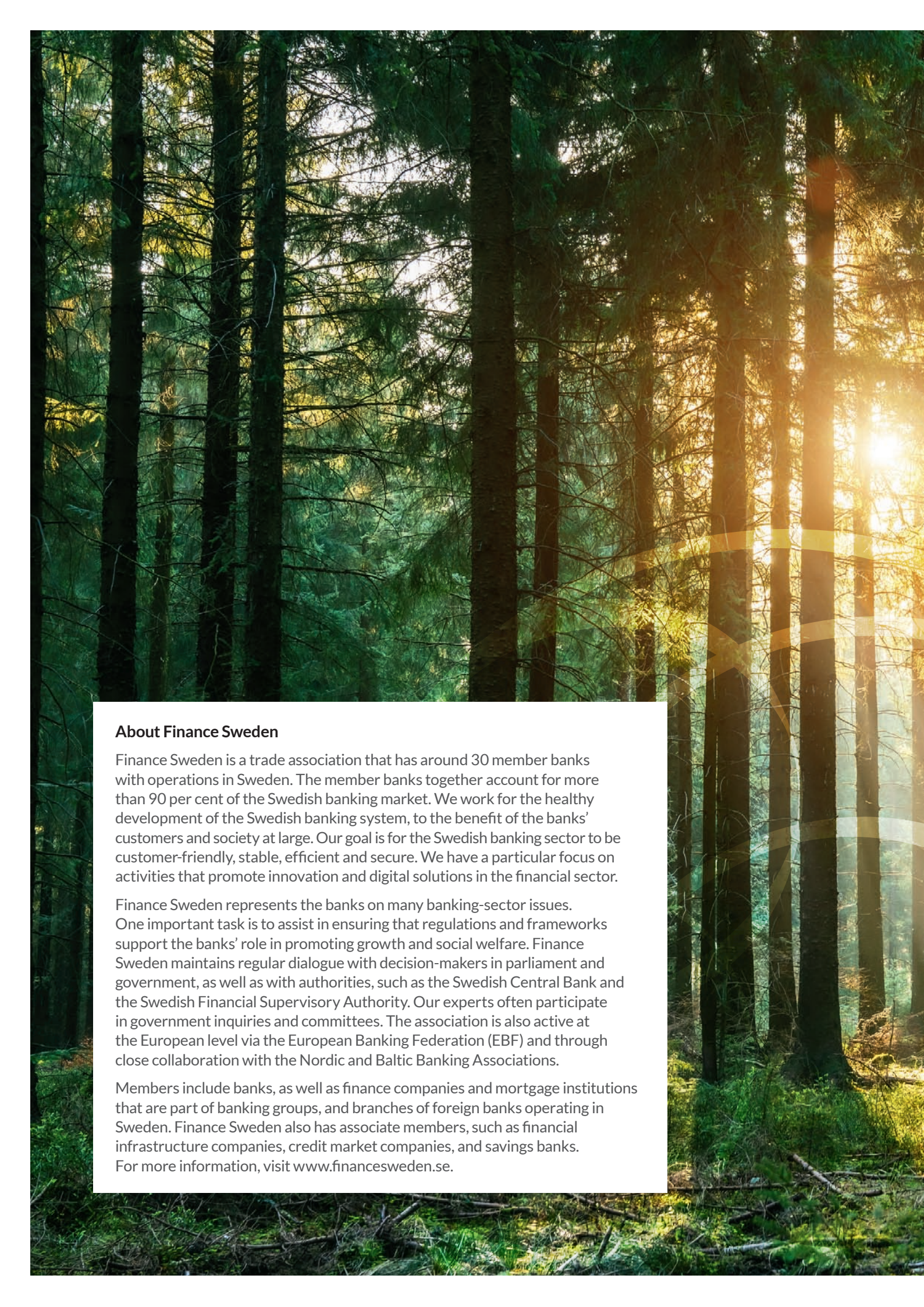


The role of banks in climate transition

AGENDA GOING FORWARD
FOR BANKS IN SWEDEN



Svenska **Bank**föreningen
Finance Sweden



About Finance Sweden

Finance Sweden is a trade association that has around 30 member banks with operations in Sweden. The member banks together account for more than 90 per cent of the Swedish banking market. We work for the healthy development of the Swedish banking system, to the benefit of the banks' customers and society at large. Our goal is for the Swedish banking sector to be customer-friendly, stable, efficient and secure. We have a particular focus on activities that promote innovation and digital solutions in the financial sector.

