide further insight into both current and future competitive conditions.

For most figures, we use newly published data, while a few rely on the latest available data from the previous reports where no new statistics exist. This 2026 update also includes a few new figures.²

Scope and methodology of analysis

Throughout the report, "Swedish banks" refer to institutions providing financial services to Swedish banking customers. These include both retail and corporate lending, both regular credit (loans that are not secured) and mortgage lending.

Four banks constitute the majority of the Swedish banking market. These banks all have activities outside Sweden. When assessing the credit market, e.g., market shares and credit growth, only domestic activities are included in the figures. However, due to data restrictions for other types of activities (e.g., asset management), foreign activities are included.

Where possible, we compare the performance of the Swedish banking sector with that of other European countries with similar banking market structures, effective legal systems, and stable political environments. Specifically, this includes the other three Nordic countries (Finland, Denmark, and Norway), the EU's two largest economies (France and Germany), and the Netherlands and Belgium.³

When comparing banking sectors in different countries, we only include banks with more than SEK 1 billion in net loans, and a loan-to-asset ratio larger than 20 per cent. This ensures that banking activities are their primary line of business.

Bank-specific data is primarily based on the Refinitiv LSEG Workspace (previously Eikon) and Statistics Sweden (SCB). In addition, we use aggregated country numbers from the European Central Bank (ECB) and the European Banking Authority (EBA).

1) See Swedish Financial Supervisory Authority (2023) and Swedish Competition Authority (2023).

2) In this update, we have streamlined the years covered to 2015-2025 and 2020-2025. In some cases, we use a slightly different period, for example if the newest data is from 2024 or 2026Q1.

3) Where recent data is available and comparable across countries.

Framework for assessing competition

Four complementary dimensions assess competitive pressure in the banking sector

Competition cannot be captured by a single number. Competition affects market conditions, banks' behaviour and customer outcomes. Each angle captures only part of this process and is also influenced by factors other than competitive pressure.

We assess four complementary indicators that together provide a broad picture of competition in the Swedish banking sector, covering market structure, efficiency, pricing and profitability.



Together, the four indicators provide a structured basis for assessing competitive conditions in the Swedish banking sector.

Executive summary

Banking products differ from most others. Customer relationships are long-lasting, products are complex and often bought as a bundle, and the market is heavily regulated. Competition therefore works differently than in, say, retail goods, and assessing it requires metrics designed for this sector.

We assess competition along four dimensions: market structure, efficiency, prices and pass-through, and profitability. In our assessment, none of these four indicates weak competitive pressure in the Swedish banking sector, as outlined in the following:

1. Market structure: the Swedish banking market is dynamic and shows high consumer mobility compared to other banking markets

Market shares shift over time, and small banks are gaining ground on the larger ones. From 2015 to 2025, small banks accounted for 30 per cent of credit growth and increased their market share from 14 per cent to 20 per cent. The same is true in mortgages, where banks outside the seven largest took 20 per cent of new lending against an 11 per cent market share.

Concentration is lower than in comparable countries. In Sweden, the four largest banks have a combined market share of 64 per cent. In Denmark, Norway, Finland, France and the Netherlands, the market shares range from 75 to 89 per cent.

A growing non-bank sector adds further pressure. Non-MFI loan assets increased by 110 per cent from 2015 to 2026, lifting their share of total loan assets from 6.5 to 8.6 per cent.

Sweden has the highest consumer mobility among the countries compared, measured as the share of customers who changed provider between 2017 and 2022.

2. Efficiency: Swedish banks operate at low cost and with low credit losses

Swedish banks have lower operational costs than banks in several comparable European countries. Widespread digital banking keeps costs down.

Loss rates from 2015 to 2025 were close to zero, the lowest among benchmark countries. Efficient courts and quick foreclosure keep losses low when borrowers default.

3. Prices and pass-through: low costs reach customers

Swedish mortgage rates have historically been among the lowest in Europe, and are the lowest among the benchmark countries in 2025 and the first quarter of 2026.

Swedish banks pass on more of central bank rate changes to depositors than euro area banks: 60 per cent of the increases from 2022 to 2024, against 26 per cent in the euro area. High pass-through is consistent with price competition for deposits.

Mortgage margins are now thin. The margin has more than halved since 2018, from 1.3 to 0.6 per cent, and we expect it to rise again towards its 2007–2025 average of around 0.9 per cent. The fall came mainly in 2022 and 2023, when funding costs rose faster than lending rates, and it did not recover when rates fell again. We estimate that return on equity for mortgage lending is now around 3 per cent, well below what shareholders typically require.

Looking ahead, Final Basel III will likely change competitive dynamics. We find that the output floor will increase capital

requirements by 14 per cent on average, driven by an increase in capital cost for corporate lending.

However, the average hides large differences. We find that some banks will not be bound by the floor and face no increase, while others will see a considerably larger one. Banks competing for the same corporate customers will therefore face different capital costs, which is likely to change what they charge and which customers they target.

4. Profitability: profits give no sign of weak competition

Swedish banks earn a high return on equity in an international comparison – around 13 per cent between 2020 and 2025, the highest among the countries we compare. Two things explain it. The efficiency documented above feeds through to shareholders, and business cycle conditions have been more favourable in Sweden than elsewhere, with Germany, France and the Netherlands seeing considerably higher impairment levels over the period.

What matters for competition is not the level of return, but whether it exceeds what investors require for the risk they take. We find that Swedish banks' risk-adjusted return is slightly below the average of the 30 largest listed Swedish companies, so banks earn no more above their required return than other large companies do.

Market valuations point the same way. Investors value each krona of bank equity at around 47 per cent of what they pay for the average large Swedish company, suggesting that they do not expect banks to earn unusually high profits.

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Introduction

Financial services have special characteristics

Financial services differ from other products in three areas:

First, financial services are relatively complex, as reflected in three key aspects:

- i. They are delivered over time, implying that the customer needs to assess the trade-off between current and future needs. This could, for instance, be mortgage lending with a 30-year term.
- ii. Financial services contain several pricing parameters, which the customer must assess, i.e., having a salary account might be for free, but other services related to the account are then charged.
- iii. Banks' ability to provide loans depends on the specific consumer, e.g., their credit risk, implying all customers cannot necessarily obtain the same conditions on the loan, for instance, an individual assessment is made for mortgage lending.

Second, financial services are relationship- and trust-based. The relationship between bank advisers and customers is often closer than in other sectors, as the financial service is delivered over time. This implies that the quality of advice needs to be higher than in other sectors and pricing more precise.

Finally, financial services are sold in highly regulated markets, with compliance requirements and prudential regulation to secure the economy against bank defaults. Because of the complex nature of the products and services, there are also consumer protection aspects in the regulation.

Competition dynamics in the financial market differ from other markets

The characteristics of financial services imply that we should be careful when comparing competition in the banking market directly to other sectors of the economy.

For instance, mobility is typically lower in the banking sector compared to other sectors, and consumers will often use the same bank for different financial services.¹ Also, under economies of scale, banks can improve their cost-efficiency by expanding their service volume and by providing various financial services at once.

In our analysis, we compare the Swedish banking market to banking markets in similar countries, with similar characteristics and thus similar competition dynamics.

We do so by looking at indicators normally used to assess competition in a market. Concretely, we consider the market share of the different financial institutions in the Swedish market and how market shares change over time. We look at market concentration, which gives an indication of the degree of market power that banks have, as well as cost-effectiveness and prices charged by banks across selected European countries.

These indicators contribute to our assessment of the competition in the Swedish banking market.

1) However, Swedish banking customers have higher mobility than in comparable countries, see page 11.

A scenic landscape featuring a wide river flowing through a lush green forest. In the foreground, a bridge spans the river. The sky is a deep blue with scattered white clouds. The overall atmosphere is peaceful and natural.

1

MARKET STRUCTURE OF THE SWEDISH BANKING SECTOR

Small banks are gaining market share in Sweden, suggesting a dynamic banking market

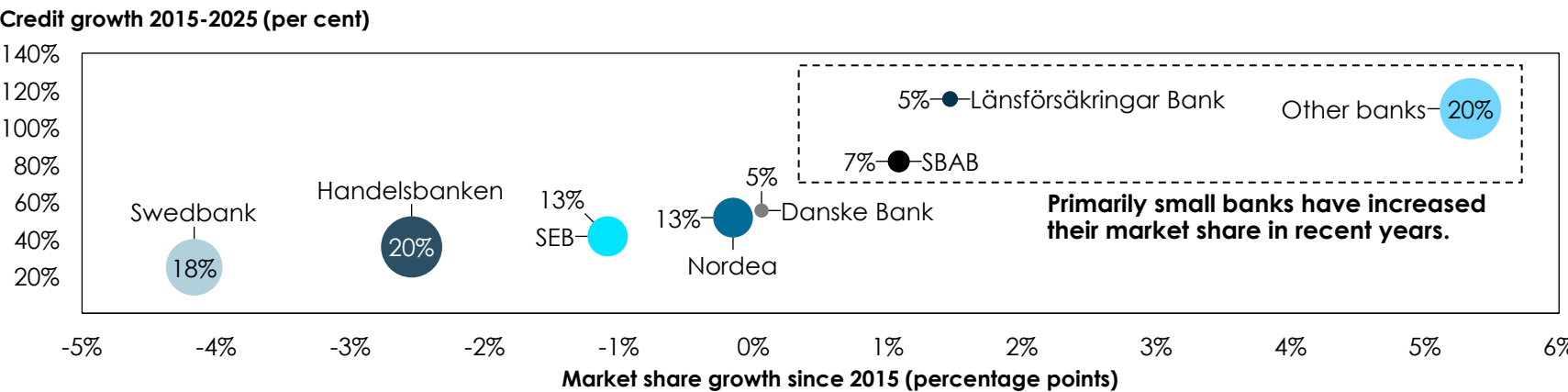
Changes in market shares, and the ability of new and smaller banks to enter and stay in the banking market, challenge banks to lower their costs and offer good customer service to avoid loss of market share.

The four biggest banks on the Swedish credit market in 2025 were Handelsbanken, Swedbank, SEB, and Nordea. In total, they accounted for 64 per cent of the Swedish credit market, see the upper figure.

Since 2015, the four largest banks have all lost market share, with Swedbank experiencing the largest decline of more than four percentage points. Over the same period, smaller banks have collectively increased their market share by expanding lending at a faster pace, see the lower figure.

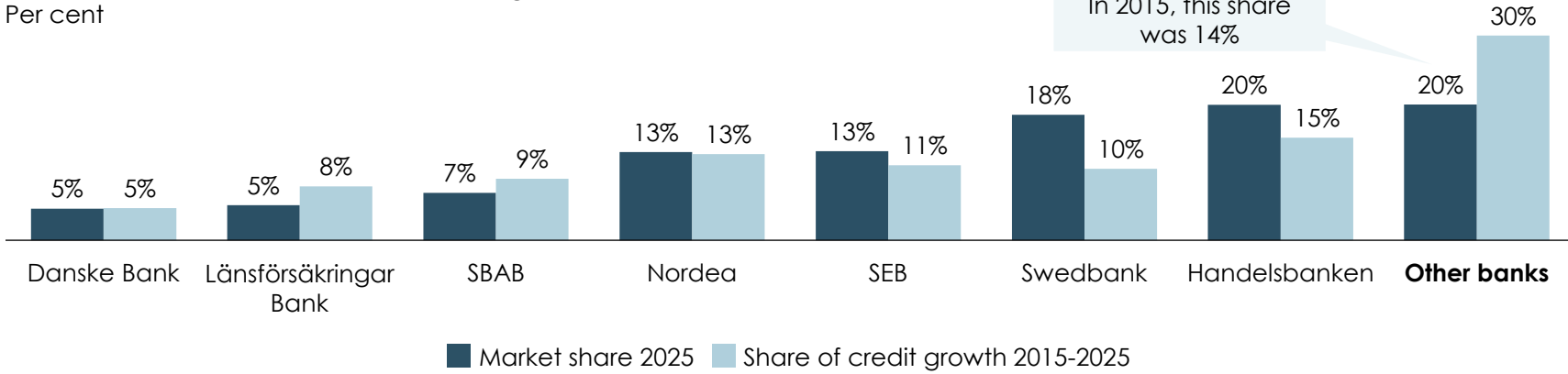
The fact that smaller banks can expand and gain market share from the larger banks, suggests sound competition in the Swedish banking market. This indicates that, despite generally lower customer mobility in financial services than in many other sectors, consumers do switch providers.

Total credit market shares in Sweden (including mortgages, corporate loans, etc.), 2025



Note: The figure is based on data from SCB. It thereby differs from the Refinitiv LSEG Workspace database used in the rest of the report, which is based on income statements. Size of circles indicates the share of the credit market in 2025.
Source: Statistics Sweden (2026a): "Lending to households and non-financial corporations".

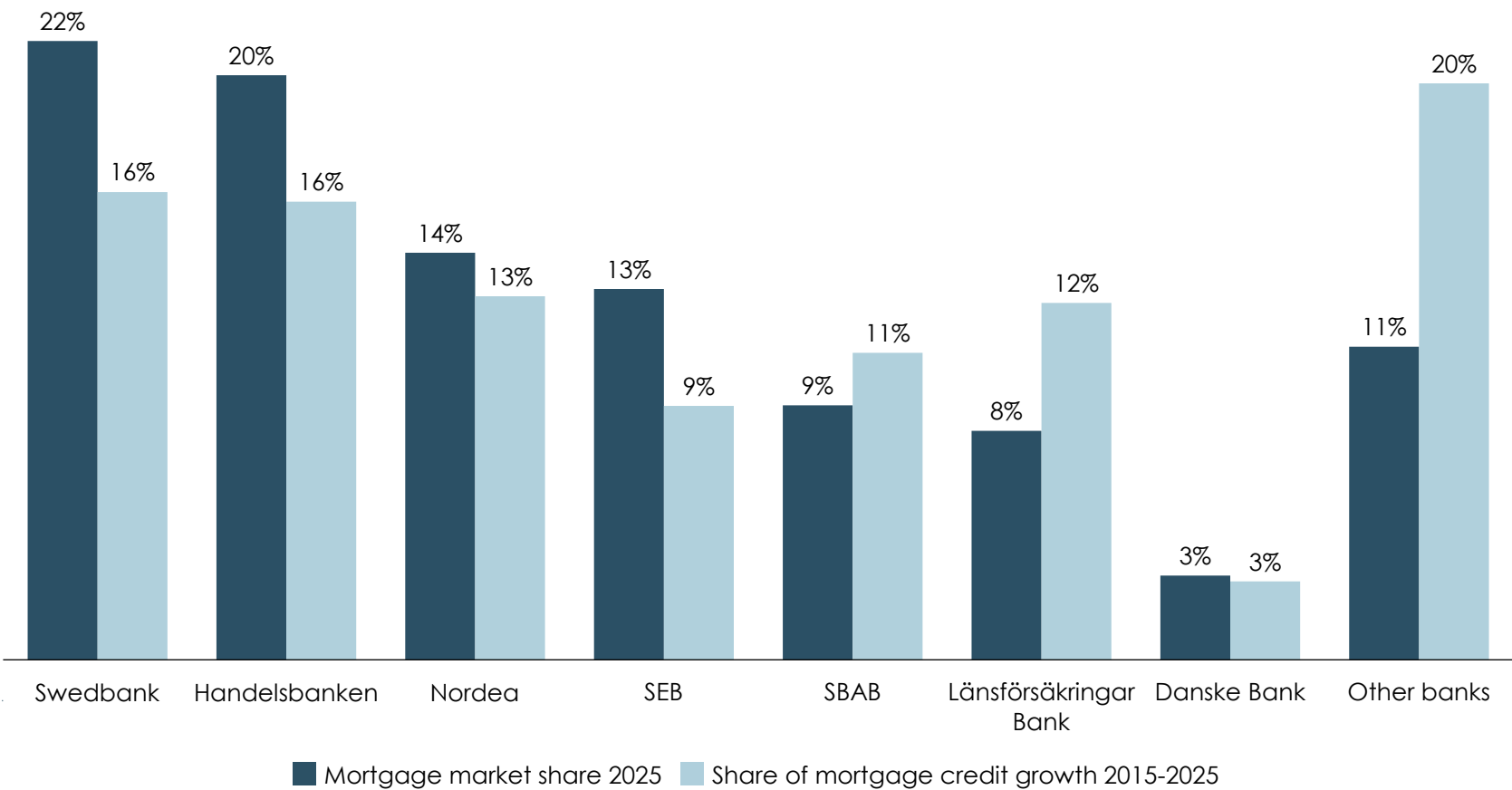
Total credit market share, 2025, and credit growth in Sweden, 2015-2025



Source: Statistics Sweden (2026a): "Lending to households and non-financial corporations".

The Swedish mortgage market is dynamic, as market shares shift over time

Mortgage market shares in Sweden, 2025, and share of credit growth in the mortgage market in Sweden, 2015-2025
Per cent



There are several big actors in the mortgage market in Sweden. The four largest banks (Swedbank, Handelsbanken, Nordea, and SEB) are also the biggest providers of mortgages, see the figure.

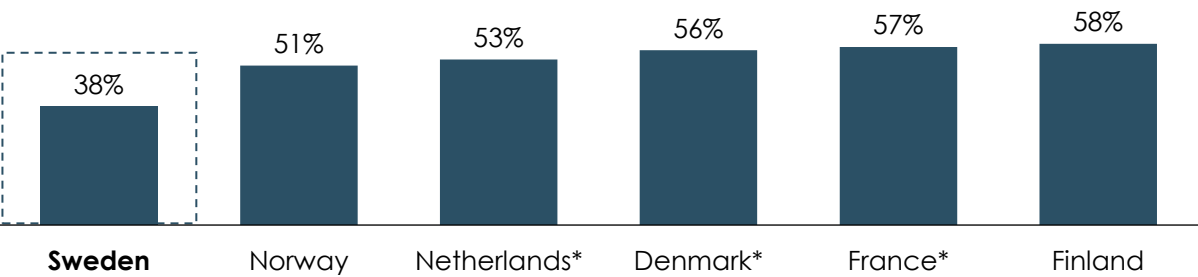
However, smaller banks are increasingly gaining market share. Since 2015, *other banks* (i.e., not part of the seven biggest banks in Sweden) constituted 20 per cent of the total new mortgage lending, higher than their 11 per cent market share.

Two of the largest banks, Handelsbanken and Swedbank, have also had a large share of the growth since 2015, each with a 16 per cent share of the total mortgage credit growth among Swedish banks, but lower than their respective market shares.

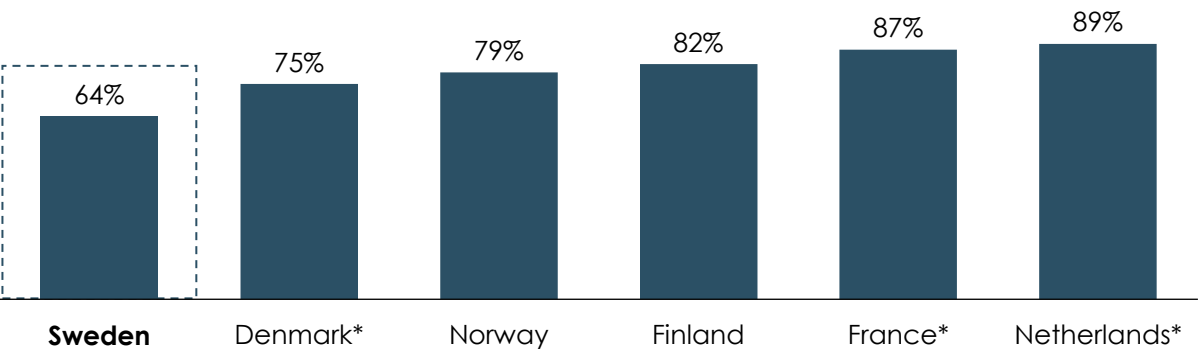
Source: Statistics Sweden (2026a): "Lending to households and non-financial corporations".

Swedish banking market concentration is lower than average among comparable countries

Market shares for the two largest banks per country, 2025
Per cent



Market shares for the four largest banks per country, 2025
Per cent



Note: Countries marked with an asterisk (*) do not have more recent data and have been included from our previous report and depict data for 2024. We have added them for a more complete comparison. Market shares are calculated based on gross loans to domestic non-financial corporations and households. Unlike our previous report, we use data from national statistics offices because a suitable and up-to-date proxy for domestic loan shares is no longer available. Due to data limitations, Denmark, the Netherlands, and France are excluded, while Finland has been added compared with the previous report.

Source: Statistics Sweden (2026a), "Lending to households and non-financial corporations"; Norges Bank (2026): Banking Statistics; Bank of Finland (2026), Market shares for credit institutions in Finland.

If a sector is highly concentrated, market participants tend to have strong market power. However, in banking, low concentration could also be a sign of low competition, see the box below.