Finance Sweden represents the banks on many banking-sector issues. One important task is to assist in ensuring that regulations and frameworks support the banks' role in promoting growth and social welfare. Finance Sweden maintains regular dialogue with decision-makers in parliament and government, as well as with authorities, such as the Swedish Central Bank and the Swedish Financial Supervisory Authority. Our experts often participate in government inquiries and committees. The association is also active at the European level via the European Banking Federation (EBF) and through close collaboration with the Nordic and Baltic Banking Associations.

Members include banks, as well as finance companies and mortgage institutions that are part of banking groups, and branches of foreign banks operating in Sweden. Finance Sweden also has associate members, such as financial infrastructure companies, credit market companies, and savings banks. For more information, visit www.financesweden.se.

Foreword

The climate transition is one of the greatest challenges of our time, with implications for the entire economy. Banks are a part of society and play a vital role by providing financing, risk management and financial advice to their customers. At the same time, climate-related work for the banking sector is not a separate undertaking alongside the core business, but rather an integral part of the work to ensure long-term profitability and sound risk management.

This agenda replaces Finance Sweden's 2021 Climate Roadmap. A great deal has changed since the roadmap was adopted. The climate issue is now more mature, the knowledge in this area has advanced and the EU's climate regulations have evolved. For banks, this means that a large part of the previously voluntary work has been replaced by binding requirements, including in the areas of reporting, risk management and governance. Against this background, and in light of the increasing maturity of climate-related work, this agenda has been developed.

The agenda is based on current conditions: a comprehensive regulatory framework, the banks' various business models, as well as the need for long-term and predictable policy frameworks. It clarifies the role of the banking sector as an enabler in the climate transition, how banks collaborate through Finance Sweden, as well as the key factors that need to be in place for the banks to contribute successfully to the transition. The climate-related work is carried out primarily within each individual bank, but is supplemented by dialogue, coordination and advocacy conducted through Finance Sweden, where joint initiatives are creating added value without restricting competition.

The agenda is aimed at a wide range of stakeholders – including the general public, decision-makers, customers and public authorities – who want to understand the role of the banks in the climate transition and the conditions that are necessary for mobilising financing in a manner that is both efficient and sustainable in the long term.

Through this agenda, Finance Sweden aims to help raise awareness of how the banking sector can contribute to society's climate transition – in collaboration with customers, other stakeholders and policymakers – while focusing on a long-term approach, stability and a well-functioning financial system.



Hans Lindberg
Managing Director, Finance Sweden
June 2026





Summary

The role of the banks in the climate transition differs from that of many other industries. Unlike actors who directly control physical production processes, banks primarily influence developments indirectly, through financing, risk assessments and dialogue with customers. In this way, banks can enable investments that support both climate transition and climate adaptation. At the same time, banks' ability to finance these investments depends on the projects being economically viable and on customers being assessed as having sufficient repayment capacity.

Since the adoption of Finance Sweden's 2021 Climate Roadmap, the regulatory framework for climate-related issues has evolved significantly, particularly within the EU. Much of the work that was previously carried out on a voluntary basis is now subject to binding requirements regarding reporting, risk management and governance. The climate-related work is therefore primarily carried out by each institution, in line with their respective business models and established risk management frameworks. Banks operate under regulatory supervision. The role of Finance Sweden is to supplement this work through dialogue, coordination and advocacy, where joint initiatives create added value without restricting the competition.

Several of Finance Sweden's member banks operate across borders, and the sector is subject to a highly harmonised EU-based regulatory framework. For this reason, the climate objectives must be viewed in an international context. This agenda makes it clear that the banking sector in Sweden supports both the Paris Agreement and the EU's climate objectives. The banking sector, in its role as an enabler, aims to contribute to the achievement of these objectives in an efficient and socio-economically sustainable manner.

For banks to contribute successfully to the climate transition, certain basic preconditions must be met. One key factor is that policy should be long-term and stable, which is crucial for reducing uncertainty and enabling investments with long time horizons. Predictable rules boost the willingness to invest, facilitate risk assessments and contribute to a cost-effective transition.