We find that the concentration of the Swedish banking sector is lower than comparable countries in 2025, when examining the market share of the two and four largest banks in Sweden, see the figures. In our previous reports, we had more countries in the comparison, and we found Sweden to be around average. There does not seem to be insufficient competition in the Swedish banking sector based on the level of market concentration.

The market concentration in banking is not greater than in other regulated industries

It is difficult to compare market concentration across industries, particularly for regulated industries, which may limit opportunities, or make it more costly, for new entrants to enter the market. In Sweden, the three largest electricity retailers accounted for 47 per cent of customers in 2024¹, and the four largest telecommunications operators accounted for 96 per cent of mobile subscriptions² and the largest airline company accounted for nearly 60 per cent of domestic air traffic.³ These examples suggest that the level of concentration observed in Swedish banking is not exceptionally high or low compared to other regulated industries.

Concentration index – an ambiguous measure in banking

Concentration indices are standard measures of competition. High concentration in a market is normally a sign of weak competition. For example, if one bank had a monopoly, it could set the price high, without losing too many customers, as there would still be a need for banking services. In contrast, if there are more banks, customers can more easily switch to other banks, meaning that each bank has less market power.

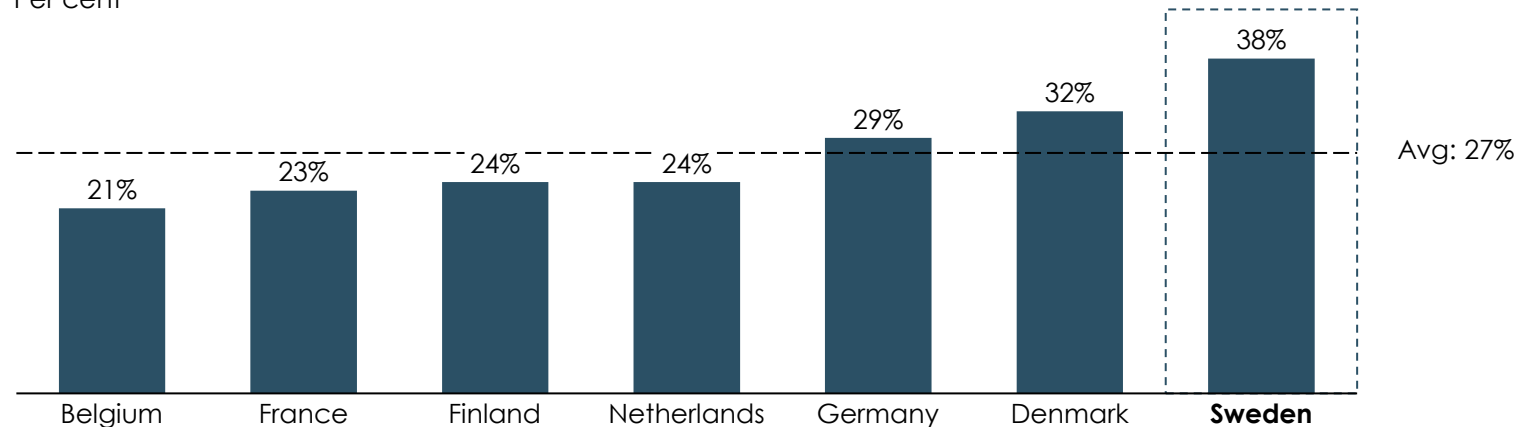
However, because of economies of scale and being a highly regulated industry, a banking market with many small banks and low concentration could be a sign of insufficient competitive pressure; in a more competitive market, small banks would be pushed out of the market by larger banks better able to exploit economies of scale.⁴ The ECB calls concentration indices in banking an “ambiguous measure” of competition.⁵

The “optimal” concentration in the banking sector would be to have enough banks so that each individual bank does not have too much market power, while each bank is large enough to realise economies of scale.

Sweden has high consumer mobility in banking and mortgage lending

Share of customers who changed provider of one or several financial products, 2017-2022

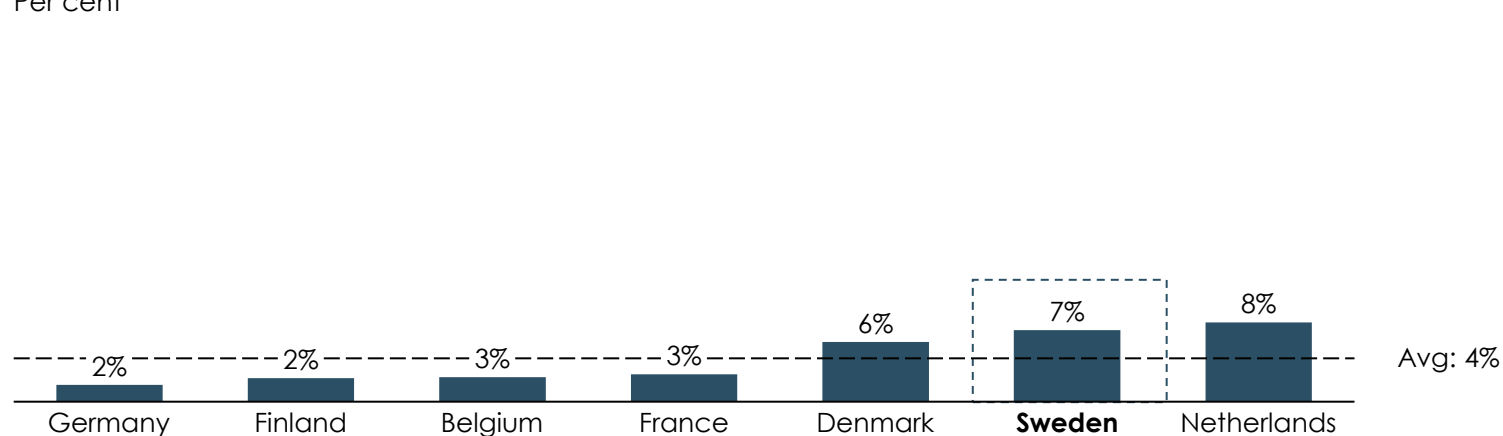
Per cent



Source: European Commission (2022).

Share of customers who changed mortgage loan provider, 2017-2022

Per cent



Source: European Commission (2022).

Low customer mobility could be a sign of insufficient competition; each bank will have more market power, meaning that they can increase prices with a lower risk of losing customers.

In terms of competition, low customer mobility is only a problem if banks exploit their market power by charging prices way above costs. Thus, the most important things are:

- Customers respond if the banking services of one or several banks are uncompetitive, e.g., banking customers change banks if the prices they are paying are higher than the prices charged by competing banks.
- There are no strong barriers for customers to switch banks.

Sweden has high customer mobility in financial services compared with other EU countries; see the most recent results from the European Commission's Eurobarometer on financial services.¹ It is also common for Swedes to be customers of several banks.²

Sweden ranks highest in the share of customers who changed providers of their financial products (across all product types) between 2017 and 2022, see the upper figure. For mortgages, customers change providers less frequently. Sweden ranks second among the countries in our comparison in the share of customers who changed their mortgage provider, see the lower figure.

Swedish banking consumers have a relatively good understanding of the banking market. Based on an EU-wide survey,³ Swedish respondents rank high in financial literacy evaluated by scoring financial knowledge and behaviour⁴ and responding correctly to financial knowledge questions.⁵

1) European Commission (2022). / 2) See SKI (2018). / 3) European Commission (2023). / 4) Second-highest 'high-score' share in the EU / 5) Sixth-highest share in the EU answering correctly in four or five out of five questions.

Non-MFI loan assets have increased by 110 per cent in Sweden since 2015

Non-bank financing refers to credit provided by institutions outside the traditional banking system (non-MFI), such as asset managers, hedge funds, private lenders, or fintech firms. It is an alternative source of financing, which helps deepen capital markets, and may expand credit availability. Non-bank finance is most efficient when speed, flexibility, or higher risk tolerance is required. In contrast, traditional bank financing is typically better suited for situations requiring stability, regulatory oversight, and deposit-backed funding.

Credit from non-MFIs grew in Sweden from 2015 to 2023, followed by a decline, see the upper figure. In total, loan assets in non-MFIs increased by 110 per cent since 2015 to SEK 914 bn in 2026.¹ Both households and non-financial corporations have increased their borrowing from non-MFIs in this period, see the lower figure.

A plausible reason for this is that private credit and leasing companies may offer an alternative to bank credit. Credit from non-MFI may be desirable to households and non-financial corporations by their more flexible terms and conditions.² Other reasons for the growth are increasingly complex pension investments coupled with high global equity markets returns, where investors search for yield globally.³ Furthermore, non-MFI have developed new forms of credit products, such as completely digitalised products, which come with low entry barriers to consumers.⁴

Monetary financial institutions (MFI) & non-monetary financial institutions (non-MFI)

MFIs constitute the sector of the economy that is active in both taking deposits and granting credit to the economy. These include the central bank and deposit-taking corporations, such as commercial banks and savings banks. Money market funds are also considered MFIs, given that their short-term investments are close substitutes for deposits.

Non-MFIs do not take deposits. Non-MFIs act as intermediaries between savers and borrowers. Non-MFIs can be grouped into

i) insurance corporations

ii) pension funds

iii) non-money market funds

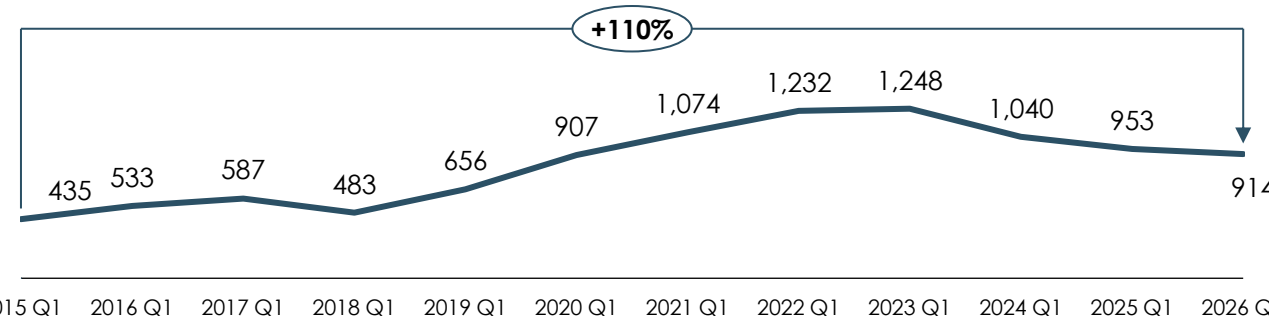
iv) other financial corporations/institutions.

Other financial corporations include money intermediaries such as financial vehicle corporations and credit and leasing companies. The term also includes, for example, holding companies, asset managers, and other specialised financial corporations.

Source: ECB (2024): Financial accounts for other financial institutions by subsectors and counterpart sectors, see [LINK](#).

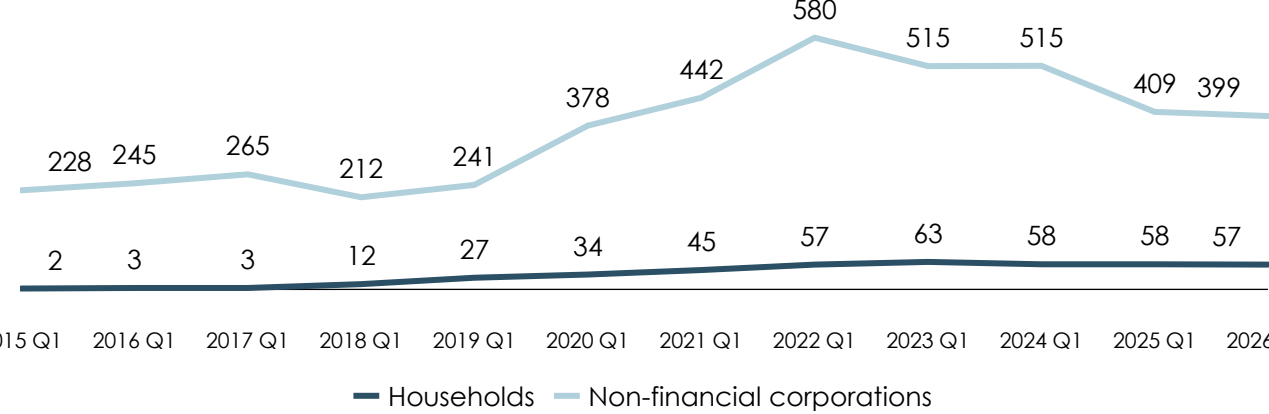
1) Most of the credit from non-MFI is granted by 'other financial corporations', which accounted for 83 per cent of the loan assets held by non-MFI in 2024 Q4. Other non-MFI financial corporations include companies that are neither deposit-taking institutions nor central banks. / 2) Besides households and non-financial corporations, borrowers of non-MFI credit include private equity firms in Sweden and various corporations outside Sweden, based on Statistics Sweden (2026b) and Riksbank (2025). / 3) Based on a working paper from Riksbank, see Li and Myers (2025). / 4) See EBA (2022).

Total loan assets held by non-MFIs in Sweden, 2015 Q1–2026 Q1
SEK billion



Note: The figure includes data for both short- and long-term loans. The non-MFI sector includes insurance companies, pension funds, and other financial corporations. The figure for 2024 differs slightly from our previous report due to different values for all four non-MFI categories in the source data for that year.
Source: Statistics Sweden (2026b): "Financial accounts".

Loan assets held by non-MFIs by borrower, 2015 Q1–2026 Q1
SEK billion



Note: The figure does not include data for other borrowing parties than households and non-financial corporations and hence the total does not match the upper figure in volume.
Source: Statistics Sweden (2026b): "Financial accounts".

Non-MFI lenders increased their share of the credit market from 2018 to 2022, followed by a decrease

The share of non-MFI credit relative to the whole credit market¹ has increased by 2.1 percentage points from 6.5 per cent in 2015 to 8.6 per cent in 2026, down from 12.3 per cent in 2022, see the upper figure. Traditional banks still hold most loan assets in Sweden with a 90 per cent share of loan assets in Sweden in 2026.

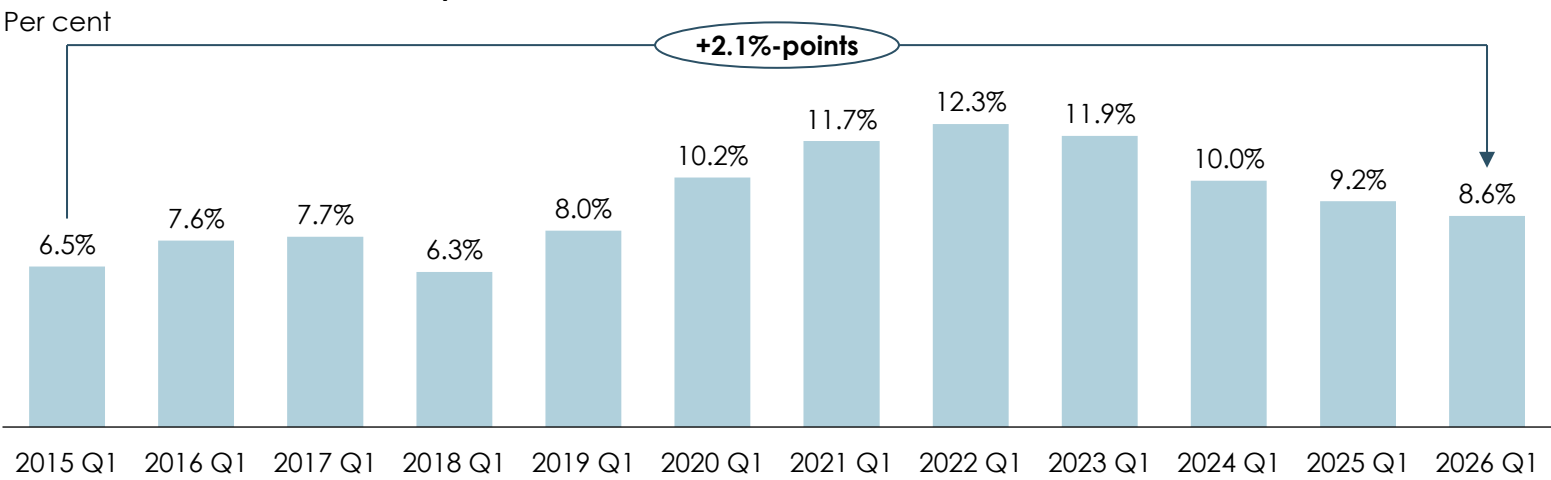
Loan assets from MFI increased by 56 per cent since 2015, much less than the 110 per cent growth in non-MFI credit lending, see the lower figure. This is in line with a general trend in Europe, where the importance of traditional bank credit has decreased since the financial crisis.²

The higher growth rate may stem from the fact that non-MFI are not bound by the same rules as banks, such as capital and liquidity requirements, which can be one reason for this development.³

Regulatory arbitrage risk can emerge when nonbank institutions operate under different oversight frameworks than banks while engaging in similar financial activities. Post-financial crisis, banks have faced stricter regulation.³ This difference in regulation may lead to uneven risk management and increase systemic vulnerabilities during periods of financial stress.

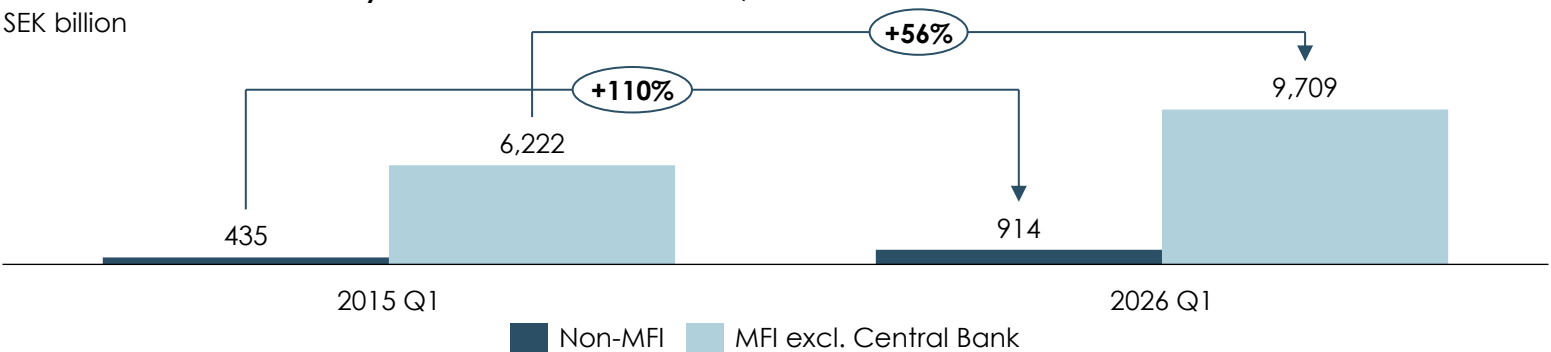
There is a trade-off between stability and efficiency in regulation.⁴ Banks add value by screening borrowers, monitoring credit, and transforming deposits into loans. Monitoring banks is key to financial stability, depositor protection, and reducing systemic risk. But finding the right level of oversight is challenging. Too little monitoring invites excessive risk-taking, while too much can hinder core banking functions. If oversight becomes too strict, banks may lend less or avoid risk, reducing credit for smaller or riskier borrowers. This can push lending into the less regulated non-bank sector, raising new risks. The extent to which the growth of non-bank lending is caused by regulatory arbitrage is uncertain.⁵

Market share in loan assets held by non-MFI in Sweden, 2015–2026



Source: Statistics Sweden (2026b): "Financial accounts".

Growth in loan assets held by non-MFI and MFI in Sweden, 2015–2026



Source: Statistics Sweden (2026b): "Financial accounts".

1) Including both MFI and non-MFI loan assets. / 2) See ECB (2021a). / 3) See SAFE White Paper ECB (2025). / 4) See Farhi and Tirole (2020) and McKinsey (2018). /

5) For example, Li and Myers (2025) do not find evidence of regulatory arbitrage in Sweden.

Credit from non-MFI has also grown in significance in other Nordic countries

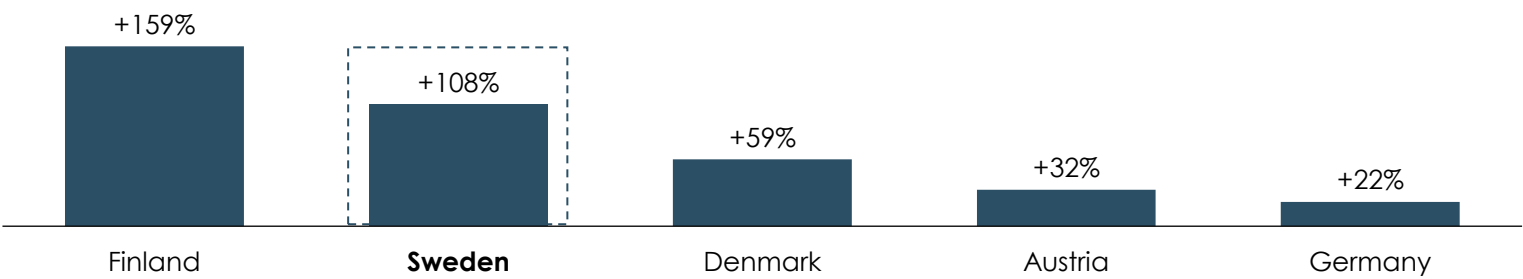
Compared with other European countries, loan assets from non-MFIs in Sweden have grown by 108 per cent, second only to Finland's 159 per cent from 2015 to 2026, see the upper figure. However, non-MFI credit growth in Sweden exceeds that in Denmark, Austria, and Germany.

The high growth rates, and the resulting increased share of non-MFI credit in the total credit market, suggest that Sweden provides an advanced digital infrastructure for financial innovation and that Swedish consumers and corporations are increasingly open to adopting these alternatives to traditional banks. It should be noted that traditional banks still hold a relatively strong position in the Swedish credit market, as illustrated on the previous pages.

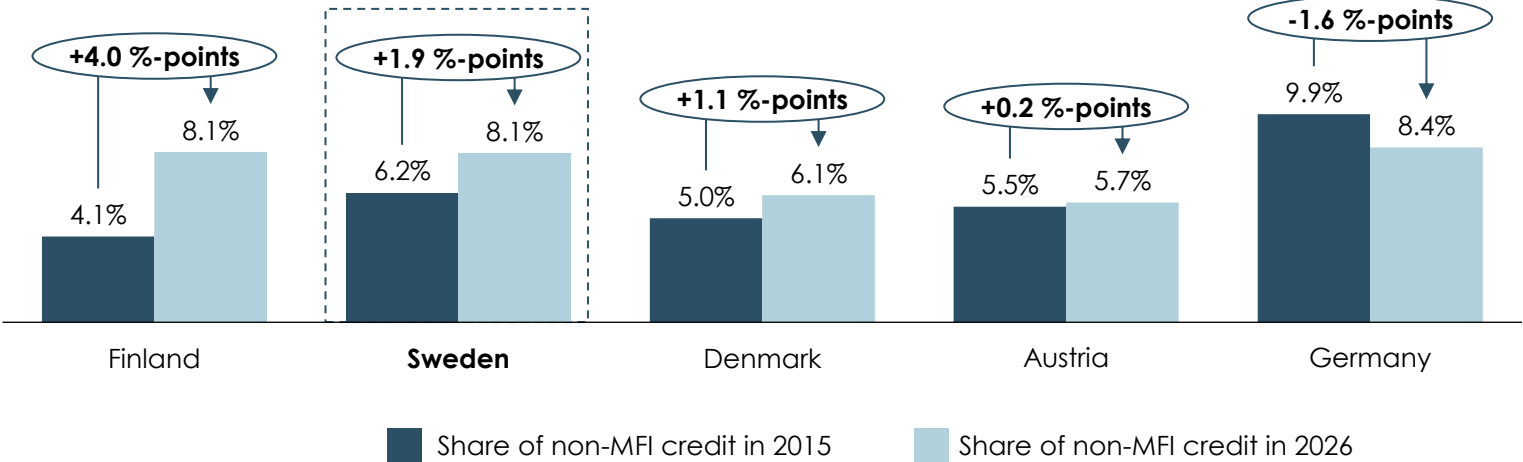
Sweden's central bank, the Riksbank, has highlighted the growth of the non-bank financial sector in the economy and the increase in related risks, which currently stem mainly from inadequate regulation.¹

The share of credit from non-MFI of total credit has also increased in Finland, Denmark, and Austria, see the lower figure. The extent of growth varies slightly between these countries, reaching 4.0 percentage points in Finland but only 0.2 percentage points in Austria. In Germany, the share of non-MFI credit has decreased by 1.6 percentage points during the period.

Growth rate of loans granted by non-MFIs in Sweden and in selected comparison countries between 2015 Q1-2026 Q1²
Per cent



Non-MFI loan assets as a share of total loan assets in 2015 Q1-2026 Q1
Per cent



Note: In ECB's data for the figure, non-MFI include insurance corporations, pension funds and other financial institutions (except investment funds). ECB's categorization of non-MFIs may differ from that used by the SCB, and hence there are marginal differences in the data and growth rates between SCB and ECB data.
Source: ECB (2026b), "Financial accounts by sector".

An aerial photograph of a serene landscape at sunset. A calm lake reflects the sky, which is filled with soft, wispy clouds. The surrounding hills and forests are covered in trees with autumn foliage in shades of yellow, orange, and green. In the foreground, a bridge spans the lake, and a small cluster of buildings, including a large white house with a red roof, is visible on the right. The overall scene is peaceful and picturesque.

DEEP DIVE

FINAL BASEL III

Final Basel III can change the competitive dynamics in banking

Final Basel III (sometimes called Basel IV) is a set of capital rules that has applied in the EU since 2025. It is one of several pieces of regulation implemented since the financial crisis aimed at making banks more resilient.

Banks hold capital against the risk they take, and Final Basel III changes how that risk is measured. The central instrument is the output floor. The output floor caps how far a bank's internal models can reduce its capital requirement below what the regulator's standardised method would produce.

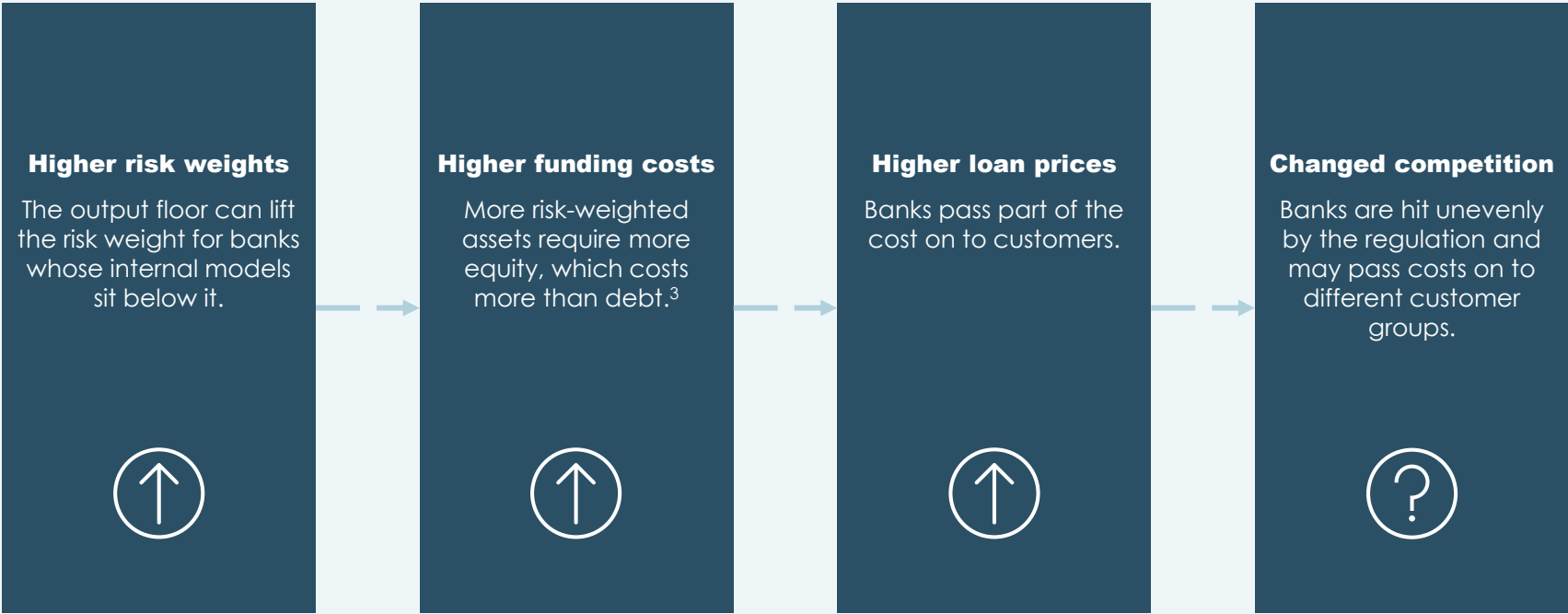
With Final Basel III a bank's total risk exposure amount must be at least 72.5 per cent of what it would be under the standardised approach.¹

The output floor is phased in from 50 per cent in 2025 to 72.5 per cent in 2030, and transitional relief for unrated corporates and low-risk mortgages is in place until the end of 2032. The full effect therefore only arrives in 2033.

Swedish banks are among the more exposed in Europe.

They make heavy use of internal models, and their modelled risk weights are among the lowest in the EU, so the gap to the output floor is wide. However, in Sweden, there is already a second, national floor of a 25 per cent risk-weight on Swedish mortgages. How the two floors interact will affect the total impact.²

Illustration of how Final Basel III regulation impacts pricing and competitive dynamics



FACT BOX: How risk weights are calculated

Capital requirements depend on the risk-weighted assets. Each exposure carries a risk weight reflecting how risky it is judged to be.

Under the *Standardised approach*, the regulator sets the weights by exposure types. They are simple, conservative, and identical for each bank.

Under *Internal models*, a bank estimates the risk from its own historical models. For the same loan this usually produces a lower risk weight than the standardised approach, and therefore a lower capital requirement. The risk-weights from internal models are subject to regulatory approval.

Most large Swedish banks use internal models across most of their lending. The output floor sets a limit on how far those models can diverge from the standardised level.

1) Final Basel III also revises the standardised approaches for credit, market and operational risk and limits the use of internal models. / 2) Finansinspektionen has applied a 25% floor on the average risk weight for Swedish mortgages since 2018, and in 2025 notified a two-year extension until the end of 2027, see Finansinspektionen (2025a). / 3) The Modigliani-Miller offset is only partial for banks, e.g., due to deductibility of interest.

The Final Basel III output floor will raise capital requirements for Swedish banks

We estimate that the fully implemented output floor will raise the risk exposure amounts of banks active in the Swedish market by SEK 74 billion, increasing their capital requirements by 14 per cent. We expect that banks will pass the higher capital costs on through loan prices. For bound banks, this means corporate lending costs can rise by roughly 30 basis points and SME lending costs by roughly 25 basis points.

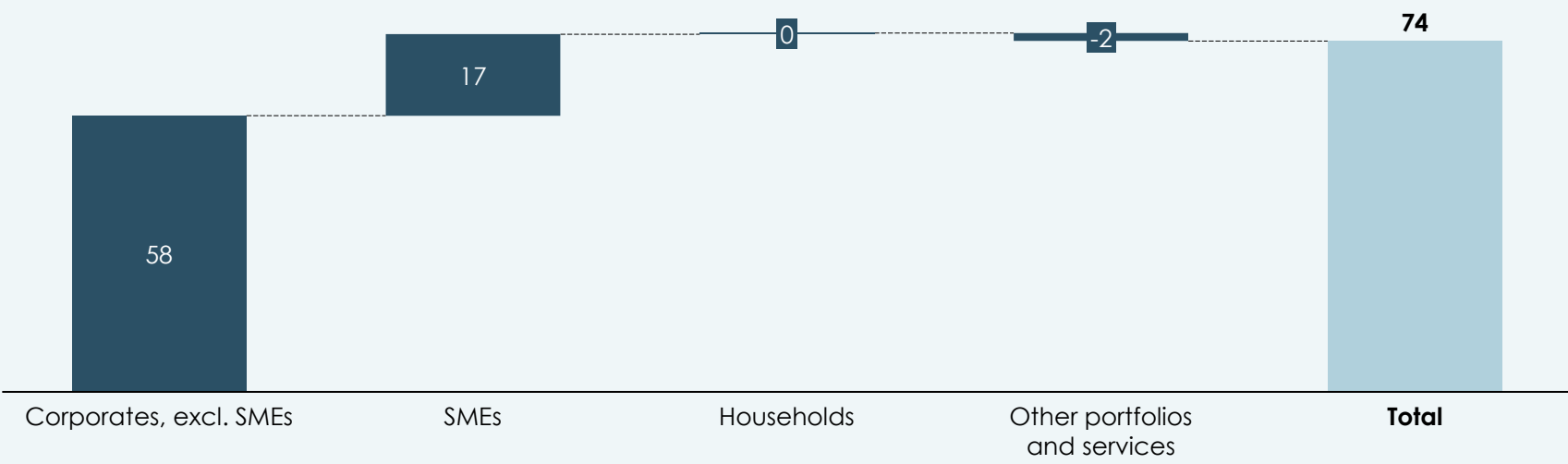
Corporate lending accounts for almost the entire increase, with the biggest increase coming from large corporates followed by SMEs. Household lending adds close to nothing. The reason is

how the floor works. Large banks set most risk weights with their own models. The output floor stops these weights from falling below 72.5 per cent of the regulator's standard weights. For corporate loans, the modelled weights are often well below that level, so they rise. Swedish mortgages already carry a 25 per cent risk weight floor, which is above that level, so they barely move.

The cost therefore depends on each bank's mix: **a bank with a large corporate book faces a large increase, a mortgage-focused bank a small one, and a bank already on standard**

weights none. This is an effect of the regulation: banks will not be equally affected. Banks competing for the same customers will therefore face different changes in capital costs. The next page looks at what this means for competition.

Increase in risk exposure amounts for banks active in the Swedish market
SEK bn



Note: Numbers based on Copenhagen Economics calculations. Numbers refer to the full increase in REA of those major banks active in Sweden computed to be bound by the output floor, therefore the increase also reflects increases related to exposures not in Sweden. Households contain both mortgages, which decrease, and other loan types, which increase.
Source: Copenhagen Economics based on EBA Transparency Exercise and Pillar 3 reports.

Headline impact on capital requirements and borrowing costs

+14%¹
increase in capital requirements for the major banks active in Sweden.

+30 basis points²
higher corporate lending costs at bound banks.

+25 basis points³
higher lending costs for SME at most bound banks.

The output floor will change how Swedish banks compete for corporate and mortgage customers

Banks compete for the same customers, but the output floor raises the cost of lending only for some banks, and it affects these banks to different degrees. To recover costs, banks may change prices and which portfolios they target. This changes the competitive dynamics.

How each bank will respond is uncertain. It will depend on whether the bank is bound (a bank whose output floor binds), or how close it is to being bound. But it will also depend on strategic choices, such as how a bank will spread capital costs across products, and how it expects competitors to behave.

Based on economic theory and our understanding of the market, we expect bank and market dynamics to push towards the four key findings, as shown on the right. The central mechanism is that non-bound banks do not want to become bound.

Overall, the output floor rewards credit quality less in corporate lending. Banks will hold more capital, which makes them more resilient. But low-risk corporate lending becomes more expensive relative to riskier lending, which weakens banks' incentive to lend at low risk. Part of the gain in resilience may therefore be offset by more risk-taking.

Key findings on competitive dynamics

1

Behaviour for bound banks: Bound banks raise corporate loan prices

We expect bound banks to reprice corporate lending towards the marginal capital cost. How much varies between banks, depending on their portfolio mix and how much they cross-subsidise from other products, e.g. from mortgages to corporates.

2

Behaviour for non-bound banks: Non-bound banks follow bound banks

Non-bound banks are likely to act, to some extent, as if constrained in affected portfolios. If they undercut the bound banks, the resulting lending growth will erode their own output floor headroom and make the floor binding for them over time. Their de facto marginal cost is therefore similar to that of the bound banks.

3

Behaviour for corporate portfolios: The safest unrated corporates pay the most

The output floor largely stops rewarding credit quality in unrated corporate lending. Bound and non-bound banks alike price the safest borrowers as if bound, so the price increase falls mainly on low-risk unrated corporates.

4

Behaviour for mortgage portfolios: Competition intensifies for low-LTV mortgages

Bound banks gain a capital-cost advantage in low-LTV mortgages, because their marginal capital follows the floored standardised weight, which is below the 25 per cent mortgage floor. Non-bound banks cannot afford to lose those customers, as they are the exposures generating their headroom. Competition therefore intensifies where credit risk is lowest.



2

EFFICIENCY OF THE SWEDISH BANKING SECTOR

Swedish banks are cost-efficient, suggesting they are working to reduce costs due to competitive pressure

Efficiency within a market can serve as an indicator of healthy competition, signalling limited space for ineffective companies due to competitive pressure. In such an environment, companies with higher costs must either reduce expenses to retain customers or exit the market.

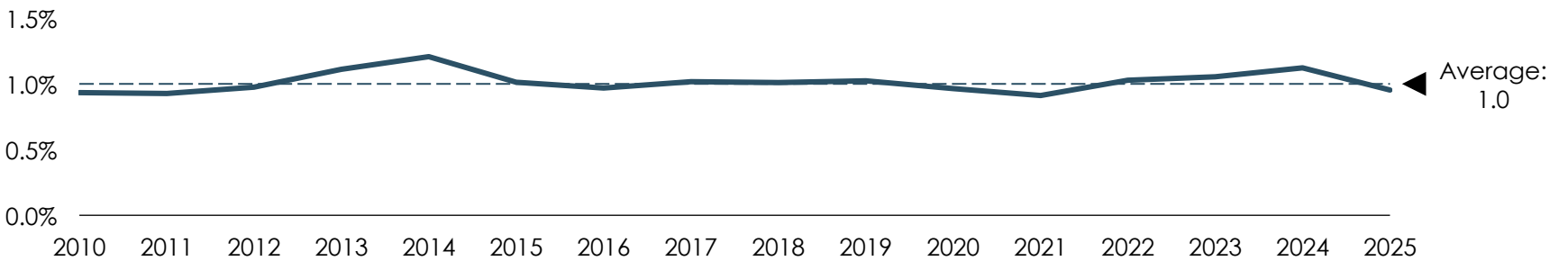
Swedish banks have low and stable operational costs of around 1 per cent of their asset value in the period from 2015 to 2025, see the upper figure, suggesting that Swedish banks have already reached a lower threshold for costs. While additional regulations and compliance requirements have been introduced in the period,¹ Swedish banks have maintained their low-cost structure. At the same time, Sweden has lower operational costs (as a per cent of total assets) compared to several of the benchmark countries, see the lower left figure.

One reason for the low costs in the Swedish banking sector could be the high usage of digital banking services by Swedish customers; see the lower-right figure. This allows Swedish banks to maintain a high service level while keeping costs low.

Swedish banking consumers are generally comfortable using digital financial services. Based on an EU-wide survey,² 58 per cent of Swedish respondents respond that they are very comfortable using digital financial services and another 32 per cent answer somewhat comfortable.³

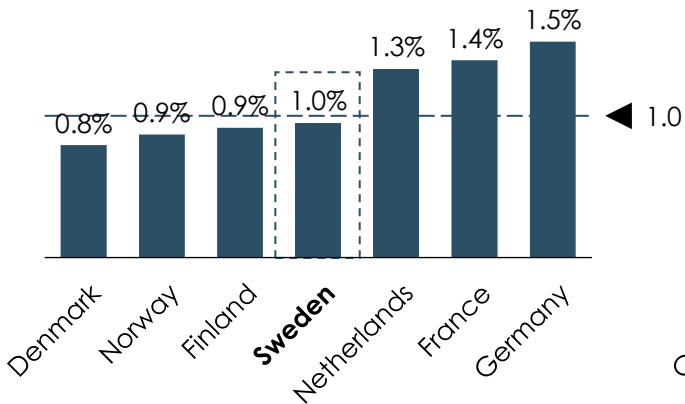
82 per cent of the population in Sweden used the internet for banking in 2025.⁴ While this is lower compared to the usage of internet for banking in Denmark, the Netherlands, and Finland (ranging from 96 to 98 per cent), it is above the EU-wide average (70 per cent).