Technological development is another key factor. Innovation and the scaling up of existing solutions in areas such as electrification, energy efficiency improvements, energy storage and carbon management are essential for reducing emissions at the required rate. For new technologies to be developed, commercialised



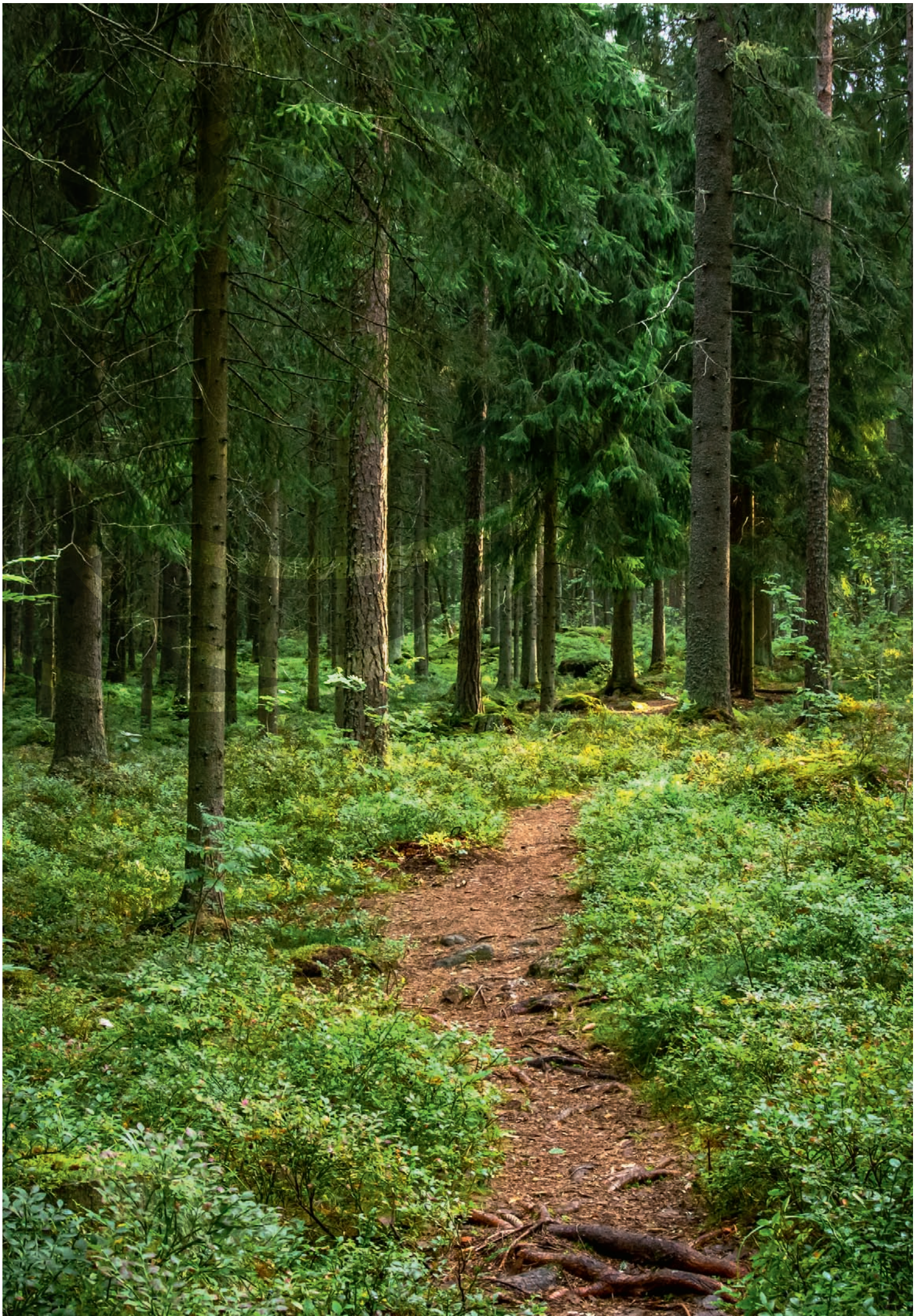
and scaled up, there is a need for access to capital as well as effective collaboration between public and private actors, with banks playing a role as part of the financing ecosystem.

At the same time, a strong and competitive economy is essential for the climate transition. Economic growth generates resources for investment, innovation and climate adaptation. Regulations at EU and national level therefore need to be designed in such a way that they both support the transition and safeguard Europe's long-term competitiveness.

Access to high-quality data is crucial. Banks depend on reliable data – such as information about the climate transition efforts of corporate clients as well as buildings' exposure to climate-related risks – to make informed credit and risk assessments and to comply with regulatory requirements. Public registers and the ongoing development of climate data are essential prerequisites.

The Swedish banking sector aims to play an active and responsible role in the climate transition. Within the framework established by policymakers, banks can play a role as enablers by providing financing, managing risks and supporting the transition in a way that reconciles climate ambitions with long-term profitability and financial stability.