Operational costs in Swedish banks, 2015-2025
Per cent of total assets

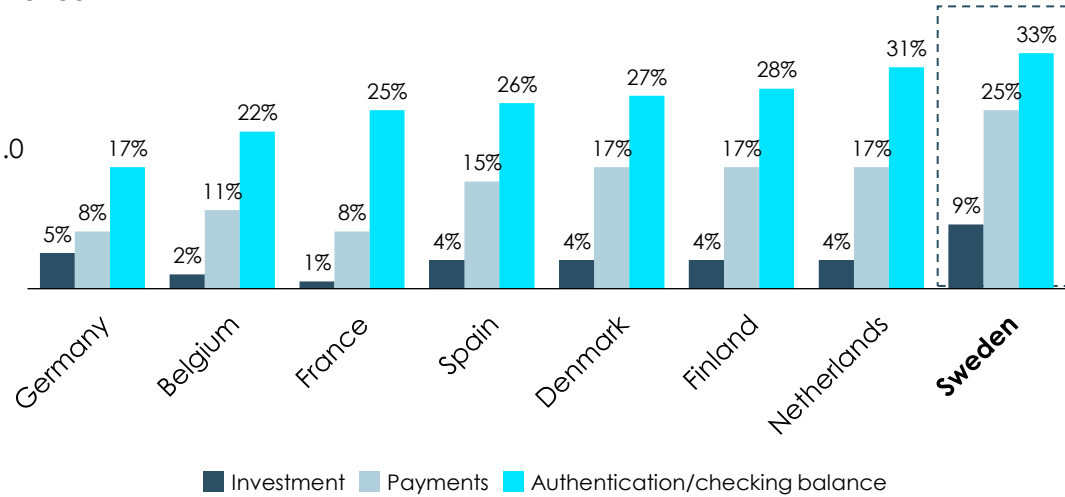


Source: Refinitiv LSEG Workspace (2026).

Operational costs, 2025
Per cent of total assets



Share of respondents using digital banking services at least once a day, 2022
Per cent



■ Investment ■ Payments ■ Authentication/checking balance

Source: Refinitiv LSEG Workspace (2026). Contrary to our previous report, we omitted Belgium from this figure, as the source only included one bank from Belgium.

Source: European Commission (2022).

1) Capital requirements increased in the aftermath of the financial crisis. In addition, anti-money laundering compliance and ESG requirements have tightened during the period.
2) European Commission (2023). / 3) Summing the respondents answering "very comfortable" and "somewhat comfortable", Sweden ranks fifth in the EU. Considering only "very comfortable" answers, Sweden ranks second after Finland. / 4) Eurostat (2026).

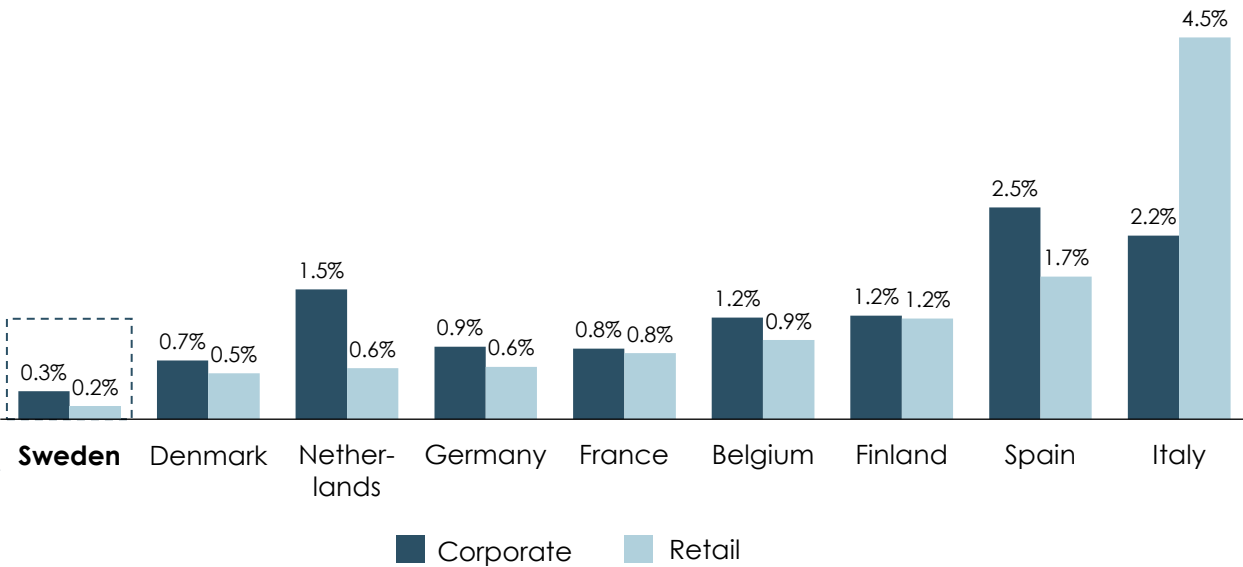
Sweden has an efficient lending system with low losses

The previous findings show that Swedish banks are cost-effective. Signs of an efficient banking system are also found in low default- and loss rates.

Credit institutions in Sweden¹ experience low default rates on loans for both corporate and retail customers: respectively 0.3 per cent and 0.2 per cent on average per year from 2015 to 2025. While default rates have increased slightly in recent years, Sweden still has the lowest level among the benchmark countries, see the figure below to the left.

Credit institutions in Sweden also experience low losses on both corporate and retail loans. In the period from 2015-2025, average yearly loss rates for Swedish banks were close to zero – the lowest among benchmark countries, see the figure below to the right.

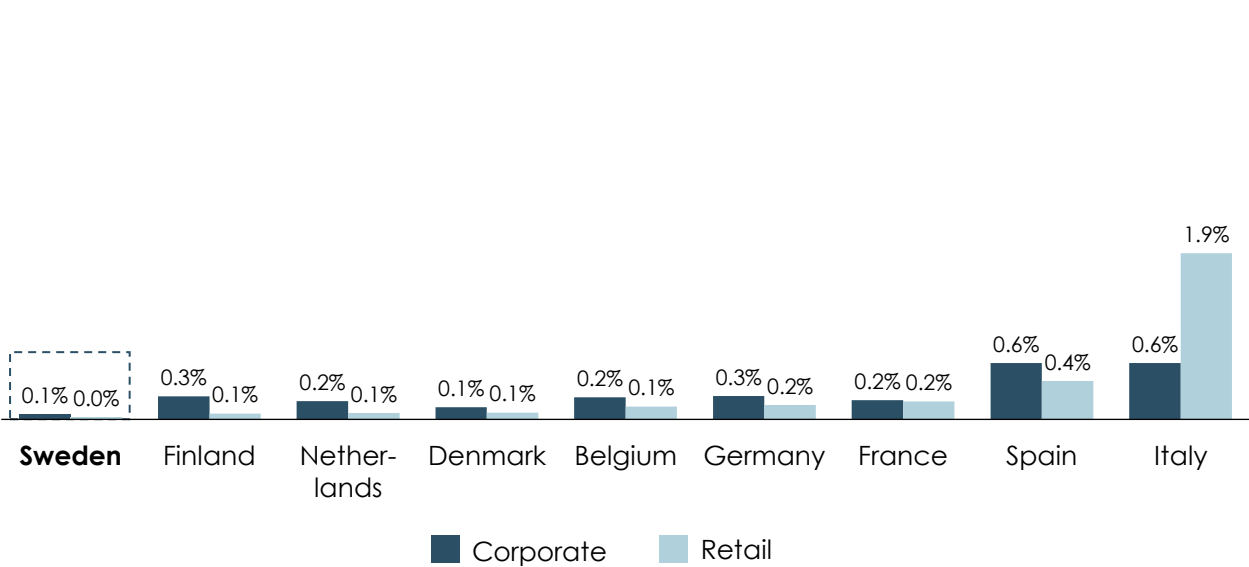
Average rate of default for corporates and retail, 2015-2025
Per cent



Housing prices have generally increased in Sweden, contributing to the low losses, as the mortgage security did not lose value. However, in recent years, real estate prices have stagnated.²

The low losses are an indication of an effective and secure system that conducts correct assessments of the value of, e.g., properties behind mortgages throughout a business cycle. At the same time, they reflect Sweden having an efficient judicial system and foreclosure auctions that can be carried out quickly and easily, which helps secure low losses for banks even in the case of defaults.

Average losses for corporates and retail, 2015-2025
Per cent



Note: The values shown are average default rates for the period. The data are from the Transparency Exercise and cover Kommuninvest, Länsförsäkringar Bank AB, SBAB Bank, SEB, Svenska Handelsbanken, and Swedbank in Sweden. Source: EBA Risk Dashboards (2026).

Note: Values shown are the product of the weighted average default rate and the weighted average loss rate for the period. Loss rates for Finland are missing for the following quarters: 2019 Q3, 2021 Q3, and 2022 Q1. Source: EBA Risk Dashboards (2026).

1) Banks analysed are Kommuninvest Group, Länsförsäkringar Bank, SBAB, SEB, Svenska Handelsbanken, and Swedbank. / 2) See Statistics Sweden (2026c).

3

PRICES AND PASS-THROUGH



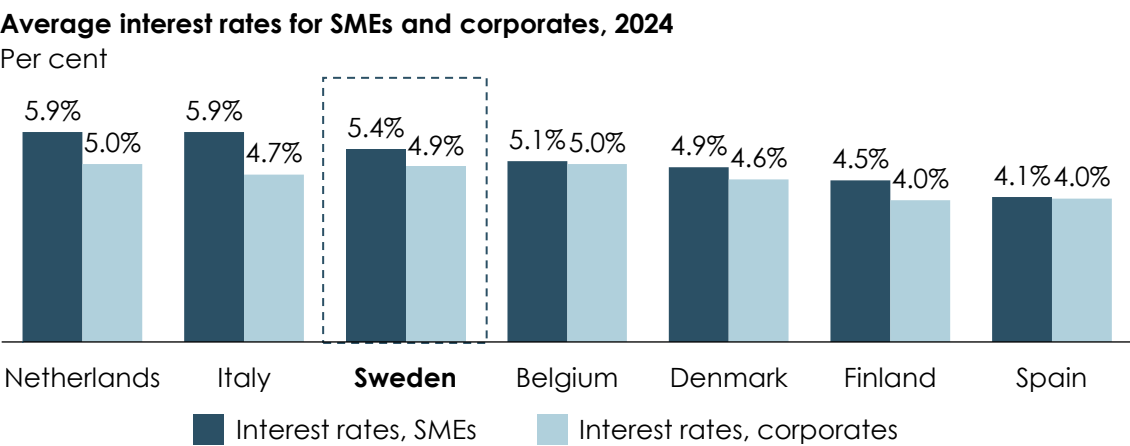
Swedish mortgage rates are among the lowest in Europe

Sweden is known for its historically low mortgage rates compared to other European countries.¹

In 2025 and the first quarter of 2026, Sweden had the lowest mortgage rates among the countries examined, partly due to the lower central bank interest rate relative to the ECB, see the figures to the right.

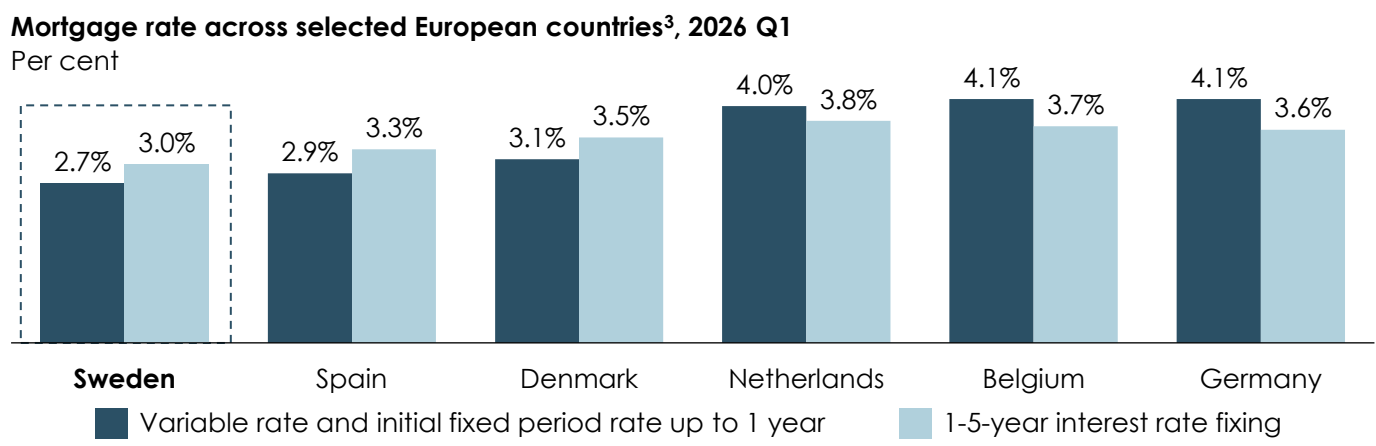
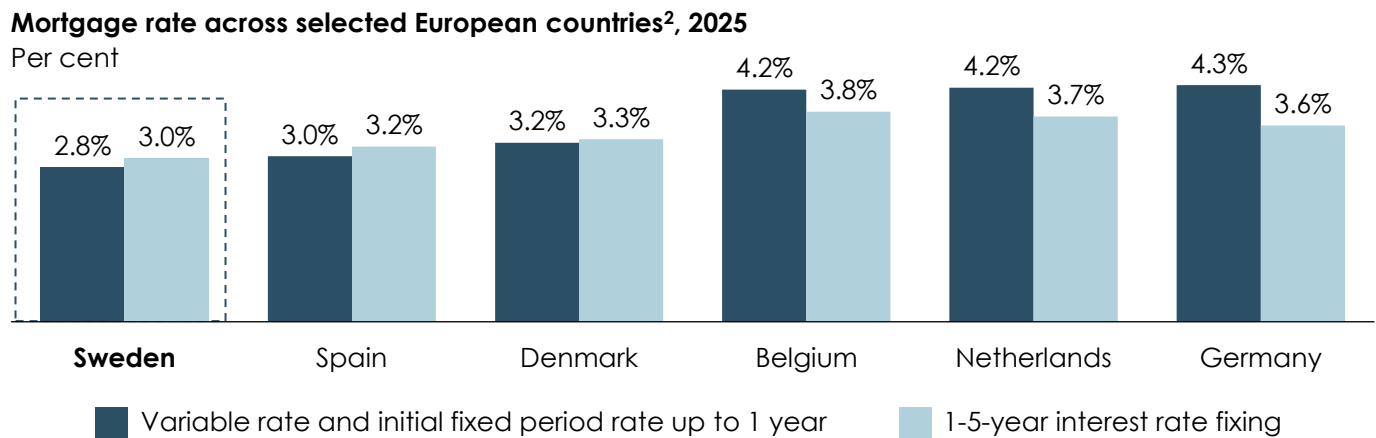
Low prices indicate healthy competition in a market, as companies compete on different aspects such as quality and pricing. When there is strong competition, businesses strive to attract and keep customers by offering the lowest possible prices.

For SMEs and corporates, Sweden had lower interest rates than the Netherlands and Italy, but higher interest than several of the other benchmark countries in 2024, see figure below.



Note: The most recent data are for 2024. We have omitted France from the figure, as there seems to be an inaccuracy in the source table (page 111), which introduces uncertainty into retrieving the correct numbers.
Source: OECD (2026).

1) See the Copenhagen Economics (2019), Copenhagen Economics (2023), Copenhagen Economics (2025), and EMF quarterly reports. For several years in a row, Sweden has had the lowest interest rate in Europe, with the exception of Denmark. / 2) See Copenhagen Economics (2023). / 3) The EMF collects data based on common definitions to ensure comparability between countries. However, the comparison has some limitations, as some differences are difficult to fully correct for. For example, for Denmark, the figure covers only owner-occupation and loans from mortgage banks.



Note: No data for Finland or Ireland for 2025 or 2026. The majority of Swedish homeowners have variable-rate loans or loans with a short interest-rate fixation.
Source: European Mortgage Federation (2026).

Swedish banks passed on more than twice the euro-area share of central bank rate changes to depositors

To test whether banks compete for deposits, we ask how much of a change in the central bank rate they pass on to depositors. If the Riksbank raises its rate by 1 percentage point and banks raise the average deposit rate by 0.5 points, they pass on 50 per cent. This share of pass-on is called the deposit beta. The more banks compete, the higher the beta, because a bank that pays less than its rivals risks losing deposits.

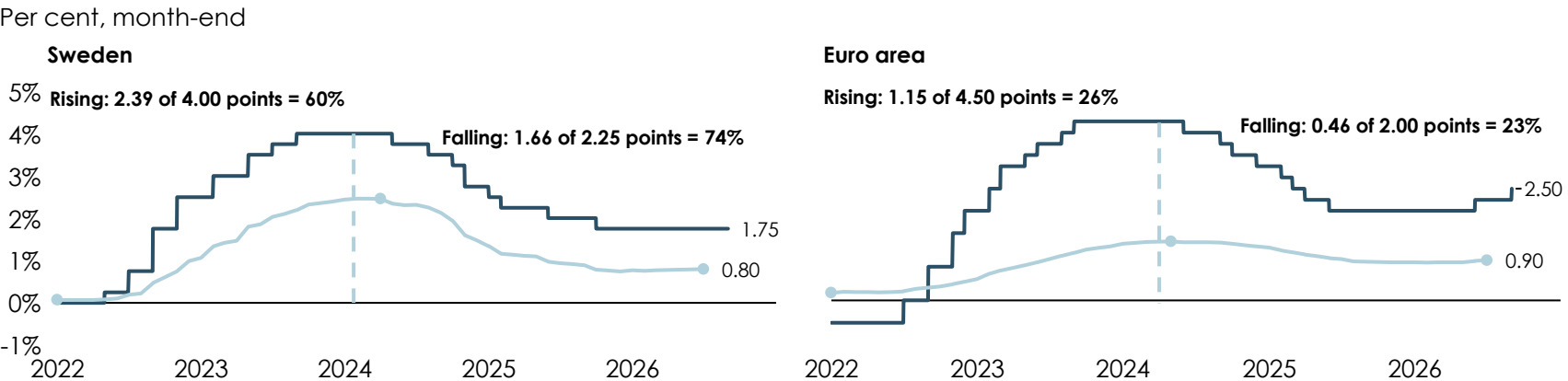
Even in a competitive market, the beta stays below 100 per cent. The central bank rate does not equal a bank's funding cost, and regulation and longer maturities make deposit rates slower to move.

From January 2022 to April 2024, the Riksbank raised its rate by 4.00 percentage points and the Swedish deposit rate rose by 2.39 points, see the top figure. The closer the dark deposit line follows the light central bank line, the higher the beta. Sweden's beta is 60 per cent, against 26 per cent in the euro area.¹

Swedish banks passed on 74 per cent of the cuts, against 23 per cent in the euro area.² Banks in Denmark and each euro-area country shown passed on less than Swedish banks in both directions, see the bottom figure. Only Norwegian banks passed on more of the increases than Swedish banks: 68 per cent.

High pass-through in both directions is consistent with price competition for deposits. It also cut the interest earned per krona of Swedish deposits by about two thirds once rates fell.

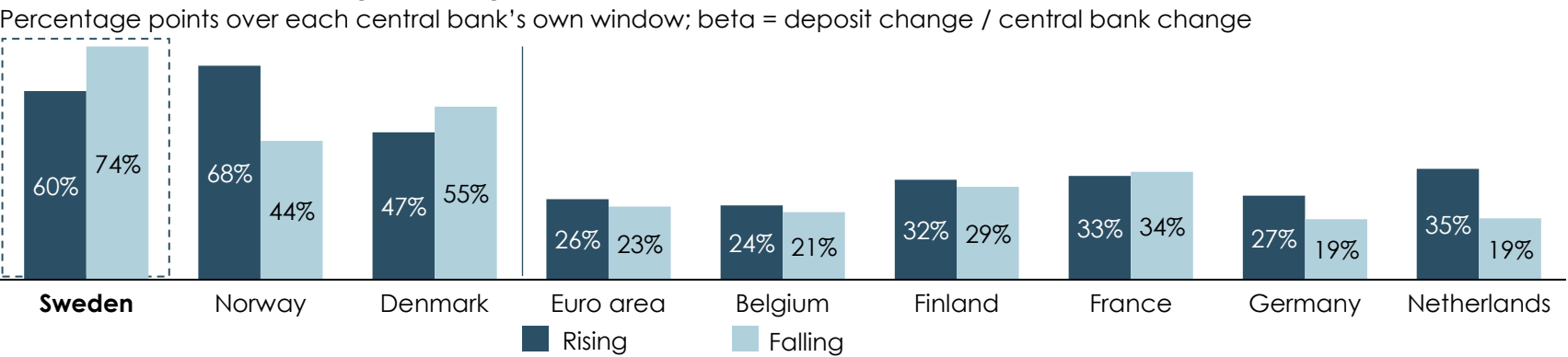
Central bank rate and average deposit rate, Sweden and the euro area, January 2022 – September 2026



Note: Average rate on outstanding deposits of households and non-financial corporations, weighted by volume (Sweden: banks; euro area: all monetary financial institutions).

Source: Copenhagen Economics based on Statistics Sweden (2026d), Riksbanken (2026), and ECB (2026a, 2026f, 2026g).

Deposit betas by country, rising and falling central bank rates



Note: Rising rates run from January 2022 (Norway: August 2021; 72 per cent from January 2022) to the month before the first cut; falling rates run to the month before the next increase or, for Sweden, to July 2026. Danish rates: monthly averages, krone deposits.

Source: Copenhagen Economics based on the sources for the figure, Danmarks Nationalbank (2026a, 2026b), Statistics Norway (2026), and Norges Bank (2026).

1) The table in Copenhagen Economics (2023), repeated in later editions, covered January 2022 to July 2023: 50 per cent for Sweden and 19 per cent for the euro area. Current data give 52 and 19 per cent. The Swedish gap comes from the published starting rate of 0.14 per cent, which has been revised.

2) Sweden's beta is higher than the euro area's in each of five combinations of account type and sector, in both directions. Swedish overnight deposits include savings accounts without withdrawal limits, and Riksbank (2023) notes that Swedish household account types are not perfectly comparable with the euro area's.

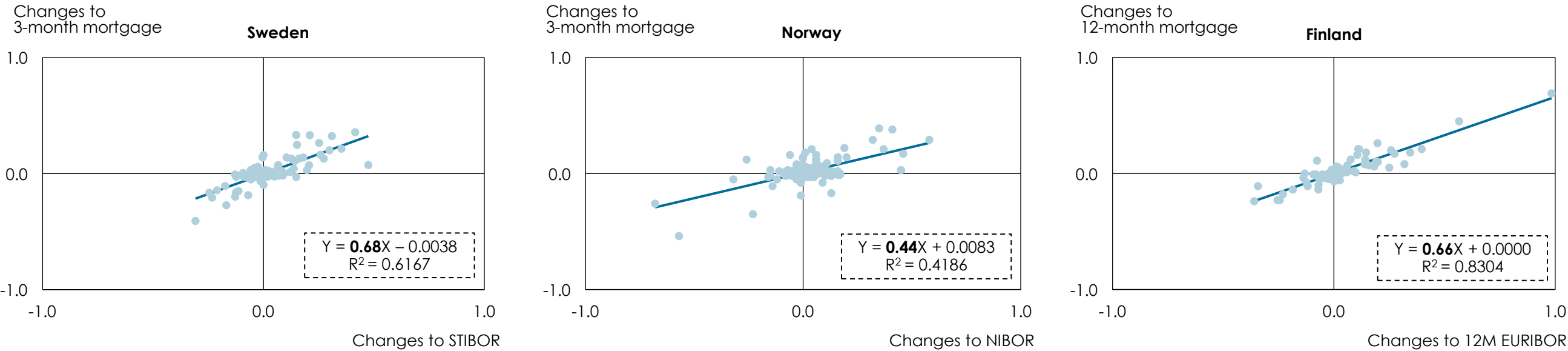
Interest rate pass-through to mortgage rates is relatively high in Sweden

We find that the average pass-through of changes in interbank offered rates to mortgage rates is higher in Sweden than in Norway and on a par with Finland; see figures. For Finland, we use the variable rate for mortgages with a maturity of up to 12 months, which is more common, instead of the 3-month mortgage rate used for Sweden and Norway. In the figure for Sweden, the slope (0.68) is higher than for Norway (0.44) and slightly higher than for Finland (0.66), indicating that Swedish 3-month mortgage rates respond relatively faster to changes in the STIBOR rate than Norwegian 3-month mortgage rates respond to NIBOR, and at the same pace as Finnish 12-month mortgage rates respond to EURIBOR.

One likely explanation is strong competition among mortgage lenders in Sweden. When banks face greater competitive pressure, they are more inclined to adjust mortgage rates downwards promptly in response to lower funding costs. Swedish households tend to refinance more actively than other countries, see page 11, which can further enhance the speed of adjusting mortgage rates to market conditions.

Another possible factor to explain the relatively high interest rate pass-through is the mortgage market's structure. Swedish borrowers commonly hold variable-rate or short fixed-rate mortgages, which allows for more loans and liquidity in the variable-rate mortgage market.

Average interest rates pass through from STIBOR, NIBOR and EURIBOR rates to new mortgages in Sweden, Norway and Finland, monthly observations, January 2016 – June 2026
Percentage points



Note: The figures show the correlation between month-on-month changes in the interbank three-month lending rate and floating mortgage rates with an interest fixation period of three months from January 2016 to June 2026. Note that for Finland, we use the variable lending rate for mortgages with an interest fixation period of up to 12 months and the 12-month Euribor due to the popularity of this loan type in the country. The scatter plot includes a simple linear regression line (OLS) to illustrate the trend between the variables.

Source: Riksbank (2026), Statistics Norway (2026), ECB (2026c), ECB (2026d), and ECB (2026e).

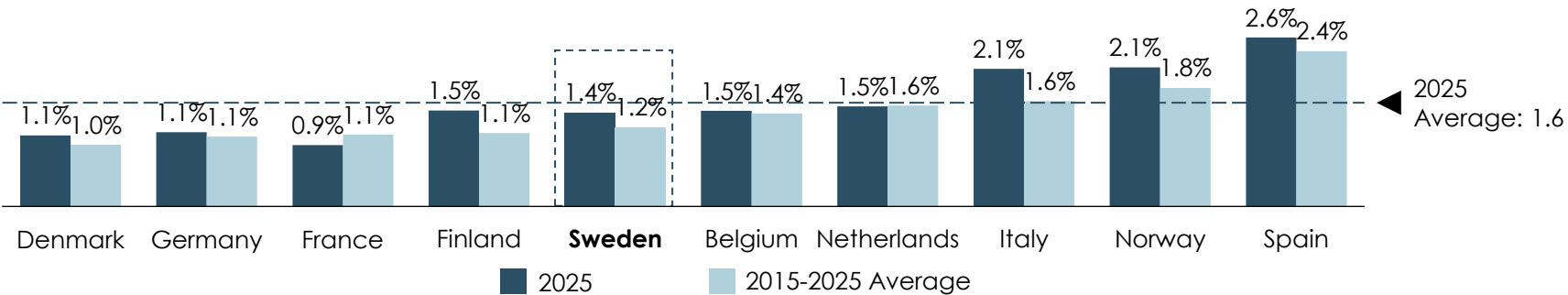
Swedish banks operate with relatively low margins

Pass-through of costs is a measure of competition. On one hand, if banks in the market have market power, they may be less likely to reflect lower costs in lower prices for banking customers, resulting in higher end-user prices. On the other hand, if prices are driven by costs, this is a sign of strong competition, where each individual bank has little market power.

Swedish banks have low net interest margins, slightly lower than the average across the analysed countries, and below those in many other European countries, particularly in Southern Europe, see the upper figure. Net interest margins must cover not only operating costs and credit losses but also taxes, regulatory fees and the cost of holding capital, which higher capital requirements, such as mortgage risk-weight floors and buffers, push up. This suggests that Swedish banks are passing on their low costs to customers, that is, charging lower prices, instead of using their cost-effectiveness to increase margins.

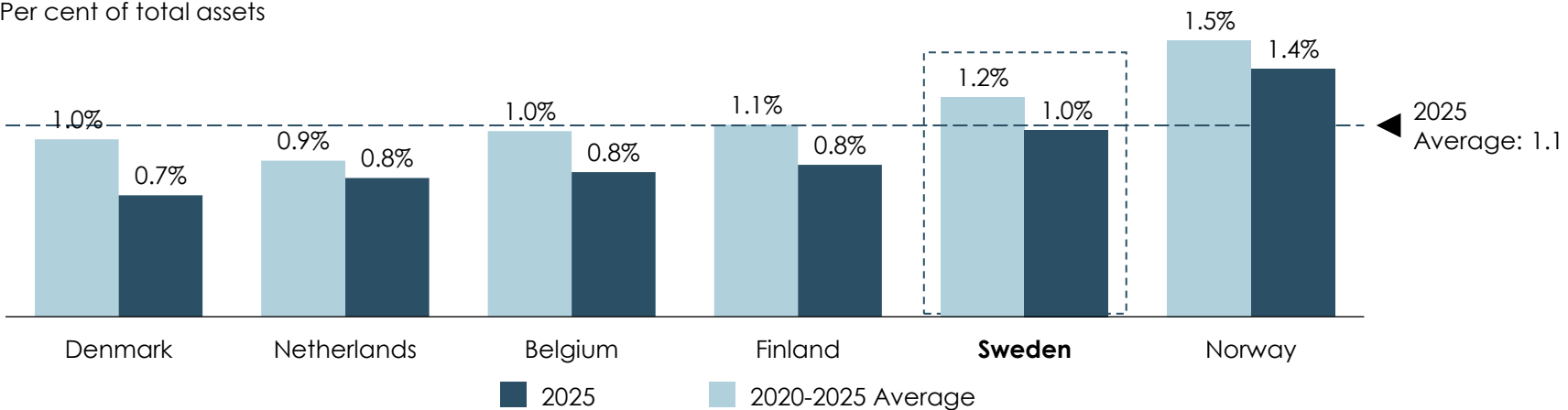
Among the comparison countries, Sweden has above-average operational profit (before impairments) as a per cent of assets, see the lower figure. This measure reflects the margin between the revenue and the average costs of banks. Across the European countries examined, banks tend to have higher operational profit in 2025 as compared to previous years.

Net interest margin, 2025
Per cent of total credit



Note: EBA Risk Dashboard does not include data from Norwegian banks from June 2021 to March 2022 because the reporting framework based on CRR2/CRD5 was implemented only in Q2 2022.
Source: EBA Risk Dashboard (2026).

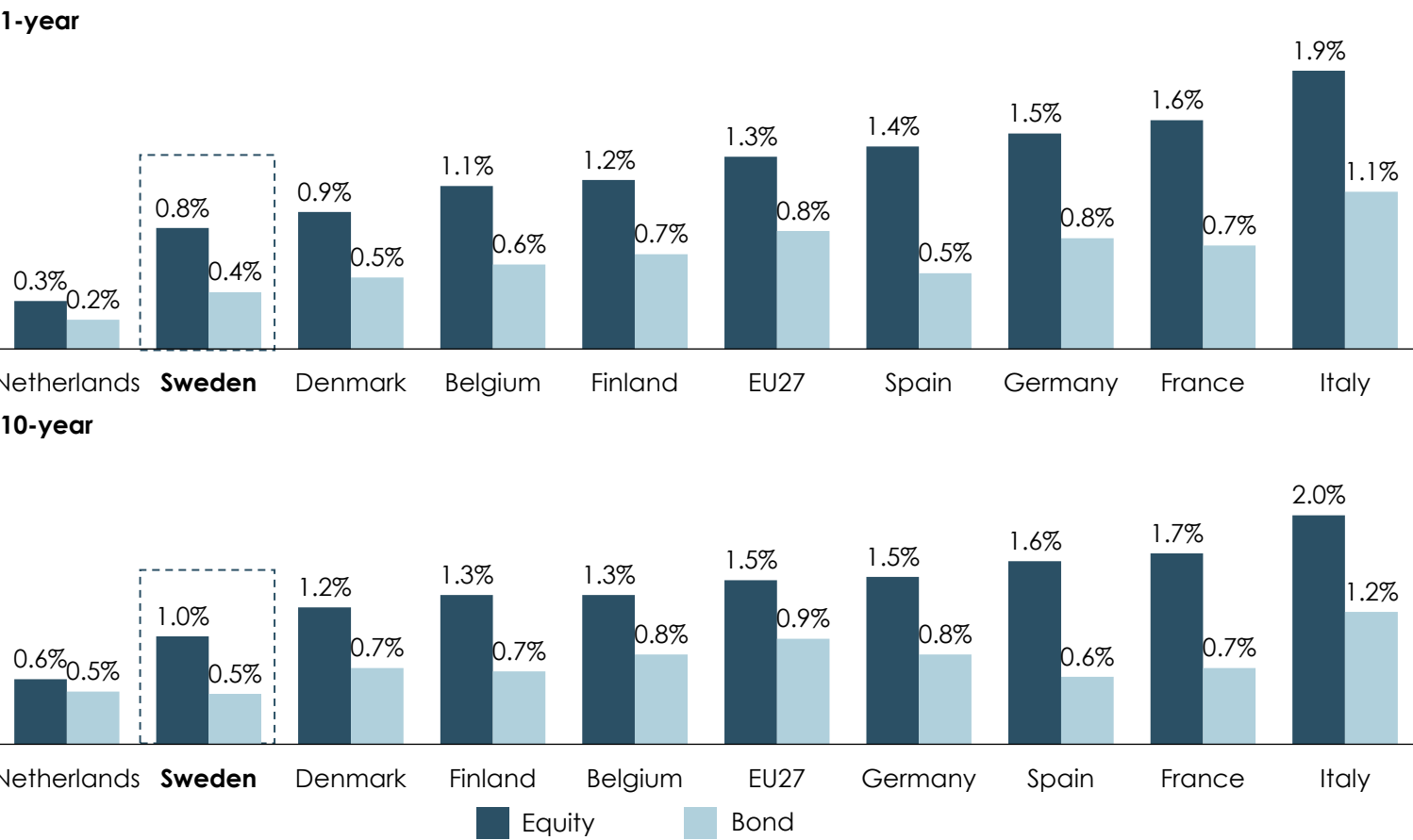
Operational profit (before impairment), 2025
Per cent of total assets



Note: We have omitted France from the lower figure due to inaccuracies in the source data for French banks.
Source: Refinitiv LSEG Workspace (2026).

Sweden has low investment fund costs compared to other EU countries

Average indicative fund costs for UCITS¹ across selected EU countries, 2015-2024
Per cent of asset value



Sweden stands out for having some of the lowest UCITS¹ fund costs among the selected EU countries, based on indicative² UCITS fees estimated by ESMA. Over the 2015–2024 period, average equity fund fees in Sweden were 0.8 per cent for the one-year horizon and 1.0 per cent for the 10-year horizon, both well below the EU27 average (1.4 and 1.5 per cent, respectively), see the figures.

Bond fund fees were even lower, at 0.4 per cent (1-year) and 0.5 per cent (10-year), making Sweden one of the most (indicative) cost-efficient UCITS markets alongside the Netherlands and Denmark.

There are several plausible reasons for low fees in Sweden. As we have documented for other parts of the financial markets in Sweden, fund costs may face competitive pressure from efficient cost management and a highly digitalised market, which lower the costs of delivering services to customers in Sweden.

UCITS
UCITS funds are mutual funds that comply with European Commission regulations, allowing managers to market them freely across EU member states and beyond. The regulations govern the structure, authorisation, operation, and distribution of investment funds, primarily mutual funds and ETFs, ensuring a high degree of investor protection and promoting cross-border fund distribution within the EU.

Fund providers register and regulate these funds in their home countries while adhering to EU-wide standards, making them widely recognised as safe and well-regulated investment vehicles. UCITS funds account for approximately 75 per cent of collective investments by small investors in Europe, and many global investors can access them through brokers. Asset managers often highlight "UCITS-compliant" status as a key marketing advantage.

Note: Undertaking for collective investment in transferable securities (UCITS) is a regulatory framework for mutual funds in the European Union (EU). Figure shows the total expense ratio (TER) of the UCITS funds as a per cent of the total assets under management for 1-year and 10-year holdings. Data is at entity-specific share class level and covers a 10-year period between January 2015 and December 2024. Source: ESMA (2026).

1) Undertakings for Collective Investment in Transferable Securities.
2) It should be noted that ESMA specifies that comparability across jurisdictions is limited, as not all rebates, subscription fees, and redemption fees are necessarily covered.

A scenic view of a city street with a canal, a bridge, and buildings with autumn foliage. The scene is captured from a low angle, looking down the street towards a canal. A metal bridge with a lattice structure spans the canal. In the background, there are buildings with colorful facades and a prominent dome. Large trees with vibrant yellow and orange autumn leaves frame the scene on both sides. A white semi-transparent box is overlaid on the left side of the image, containing the title text.

DEEP DIVE

DECOMPOSITION OF MORTGAGE MARGINS

The mortgage margin has more than halved over the past seven years

The mortgage margin ("bolånemarginalen") is the difference between the rate the banks earn on their loans and the rate they pay to borrow. It can be observed in the mortgage institutes' financial statements, where interest income and expenditures are reported.

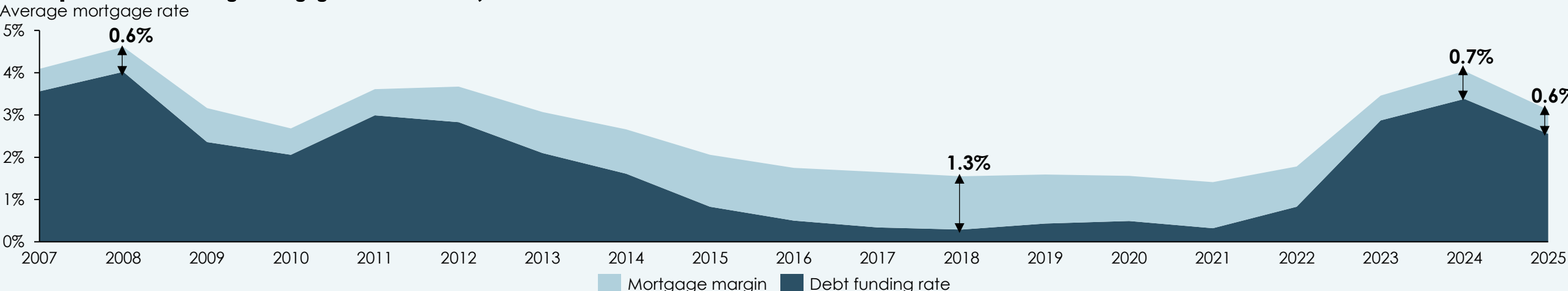
The margin is an average across the entire stock of loans, with different maturities and both retail and business customers. We estimate it using largely the same method as in our 2019 study.¹

IN RECENT YEARS, THE MORTGAGE MARGIN HAS DECREASED

We find that since 2018 (the last year our previous study covered) the mortgage margin has more than halved, from 1.3 per cent to 0.6 per cent.

Most of the decline in the mortgage margin came in 2022 and 2023, when interest rates rose substantially. In those years, the rate the institutes paid for funding rose more than the rate they earned on their loans: 2.0 percentage points against 1.7 in 2023.

Development in the average mortgage rate in Sweden, 2007 – 2025³



Notes: We cover the three largest mortgage institutes: Stadshypotek, Nordea Hypotek, and Swedbank Hypotek. Our margin differs from our 2019 study in two ways: from 2013 we report it gross of resolution fees and the Swedish risk tax, and from 2018 we add Nordea's hedge interest to its interest income. This also changes our reported margins slightly compared to what we showed in our 2019 study.
Sources: (1) [Copenhagen Economics \(2019\)](#). (2) [Finansinspektionen \(2025b\)](#). (3) Copenhagen Economics based on S&P Global Market Intelligence for 2007 to 2012 and the institutes' annual reports from 2013 to 2025.

As the mortgage margin is the gap between the two, the mortgage margin decreased. From 2023 to 2025 the mortgage margin has stayed around the new, lower level, and it did not recover when interest rates decreased.

THE MORTGAGE MARGIN HAS BEEN THIS LOW BEFORE

The margin has averaged 0.9 per cent across 2007 to 2025, but that average covers wide swings. It started at a low point in 2007, rose through the 2010s to peak at 1.3 per cent in 2017 and 2018, and has since fallen back to 0.6 per cent - close to where the series began.

In our 2019 study we showed that a large part of that increase came from banks expecting increased capital requirements.¹ The requirements make a bank fund part of every mortgage with shareholders' money (equity) instead of borrowing it (debt), and shareholders require a higher return than lenders do. So, the more shareholders' money a mortgage ties up, the wider the margin must be.

The capital requirements have not eased since, so something else must explain the decrease. On the next page, we decompose the margin to see what.

Finansinspektionen finds a similar development

Until February 2025, Finansinspektionen published a comparable number for the mortgage margin.²

Averaged over 2024, Finansinspektionen's monthly estimate was 0.7%, the same as ours.

The declining mortgage margin leaves little room for return on equity once costs are paid

RETURN ON EQUITY HAS FALLEN FROM 62 TO 10 BP

Profits, and therefore the return on equity, are what is left once the other costs have been paid. With the mortgage margin more than halving, from 1.3 to 0.6 per cent, the residual naturally takes the full force of the decline. Concretely, we estimate that 62 of the 126 bp margin in 2018 was return on equity. By 2025 that had fallen to 10 bp of the remaining 57 bp. Of the 69 bp lost since 2018, 52 bp came out of the return on equity and 15 bp out of corporate tax, which follows the profit.

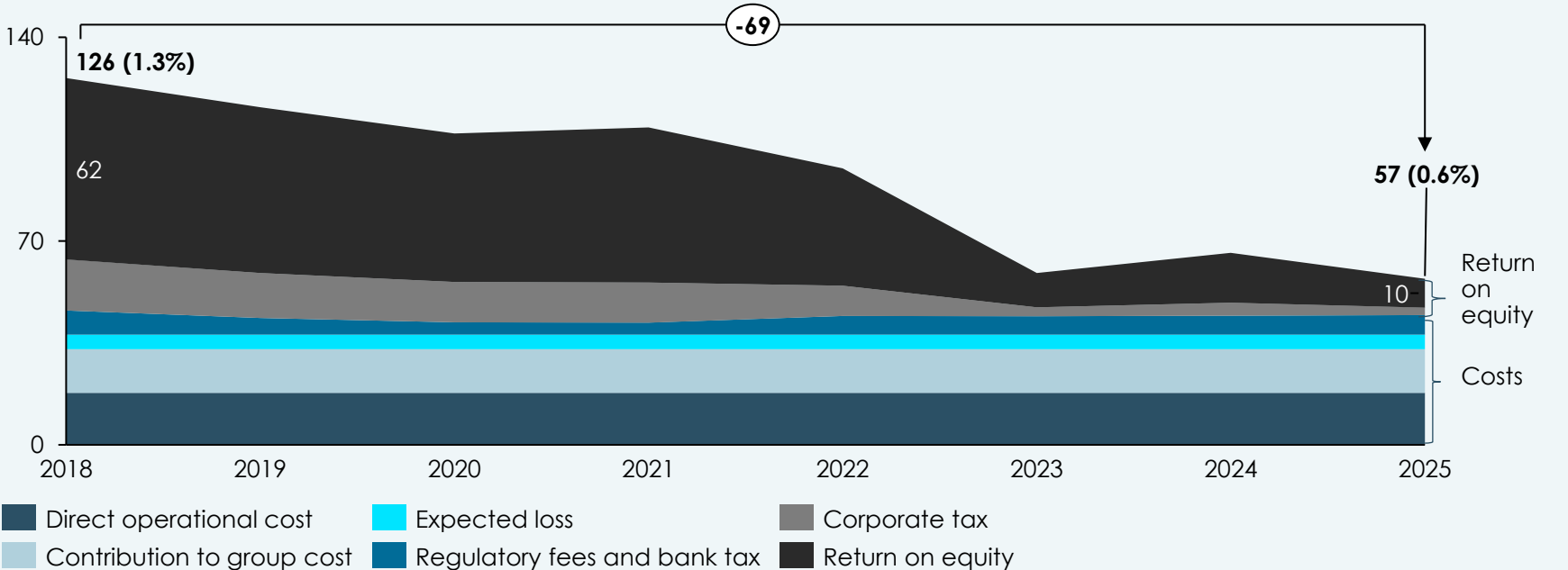
Our estimate reflects a group perspective

The mortgage institutes' own accounts do not show the full cost of mortgage lending. The institutes have few employees and buy most of their work from the parent group, so their accounts capture only the part of the cost the group chooses to invoice.

We therefore decompose the margin on a group cost basis, including our estimate of the costs the parent carries on the institutes' behalf. What we report is the economic return on mortgage lending at group level, with all costs included.

Decomposition of the mortgage margin, 2018 - 2025

Basis points by component (mortgage margin in %)



HOW WE DECOMPOSE THE MARGIN

We split the margin into six components: direct operational costs, contribution to group costs, expected loss on loans that are not repaid, regulatory fees and bank tax, corporate tax, and return on equity.

The first four are obligations the institute carries regardless of profitability. Corporate tax follows the profit, and the return on equity is what is left for the owners.

The decomposition covers both the direct costs in the institutes' accounts and our estimate of the indirect costs the parent group carries on their behalf: group IT, credit risk and compliance, the treasury function, group management and part of customer service.

We hold direct operational costs, contribution to group costs and expected loss constant across the period. Regulatory fees and the bank tax we take from the annual reports: broadly flat, with a small dip in 2019–2021 and an increase from 2022.

We set out the method in the appendix.

We estimate the current return on equity for mortgage lending to be well below what shareholders typically require

MORTGAGE LENDING NO LONGER EARNS ITS COST OF EQUITY

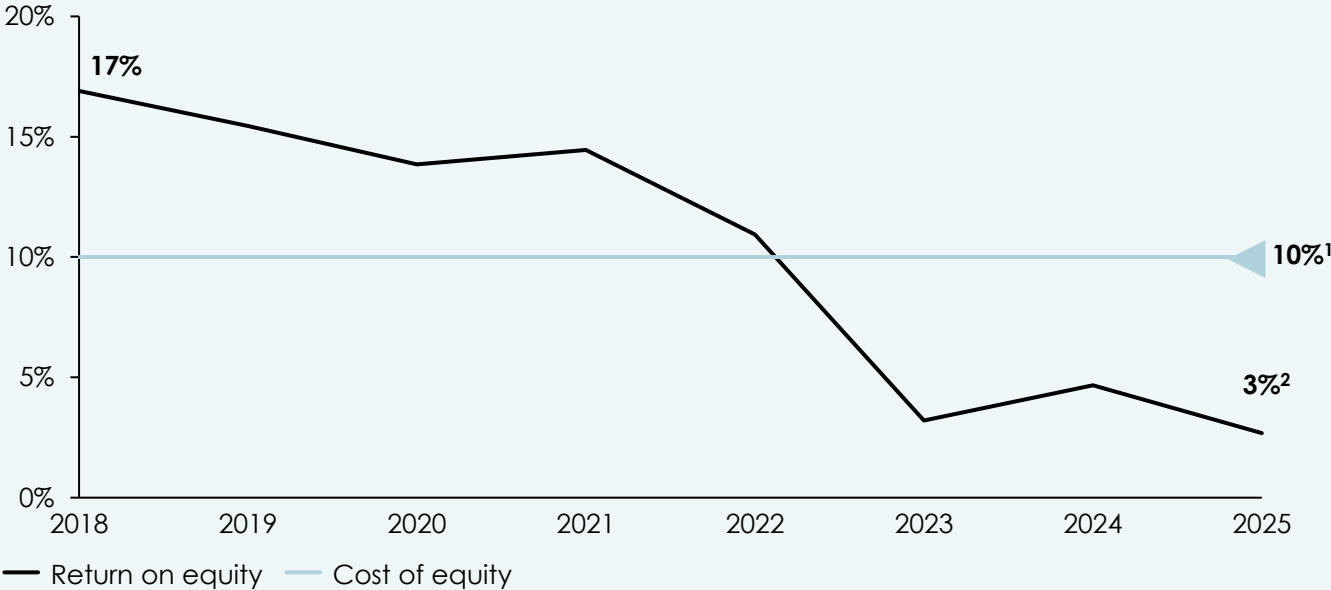
In terms of return on the equity used to fund the mortgage, we estimate a similar decline: from 17 per cent in 2018 to 3 per cent in 2025.

That takes mortgage lending from comfortably above the 10 per cent owners typically require to significantly below it.² The two cross between 2022 and 2023, when interest rates rose sharply, and the return has stayed well below the cost of equity since.

A return of 3 per cent is low by any standard in banking. It is more commonly seen alongside heavy credit losses – but losses on Swedish mortgages have been close to zero throughout. The decline is a pricing outcome, not a credit event.

Comparing the return on equity to cost of equity, 2018 - 2025

Return on equity / cost of equity



Notes: (1) This means that in each year an investor requires a 10% return and would otherwise invest somewhere else. (2) The figures on the previous page are per krona lent, while the cost of equity is a return per krona of equity, so we use the capital requirements to convert them to the same basis. Each SEK 100 of mortgage lending carries a 25% risk weight (CRR article 458). Of that, 14.7% must be held as common equity tier 1, so SEK 3.68 of equity is tied up per SEK 100 lent (25% x 14.7%). The 62 bp that went to return on equity in 2018 is therefore SEK 0.62 earned on SEK 3.68 equity, a return close to 17%. (3) We estimate this using our cost decomposition, with costs and the tax rate at their 2025 levels.

Sources: Copenhagen Economics based on [Finansinspektionen \(2025a\)](#), [Finansinspektionen \(2025c\)](#) and [EBA \(2025\)](#).

WHAT EXPLAINS IT

The return fell because funding repriced faster than lending, and it did not recover when rates came down again. We suggest two interlinked explanations behind this decline:

- Competitive dynamics make lending rates slow to adjust.** The institutes did raise their rates, but a lender that moves ahead of the market risks losing volume, so rates follow funding costs with a delay and not all the way.
- Banks may apply a whole-customer perspective to pricing.** A mortgage is rarely sold on its own. It comes with deposits, cards, payments and often savings and insurance, and the bank earns across the whole relationship. A thin mortgage margin can therefore be accepted as the price of winning a customer who is profitable overall.

The two are linked through how customers assess prices. Customers are likely to compare the interest rate they pay rather than the margin behind it. If this is the case, it will make it harder for the banks to pass on higher funding costs without losing the customer, and with them the wider relationship.

WE DO NOT EXPECT THIS TO LAST

In our assessment, a return of 3 per cent is unlikely to be a lasting equilibrium. Owners are unlikely to fund it indefinitely, and the current level depends in part on earnings elsewhere in the customer relationship. We expect the margin to return to its historical average of around 0.9%, which corresponds to a return on equity of around 10 per cent.

Required mortgage margin to equal a given return on equity ³			
Return on equity (%)	8	10	12
Mortgage margin (%)	0.8	0.9	1.0
Required increase from the 2025 mortgage margin (%-point)	0.2	0.3	0.4

The background image shows a harbor scene at dusk or dawn. In the foreground, the masts and rigging of several sailboats are visible, with a red tarp on one of the boats. A person is walking on a stone pier to the left. In the background, a large, historic building with a prominent tower and a golden spire is visible across the water. The sky is a mix of blue and orange, suggesting the time is either early morning or late evening.

4

PROFITABILITY OF THE SWEDISH BANKING SECTOR

Profitability for Swedish banks varies over the business cycle

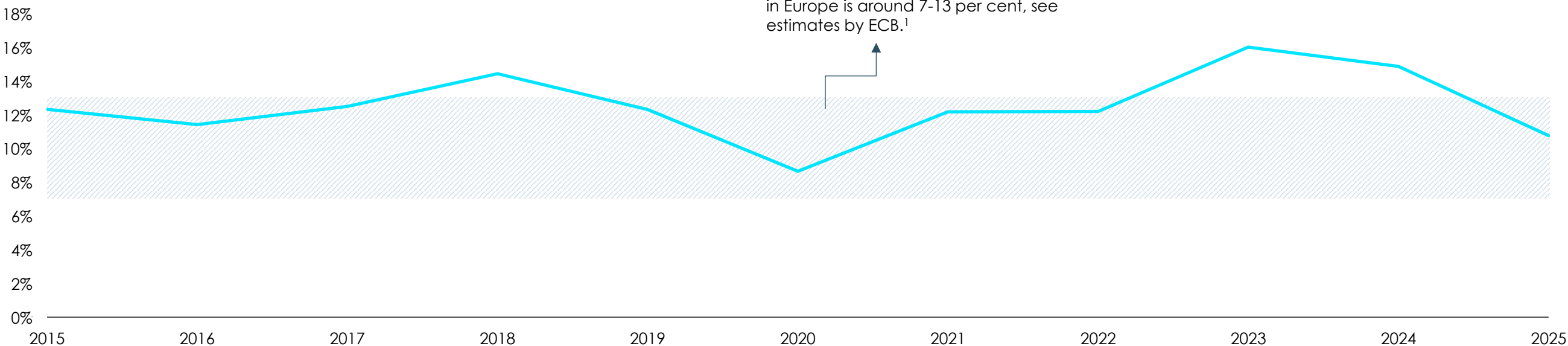
Profitability can be a relevant measure of competition in a market

In markets with sound competition, profits would not be higher than what is required by investors. This amounts to the risk-free interest rate plus the given market risk premium of the sector. If profits were consistently higher, and investors were able to achieve an abnormal return through a longer period, new companies would enter the market, offering lower prices than incumbents to gain market share. This would happen until profitability in the sector again is aligned with the required return.

We measure profitability using return on equity (ROE), an accounting measure of net profit relative to book equity.

Return on equity for Swedish banks, 2015 - 2025

Per cent of equity



The required ROE for the banking sector in Europe is around 7-13 per cent, see estimates by ECB.¹

Return on equity rose for Swedish banks between 2020 and 2023, but has declined since then

In 2022 and 2023, central banks increased interest rates significantly to combat inflation. Banks followed, and lending rates therefore increased. At the same time, deposit rates have shown some stickiness relative to central bank rates. This stickiness has increased income for Swedish banks, see figure, as well as for banks in other countries, such as the Netherlands, Norway, and Denmark.

Over a longer period, Swedish banks have been both above and below the required return on equity as estimated by ECB, see figure. From 2023 to 2024, the return on equity has been above the threshold, but declined in 2025.

Note: The blue line is based on data from annual reports in Refinitiv LSEG Workspace. The required ROE is a standard rate and does not adjust for changing risk-free rates. Source: Refinitiv LSEG Workspace (2026).

1) ECB (2021b) finds that the required ROE across euro area banks ranges between 7 and 13 percent, based on ten different models. They also report self-assessed required returns across euro area banks between 8 and 12 per cent.

Between 2020 and 2025, Swedish banks realised a return on equity of 13.2 per cent

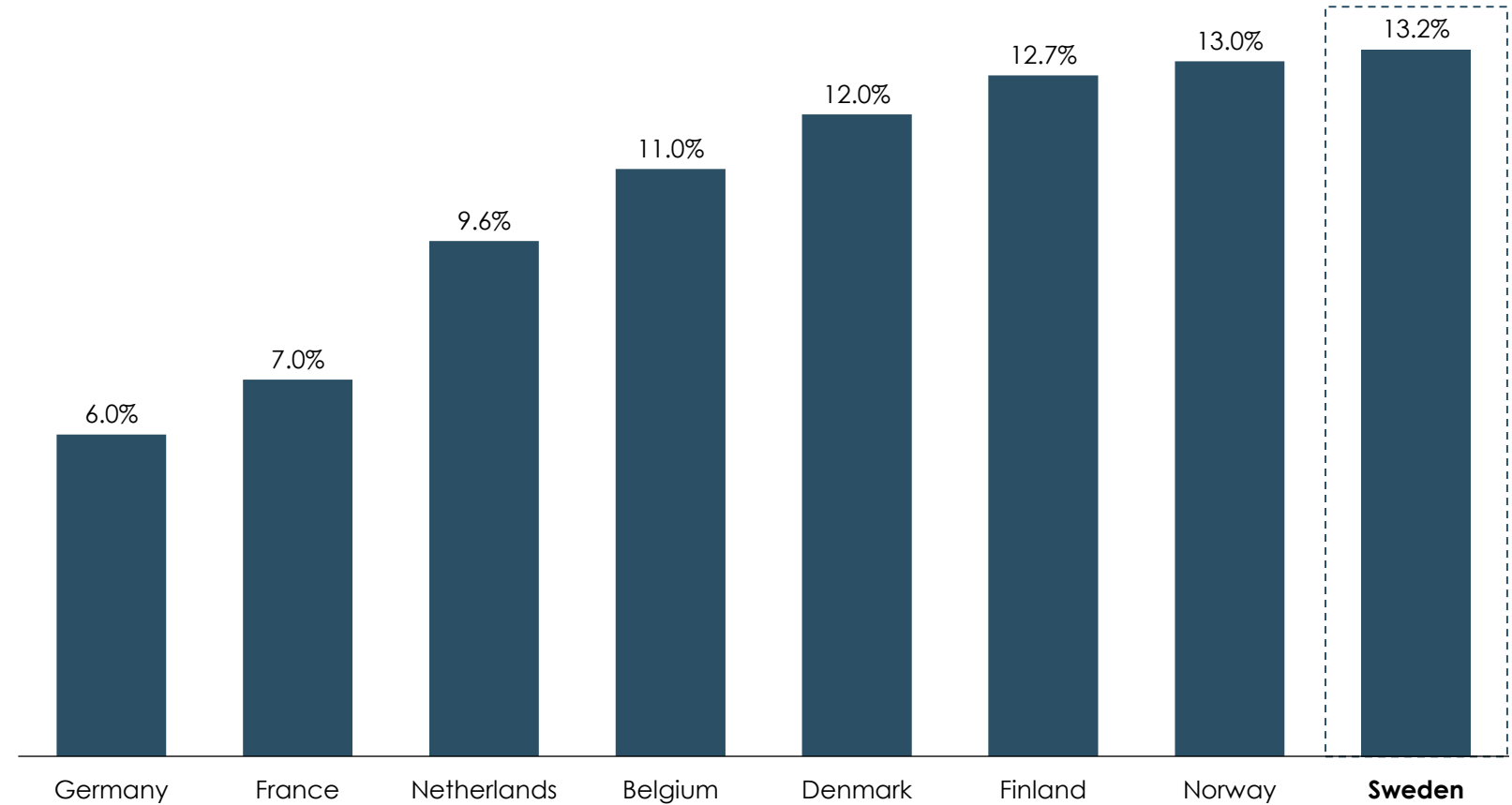
A prolonged period of unusually high profits can be a sign of weak competition. From 2020 to 2025 Swedish banks realised a return on equity of around 13 per cent, which is the highest among the European countries we compare, see the upper figure.

However, international comparisons of profitability are much affected by differences in business cycle situations across Europe: Here Sweden is at the top e.g., with low losses for both corporate lending and household mortgages.

Meanwhile, banks in southern Europe have higher default rates and correspondingly higher losses – i.e., Italy and Spain have higher losses than the rest of the benchmarking countries shown on the previous pages. Germany, France, and the Netherlands have also seen higher impairment levels than Sweden in the period, lowering returns for equity holders.

Although the unemployment has increased recently, Sweden has a relatively strong job market and was not among the worst hurt economically by the Covid-19 crisis. Further, Sweden has in general had a long period of low interest rates and strong macroeconomic development, except for a decline in real GDP in 2023.

Return on equity for banks, 2020-2025
Net profit as a per cent of equity



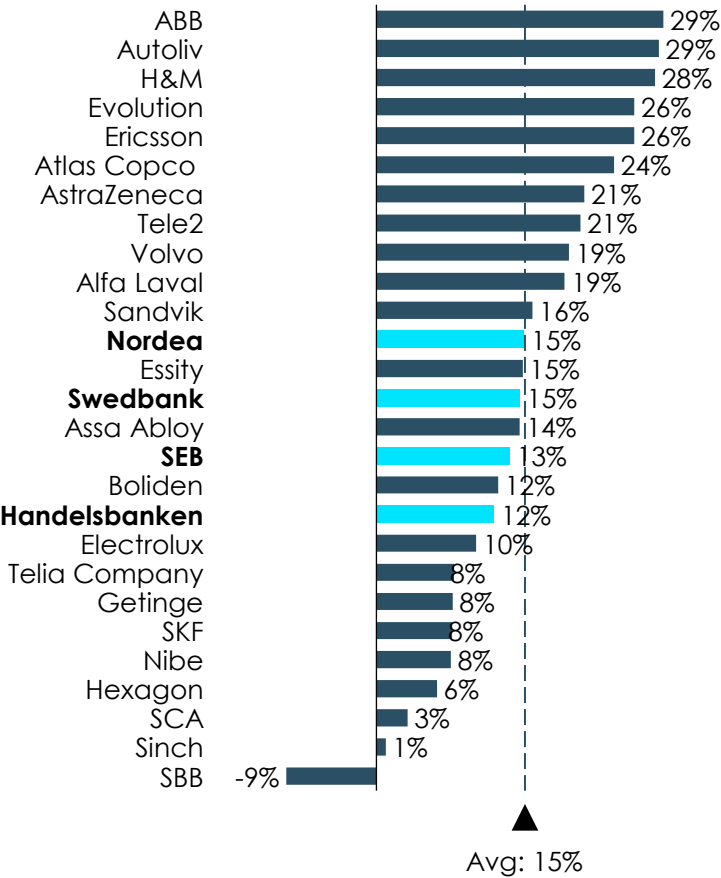
Source: Refinitiv LSEG Workspace (2026).

Return on equity of Swedish banks is around the average of the 27 largest Swedish companies

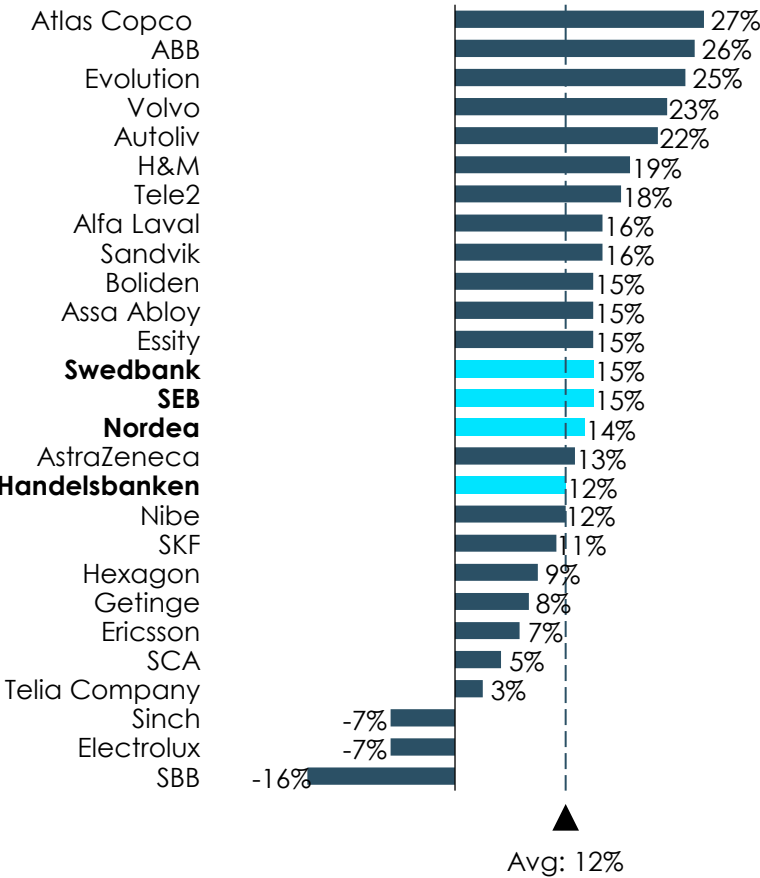
Return on equity for the 27 largest companies in the OMXS30 index on the Swedish stock exchange, 2025 and average during 2021-2025

Per cent of equity

2025



2021-2025



Note: Kinnevik and Investor are not included in the figure, as their profits are mainly driven by equity investments.
Source: Dagens Industri (2026), "OMX Stockholm Large Cap"

Overall, the Return On Equity (ROE)¹ for Swedish banks is close to the average of other large listed companies in Sweden, across different sectors.

In 2025, the average ROE for the 27 largest listed Swedish companies was 15 per cent. In comparison, the return on equity for the four largest Swedish banks was in the range of 12-15 per cent, i.e., slightly lower than average, see figure.

For the period 2021-2025, the four banks' returns were a bit higher than the average of 12 per cent.

Return on equity is a good, but not complete, measure to compare profitability among companies and industries

Return on equity is a widely used and intuitive measure of profitability, showing how much net income a company generates for each unit of shareholders' equity.

It focuses directly on the return to owners' invested capital and is therefore a natural metric for comparing profitability across firms or over time within the same industry. Because it ties earnings to equity, return on equity also reflects how efficiently management allocates and uses capital to create value, making it an important benchmark indicator for investors, analysts, and regulators.

Return on equity does, however, not capture all aspects, such as risk level and regulatory uncertainty. It mainly captures the level of profitability, not the risk or leverage used to achieve it, and it can be influenced by other factors.

1) ROE is affected by the current business situation at the different companies, which fluctuates from year to year. In addition, the risk profiles of the companies are an important driver of the required return on equity from investors.

A scenic view of a harbor at dusk. In the foreground, several sailboats are docked along a stone pier. The water is dark blue with gentle ripples. In the background, a large, historic church with a tall, square tower and a golden spire stands prominently. The sky is a mix of soft orange and blue, indicating the time is either sunset or sunrise. The overall atmosphere is calm and picturesque.

DEEP DIVE

PROFITS RELATIVE TO REQUIRED RETURN

New study finds that Swedish banks earn residual profits

A new study (Riksbank Staff Memo) finds that **Sweden's major banks have earned returns on equity above the market's required return**, allowing them to earn residual profits.¹

The required market return is the return that shareholders expect on their investment in a company. Because investing carries risks, they demand more than a safe alternative would pay. The return on equity shows what the company actually earns on that investment, at least as long as the investment shows up as an asset on the balance sheet. Comparing ROE with the required market return shows whether a company earns more or less than its investors demand, and by how much.

While return on equity is measurable, the required market return is not, but must be estimated. The above-mentioned study estimates it using a well-established method, the Capital Asset Pricing Model (CAPM). The CAPM relates investors' required returns only to market risk, as it assumes that investors can remove all other risk by holding a diversified portfolio. The more a company's share price tends to rise and fall with the overall stock market, the greater the reward investors require.

CAPM likely understates the required return

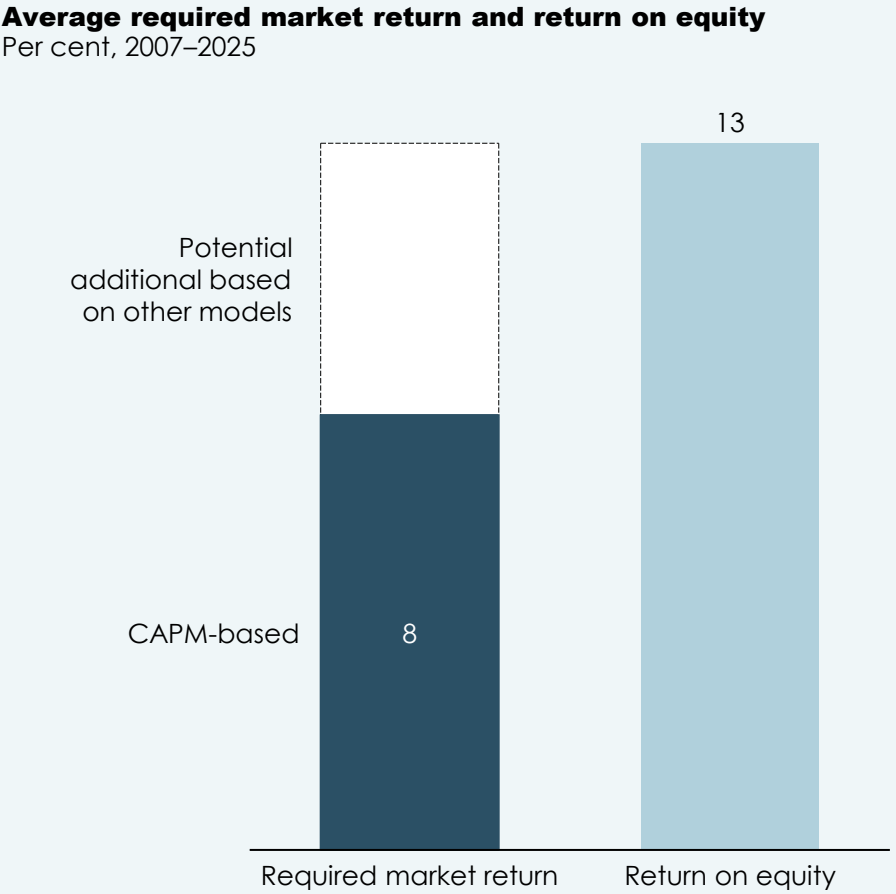
Although CAPM is a standard approach, it is also a simplified model. It accounts only for systematic stock market risk and assumes that investors can diversify away all other company-related risks, such as regulatory, credit, funding, or interest-rate risks. Yet investors demand compensation for these risks too (Fama and French (2004)).

Therefore, CAPM may understate the return investors require, so residual profits under CAPM are not surprising. We would expect most companies to earn them.

Richer models yield higher required returns

70%

Richer models account for additional company-level risks. The ECB finds that CAPM serves as a lower-bound estimate, while **other models estimate up to 70% higher required market returns**.² Alternative models, such as the Fama-French three- and five-factor models, add risk factors beyond market risk, for example company size, value, and profitability. They may therefore come closer to capturing the return investors require in practice.



Note: The figures refer to the average across the three major Swedish banks analysed in Krygier and Wollert (2026). The additional potential is based on the results from the ECB (2021b) study.
Source: Krygier and Wollert (2026).

1) Krygier and Wollert (2026). The opinions expressed in Staff Memos are those of the authors and should not be regarded as the Riksbank's standpoint.
2) In ECB (2021b), the authors compare estimates of required market returns across euro area banks from ten models that differ in their degree of complexity. The CAPM model yields the lowest estimates while a Fama French Model, which adds company size and value to the market risk captured by CAPM, results in the highest estimate of required market return.

Residual profits (based on CAPM) are the norm rather than the exception

To place this study in context, we applied the same method to the largest publicly traded Swedish companies listed on the OMXS30 for at least a total of ten years. The results confirm that residual profits are the norm: most companies earn returns above the CAPM-based required return, and only a handful record a deficit.

The three major Swedish banks, Swedbank, Svenska Handelsbanken, and SEB, sit in the centre of this distribution and do not appear more profitable than other companies.

We calculate residual profits as the difference between the ROE and the CAPM-based required return on equity, multiplied by the equity available at the beginning of the year. To compare residual profits across companies, we express companies' residual profits as a share of equity after first aggregating both across all years. Because the estimated residual profits are based on historical data, they may reflect temporary effects, and a company's future residual profits could differ from them.

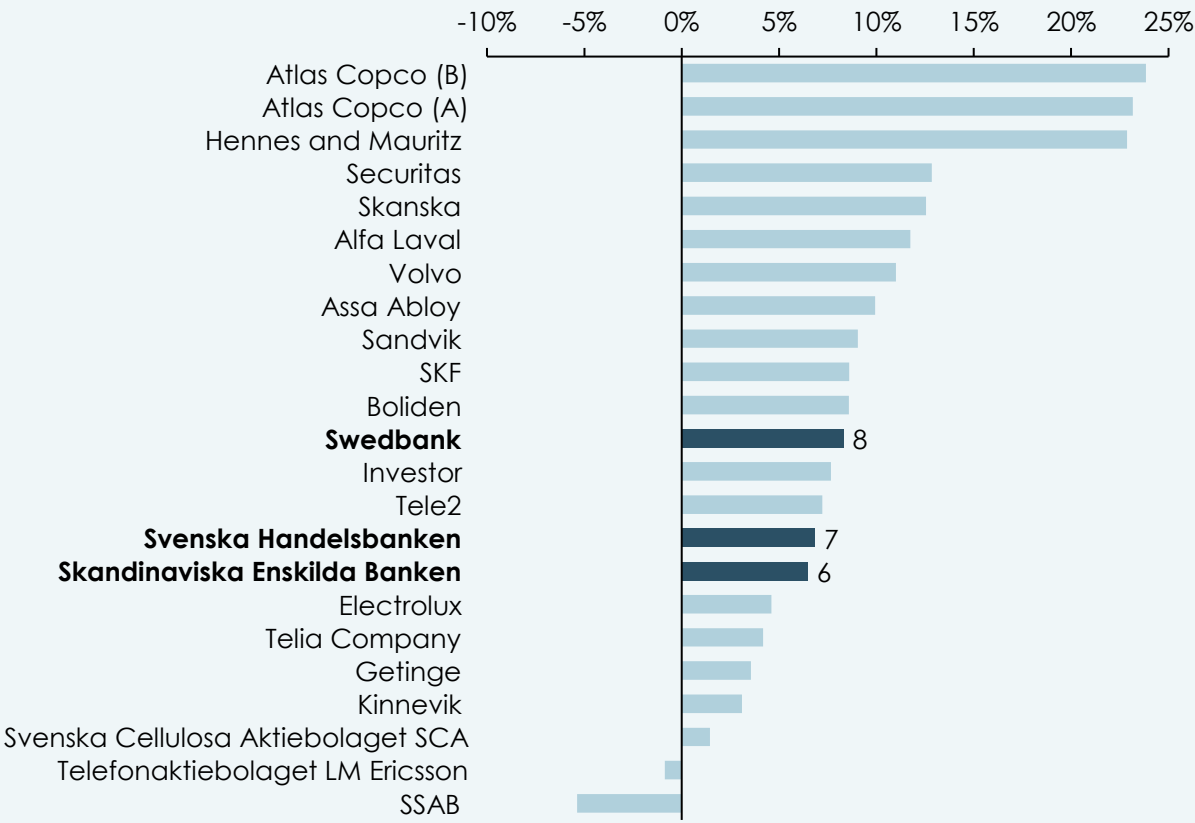
As mentioned, the prevalence of residual profits reflects a limitation of the CAPM: it captures market risk only, while investors typically also require compensation for risks it does not capture. Residual profits are therefore likely to be sizeable under the CAPM approach, as our estimation also underscores.¹

Residual profits vary across sectors. They are highest among industrial and consumer groups such as Atlas Copco and H&M, while deficits are concentrated in real estate, steel, and technology.

Alternative measure

Another option is to look at the annual ratio of residual profits relative to total profits, but this gives the same picture, see Appendix. We prefer our measure because it prevents years with extreme values from distorting the results. Under the alternative measure, banks, too, do not differ systematically from other sectors. On average, banks' residual profits account for 36 per cent of their annual profits, whereas this figure is 69 per cent across all companies.

Residual profits
Share of equity, 2007-2025



Note: Share of total residual profits to total equity across all years a company is included in the OMXS30 index. The graph only shows companies that were part of the index for at least ten years and excludes Swedish Match. Swedish Match undertook heavy share buyback programmes along with large dividend payouts which decreased equity and resulted in comparatively low book equity value that yields an inflated ratio of total residual profits to total equity
Source: LSEG database and Copenhagen Economics.

¹) In CAPM, the market risk premium influences the required return in proportion to a company's estimated market sensitivity, β_i . If the level of the market risk premium is not correctly estimated and is, for example, too low, residual profits will be high (see Appendix). Evaluating the level of residual profits alone is therefore likely to mislead. Comparing companies with one another may be more appropriate.

Banks' residual profits do not point to weak competition

Banks earn residual profits of roughly 7.2 per cent of their total equity, slightly below the 7.9 per cent across all companies.

To compare the banking sector with other sectors, we aggregate residual profits across all banks and years and express them as a share of total equity across all banks and years. We calculate the same ratio across all companies.

Comparing residual profits across sectors allows us to assess whether profits above the required market return differ between sectors. A high return on equity is sometimes read as a sign of weak competition, but it can also reflect compensation for high risk. Residual profits deduct the return shareholders require for that risk, so they capture only the profits above that return. As banks' residual profits are slightly below those of all companies, they give no indication of weak competition in banking, taken at face value.

Residual profits cannot be read directly as an indicator for weak competitive pressure

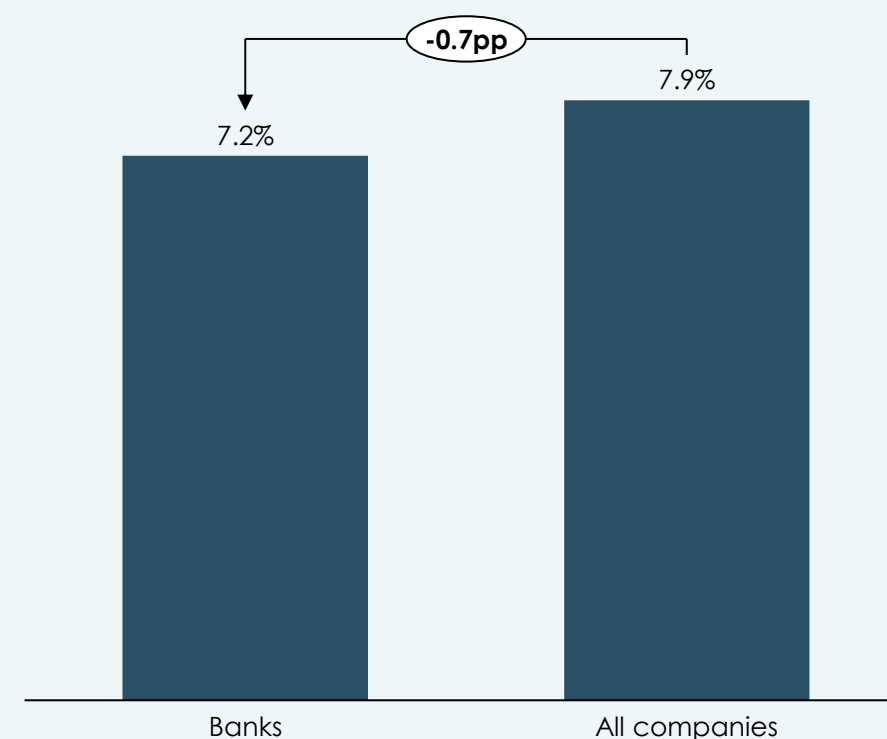
One should be careful in reading profits as a sign of weak competition. Zero economic profit is a long-run equilibrium result under perfect competition, which assumes free entry, homogeneous products and no brand value – among other. No real market meets those conditions.

In banking, licensing requirements, scale economies and long-standing customer relationships all mean that established providers can earn above their cost of capital without competition being weak.

The same point is visible in share prices. A company is valued above its book equity precisely when investors expect it to earn more than its cost of capital in future. As we will show on the next page, almost all listed companies trade above book value. If positive residual profits signalled a competition problem, almost the entire stock market would be evidence of one.

The relevant question is therefore not whether banks earn residual profits, but whether they earn more than comparable companies. We do not find that they do.

Total residual profits over total equity
2007-2025



Note: Share of total residual profits to total equity across all years and companies included in the OMXS30 index. The figures only include companies that were part of the index for at least ten years and exclude Swedish Match. Swedish Match undertook heavy share buyback programmes along with large dividend payouts which decreased equity and resulted in comparatively low book equity value that yields an inflated ratio of total residual profits to total equity
Source: LSEG database and Copenhagen Economics.

Markets value bank equity at the lower end of the distribution

Market valuation gives no sign that banks earn unusually high residual profits

Banks' price-to-book ratios are consistent with moderate residual profits. A company trades above book value when investors expect it to earn more than their required return. Banks' average ratio is 1.4, so investors expect banks to earn some residual profits.

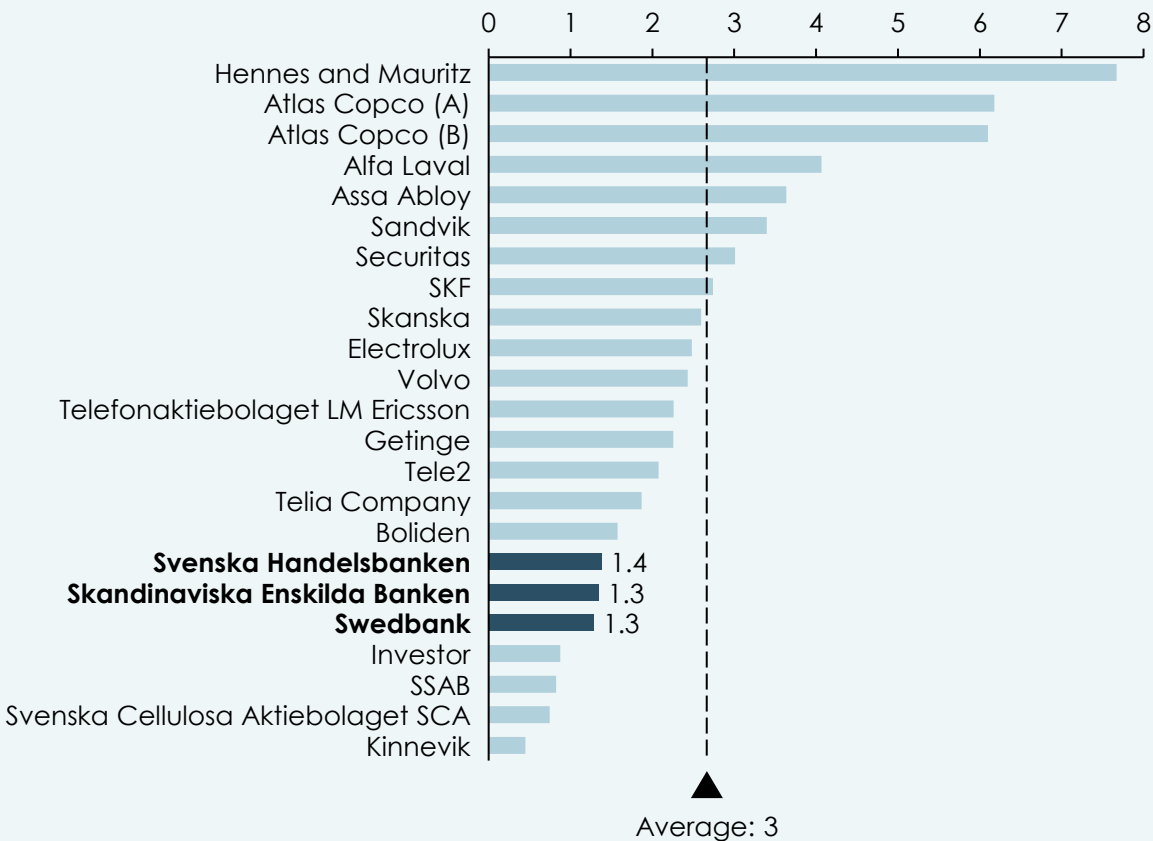
Banks' ratio is lower than the average ratio of 3 across all major Swedish companies. Part of this gap reflects accounting standards. Banks' balance sheets consist mostly of financial assets, which are usually booked close to the market value, so banks' book value captures more of their market value. Many non-financial companies hold assets that are not fully captured on their balance sheets, such as brands, software, or R&D, and hence their book and market value may diverge more.

Banks rank lower than their residual profits suggest

Banks rank lower on the price-to-book ratio than on CAPM-based residual profits, where they sit in the middle of the distribution. Three explanations may fit this gap. First, investors may value banks' residual profits less than those of other companies. Second, this gap may capture accounting differences, as explained above. Third, this gap could also point towards higher required returns than suggested by CAPM, and more so for banks than for other companies. The last two arguments work in opposite directions. One implies that banks' measured residual profits are less inflated than for other companies, whereas the other implies that CAPM understates the required return on bank equity by more.

Systemic banking risk may explain a higher required return because investors cannot diversify it away. Banks are closely interconnected, so losses can spread across the sector and into the wider economy. Banking crises tend to coincide with economic downturns and a falling stock market.¹ We discuss systemic risk next.

Average price-to-book ratio
2007-2025



Note: Average price-to-book ratio across all years a company is included in the OMXS30 index. The graph only shows companies that were part of the index for at least ten years and excludes Swedish Match.
Source: LSEG database and Copenhagen Economics.

Price-to-book ratio serves as cross-check

The price-to-book ratio compares a company's market value with the book value of its equity. A ratio above 1 means investors value the company at more than the capital shareholders have put in, because they expect it to earn more than the return they require. So if banks earned unusually high residual profits, we would expect their price-to-book ratios to be high as well. This makes the ratio a useful cross-check on our residual profits analysis.

1) See, for example, Abildgren, Vølund Buchholst, Qureshi and Staghøj (2014) or Reinhart and Rogoff (2009).

Banks' price-to-book ratios are lower than their residual profits imply

Deep dive: Bank profitability

We find that banks have lower price-to-book ratios than most of Sweden's largest companies, although their CAPM-based residual profits sit in the centre of the distribution.

Systemic banking risk may contribute to higher required market returns for banks than CAPM suggests. We highlight three features that may accompany it: tail events, regulation, and leverage.

These features may also be present in other sectors, but in banking they combine in a way that is likely to raise the required market return more than elsewhere.

	Explanation	Implication
1) Tail events	Banking crises are rare but severe, and they tend to coincide with downturns and falling markets, so investors cannot diversify this risk away. CAPM does not capture the risk of banking crises. We estimate the model over a period without a domestic Swedish banking crisis, so beta misses the compensation investors require for this exposure.	Investors still price this risk and require a higher return than CAPM suggests, which lowers the price-to-book ratio.
2) Regulatory risk	Regulatory requirements, such as the Common Equity Tier 1 (CET1) ratio and risk weights, tie up bank equity to absorb future loan losses. Non-financial companies can return surpluses to shareholders more freely. CAPM assumes that regulation remains unchanged, but rules change over time and tend to tighten after crises. These changes do not move with the market, so beta does not price this risk.	Because banks are limited in how much profit they can pay out, investors value part of their book equity below its accounting value. This lowers the price-to-book ratio.
3) Leverage	Banks are far more leveraged than non-financial companies. Their assets are a multiple of their equity, so a small write-down on assets wipes out a much larger share of equity. Credit losses cluster in downturns, so CAPM, estimated over a calm period, understates this exposure.	Leverage amplifies crisis losses for shareholders. Investors know that book value can fall quickly in a credit downturn and require a higher return than CAPM suggests, which lowers the price-to-book ratio.

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APPENDIX

Appendix: Estimating the mortgage margin

On this page, we outline how we calculate the mortgage margin. As previously mentioned, we largely rely on the same method as we used in our 2019 study.

We estimate the margin from the Swedish mortgage institutes' annual reports as follows, with the adjustments set out in the third column:

$$\text{Mortgage margin} = \frac{\text{interest income}}{\text{customer loans}} - \frac{\text{interest expenses}}{\text{financial liabilities}}$$

As in the 2019 study, we base the calculation on the three largest mortgage institutes in Sweden: Stadshypotek, Nordea Hypotek and Swedbank Hypotek. For further explanation of this, see Copenhagen Economics (2019).

We add the three together before calculating the margin, so each institute counts in proportion to its balance sheet.

For 2007 to 2012 we use the same SNL Financial data our 2019 study ran on, now part of S&P Global Market Intelligence.

To construct the figures from 2013, we scrape the annual reports of all three institutes.

The main difficulty with this approach is that the three institutes report the same things under different names. Also, in most cases, customer loans and financial liabilities are not a single item in the reports but a combination of several.¹

To make sure we extract the same items our 2019 study used, we start with 2013 to 2017, the years the SNL data also covers, and rebuild the old margin from the reports. That identifies the line in each report matching each SNL item.

For the years after 2017 there is no SNL to check against, but every annual report states two years for each item. The 2018 report therefore also states 2017.

If the line we read reproduces the 2017 figure we have already verified, we know we have the right line, even if the report has renamed it, and we can take its 2018 figure.

The 2019 report then checks 2018 the same way, and so on. Every year is anchored to the one before it, back to 2017.

The method only breaks when an institute restates a figure between reports, or when it changes a definition. In those cases, we check the notes and the text to confirm we still have the right item, then take the figure from the later report

It does not settle a second problem: the three institutes do not always put the same costs on the same line.

An example is the regulatory fee, which some institutes include in their interest expenses and others report on a line of its own. Left alone, the fee would be counted for some institutes and not for others. We therefore take it back out of the interest expense wherever it sits inside, so it counts once for everyone.

From 2018 Nordea reports the interest on the derivatives hedging its loan book on a line above the interest expense, where our formula sees neither its income nor its costs. Without it, Nordea's margin turns negative in 2023. We add it back.

Finally, from 2019 Swedbank reports its eligible liabilities on a line separate from its other debt. It is funding like any other, so we count it as debt.

With those three moved, the same calculation means the same thing for every institute and in every year.

Notes: (1) For instance, for Swedbank Hypotek in 2025, we estimate customer loans and financial liabilities as:
customer loans = loans to the public, the gross carrying amount in stages 1, 2 and 3, before credit impairment provisions
financial liabilities = amounts owed to credit institutions + debt securities in issue + eligible liabilities + derivatives.

Source: Copenhagen Economics based on the three mortgage institutes' annual reports and SNL Financial, now part of S&P Global Market Intelligence.

Appendix: Decomposing the mortgage margin

As mentioned previously, we decompose the mortgage margin into six components: direct operational costs, contribution to group costs, expected loss, regulatory fees and bank tax, corporate tax, and return on equity. On this page, we outline how we decomposed the mortgage margin.

Direct operational costs	Contribution to group costs	Expected loss	Regulatory fees and bank tax
Direct operational costs are the costs the institutes report themselves. We estimate this as operating expenses over gross loans in 2025 at Stadshypotek and Nordea Hypotek, which gives 18 bp, and hold that constant across the period. We do not include Swedbank Hypotek in our estimate, because its parent does not invoice it for distribution, so its reported costs are not comparable to the other two institutes.	This is what the parent groups carry on the institutes' behalf without charging for it: group IT, credit risk and compliance, the treasury function, group management and part of customer service. No annual report states it, so we triangulate it from three sources. - Operational costs across the whole group run at around 80 bp of assets, an upper bound because the groups do far more than mortgage lending.¹ - Finansinspektionen estimated administrative costs for mortgage lending at 35 bp in 2013, the last time it published such an estimate.² - If we assume a mortgage margin of 0.9% (the average from 2007 to 2025), we will get total operational costs of around 30 bp.³ Direct operational costs account for 18 bp, so we put the contribution to group costs at 15 bp on top. That gives operational costs of 33 bp in total, which is between Finansinspektionen's 35 bp and the 30 bp the long-term average implies. A higher cost assumption would push the return on equity below the 3% we report in 2025, all else equal.	We set expected loss at 5 bp, the figure Finansinspektionen used for credit losses when it decomposed the mortgage margin in 2013.²	We take regulatory fees and bank tax from the annual reports, where every institute states them.
		Corporate tax	Return on equity
		We apply the Swedish corporate tax rate of each year: 22.0% in 2018, 21.4% in 2019 and 2020, and 20.6% from 2021.⁴	Return on equity is the residual: what remains after the five cost components. Because three of them are held constant, it absorbs any movement in the margin that is not a movement in regulatory fees, bank tax, or corporate tax.

Notes: (1) We calculate this as total operating expenses over total assets at the three parent groups in 2025: Nordea 83 bp, Swedbank 80 bp and Handelsbanken 70 bp. The institutes hold almost nothing but loans, so their cost per krona of assets and per krona of lending is the same figure. The groups do far more than lend, so this bounds rather than estimates the cost of mortgage lending. Sources: (2) Finansinspektionen (2013). (3) Copenhagen Economics (2019). (4) Ekonomifakta (2026) based on OECD

Appendix: Data and CAPM-based required market returns

Data and coverage

- All data for the profit decomposition analysis is taken from LSEG workspace (former Eikon/Refinitiv).
- The entire analysis spans the period between 2007 and 2025.
- Our sample covers all historic constituents of the OMXS30 index, ensuring that for each year only active companies are included in the analysis. The graphs only report the results for companies that were part of the OMXS30 for at least a total of 10 years.
- We remove companies for which reliable data on dividends is not available.
- We also exclude companies that are listed on more than one Stock Exchange.

Required market return based on CAPM

The required market return is not observable, so we estimate it. We use the Capital Asset Pricing Model (CAPM) to estimate the required market return. The CAPM expresses risky company returns as a combination of the return on a risk-free investment and the company's sensitivity to the market multiplied by the expected market risk premium:

$$E(k_t) = r_f + \beta_i(E(r_{m_t}) - r_f)$$

To apply the equation, we need its three components: the risk-free rate (r_f), the market sensitivity (β_i), and the expected market risk premium ($E(r_{m_t}) - r_f$). Together, these give us an estimate of the required market return for each company in our analysis. The next pages provide more details on the three components.

Risk-free rate	Market sensitivity (β_i)	Expected market risk premium	Required market return
The risk-free rate is the return on a safe investment, but the literature has no consensus on which measure to use. We use the 10-year Swedish government bond yield as the risk-free rate.	Companies differ in their sensitivity to overall market dynamics. We estimate this sensitivity by regressing each company's returns on the returns of a broad market index. We use the NASDAQ OMX Stockholm PI index (OMXSPI) as the reference index.	The expected market risk premium is the extra return, above the risk-free rate, that investors demand to invest in the stock market instead of a safe asset. It is an expected value because investors do not know it at the time of investment. Like market sensitivity, the premium is not observable. We therefore use the implied market premium to calculate the required market return. The level of the expected market premium influences the level of the required return in proportion to β_i. This gives another argument for why we should compare residual profits across companies rather than evaluate their level alone.	Combining the three CAPM components, we estimate the required market return for each company: the return shareholders demand for investing in it.

Appendix: The 10-year Swedish government bond rate as risk-free rate

The risk-free rate in CAPM

We use the 10-year Swedish government bond yield as the risk-free rate. In CAPM, the risk-free rate is the return on a safe investment. Investors in a risky asset require at least this return, plus compensation for the extra risk.

Alternative measures for the risk-free rate

The literature has no consensus on the right measure and suggests long-term or short-term government bond yields, or combined measures (Krygier and Wollert (2026)). Our choice is reasonable for three reasons.

1 Safe asset

Government debt issued in domestic currency is generally considered a safe investment across advanced economies (ECB (2026h), Habib, Stracca and Venditti (2020)).

2 Market practice

A recent PwC study shows that Swedish financial market participants increasingly use long-term government bond yields as the reference rate for risk-free investment.

3 Matches our horizon

The 10-year maturity matches the long horizon of dividend payments we use to calculate the implied market premium (page 49).

Appendix: Market sensitivity

What beta measures

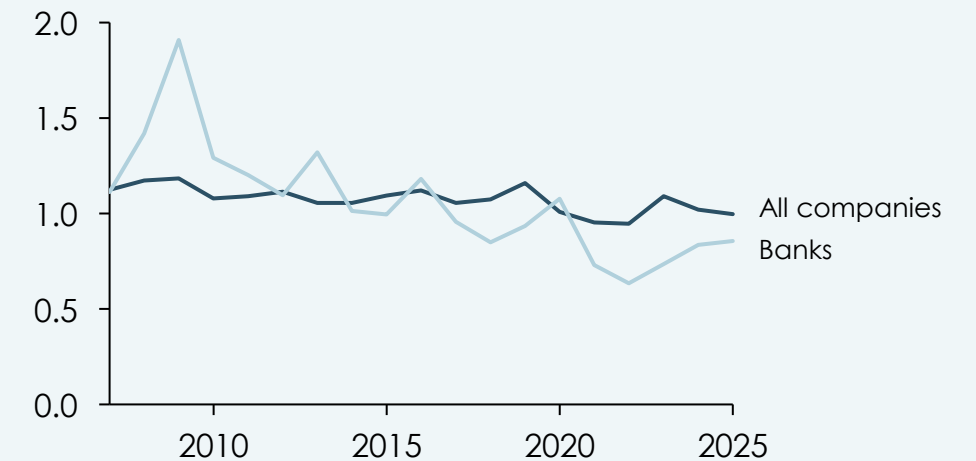
Beta measures how strongly a company's share price moves with the overall stock market. Under CAPM, the higher the beta, the higher the return investors require.

How we estimate it

For each company and year, we regress daily share returns on daily OMXSPI returns. Each annual beta draws on about 250 trading days. The annual estimates allow for a varying exposure of company returns to market risk.

Our results suggest that on average over the entire sample period, banks' share prices move with the market although they vary over time. The estimated beta peaked during the global financial crises and decreased since then, eventually falling below the average beta across all companies.

Average sensitivity to systematic market risk
Beta estimates



Note: Yearly averages based on annual company-level beta estimates.
Source: LSEG database and Copenhagen Economics.

How to read beta

The estimated beta captures only systematic risk, so a risk specific to one company does not raise it.

$\beta < 1$

Share returns move less than the market

Less systematic risk, so a lower required return than the market

$\beta = 1$

Share returns move one-for-one with the market

Same systematic risk, so same required return as the market

$\beta > 1$

Share returns move more than the market

More systematic risk, so a higher required return than the market

Appendix: Approximating the market risk premium

The expected market risk premium cannot be observed. Following PwC (2026), we approximate it with the implied market risk premium. The implied market premium rests on the return that equates today's share prices with future dividend payouts. We calculate it in three steps.

- 1 Company level.** For each company and day, we solve for the required return, r , that equates today's share price, P , with ten years of discounted expected dividends plus a terminal value:

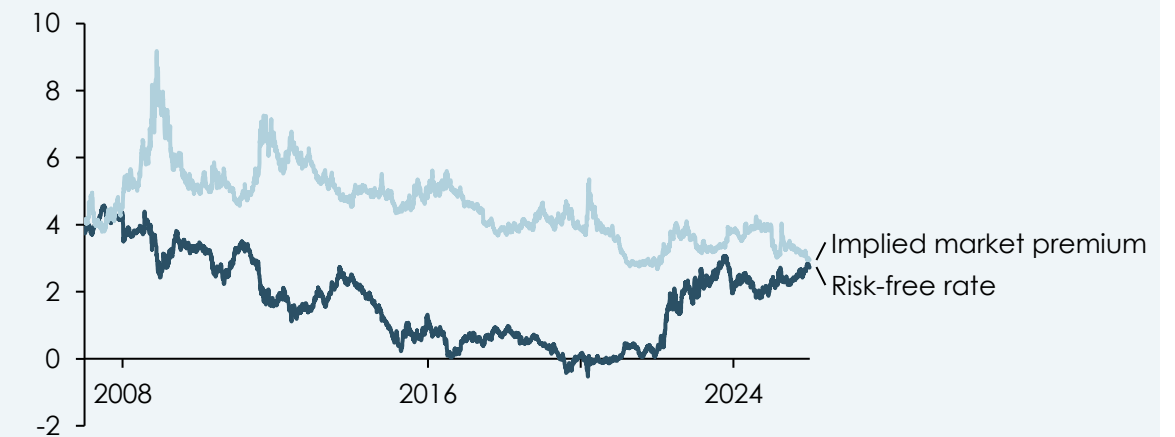
$$P = \sum_{t=1}^{10} \frac{Div_t}{(1+r)^t} + \frac{Div_{10}(1+rf)}{(r-rf)(1+r)^{10}}$$

- 2 Market level.** We aggregate the required company returns, r , into a daily required market return series, using a weighted average with market capitalisation as weights.

- 3 Implied market premium.** We subtract the risk-free rate from the implied market return series to get a daily series of the implied market risk premium.

Implied market risk premium and risk-free rate

Risk-free rate in per cent, Implied market premium in percentage points



Note: Implied market premium based on PwC (2026) methodology.
Source: LSEG database and Copenhagen Economics.

Assumptions

Expected dividends: Forecasts of expected dividends per share for the next five years. Expected dividends for years six to ten as continuation of forecast series with growth rate given by the average of risk-free rate and sample growth rate of dividends per share.

Risk-free rate: 10-year Swedish government bond yield.

Share prices and weights: Daily closing prices and market capitalisation

Sample: OMXS30 constituents during the years 2007-2025.

Where we deviate from PwC study

- PwC study retrieves data on dividend forecasts from Bloomberg, ours are taken from LSEG.
- Dividend forecasts in LSEG are available up to five years ahead, as opposed to six years in PwC (2026).
- Our sample covers a shorter period starting only in 2007 instead of 2000.
- We remove all OMXS30 constituents listed on more than one Stock Exchange and where reliable data on dividends is missing.

Appendix: Residual profits

Residual profits measure the profit a company earns above what its shareholders require. We calculate them for each company and year as the gap between the return on equity and the required return market return, estimated based on CAPM, multiplied by the equity invested at the start of the year:

$$RP_t = (ROE_t - k_t) \cdot E_{t-1}.$$

Positive residual profits mean the company earns more than its shareholders require, negative residual profits mean it earns less, and zero means it earns exactly its required market return.

The three components

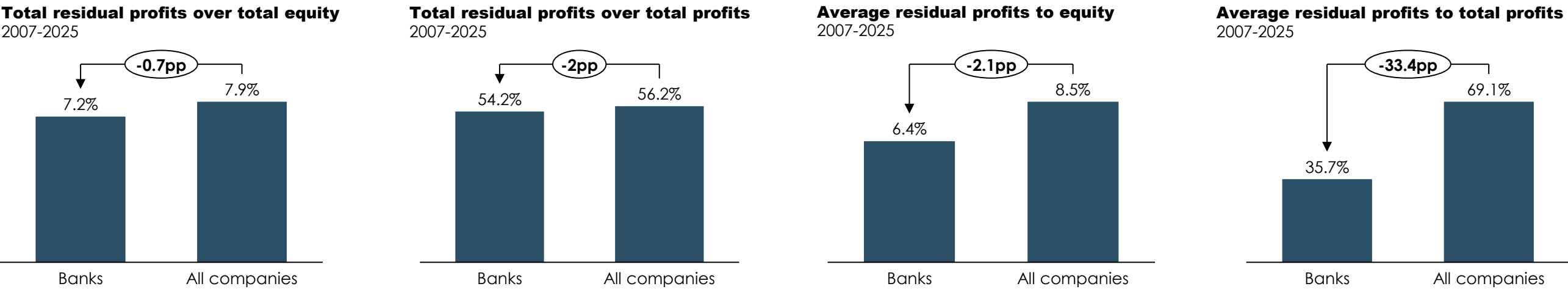
- **ROE_t** : Return on equity: Net profit in year t relative to the book value of shareholders' equity. It shows what the company earns on the capital invested.
- **K_t** : Required market return: The return investors require for holding the company's shares. We estimate it with CAPM from the risk-free rate, the company's beta and the implied market premium.
- **E_{t-1}** : Book equity: The book value of shareholders' equity at the end of the previous year. It scales the return gap to the capital shareholders have put in.

Appendix: Residual profits for banks to those of other companies

We verify that our results do not only hold under our preferred measures but also hold up to alternative measures.

In the main text, we focus on total residual profits across all years as a share of total equity across all years. Alternatively, we can also put total residual profits across all years in relation to total profits across all years. Another way to verify our results is by looking at an alternative measure: the average annual share of residual profits to total profits or equity.

All measures lead to the same conclusion that banks' residual profits are not systematically different from other major Swedish companies.



Note: Two left figures: Share of total residual profits to total equity (left) or total profits (right). Two right figures: Average annual share of residual profits to equity (left) or total profits (right). All figures across all years and companies included in the OMXS30 index. The figures only include companies that were part of the index for at least ten years and exclude Swedish Match. Swedish Match undertook heavy share buyback programmes along with large dividend payouts which decreased equity and resulted in comparatively low book equity value that yields an inflated ratio of total residual profits to total equity
Source: LSEG database and Copenhagen Economics.

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