To achieve net-zero targets, incentives and transparency need to be strengthened to enable the efficient distribution of capital and to support the transition to a low-carbon economy. Lending activities and risk management frameworks will be adapted to incorporate climate considerations.

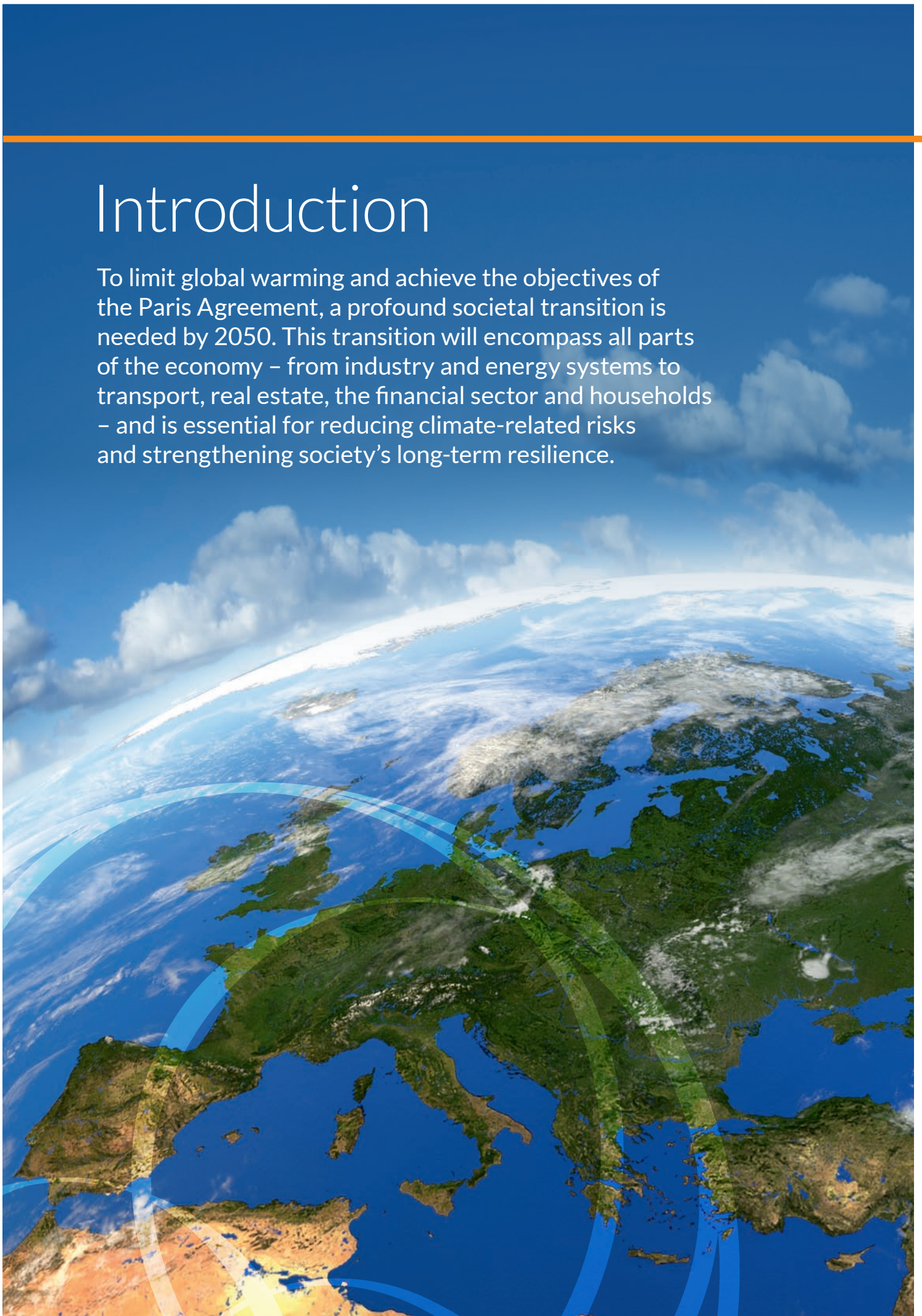


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Introduction

To limit global warming and achieve the objectives of the Paris Agreement, a profound societal transition is needed by 2050. This transition will encompass all parts of the economy – from industry and energy systems to transport, real estate, the financial sector and households – and is essential for reducing climate-related risks and strengthening society's long-term resilience.



The banks have an important role in this development. By providing financing and conducting risk assessments, banks can facilitate investments that support both the transition and adaptation to a changing climate. Integrating climate-related risks into business operations is crucial to banks' long-term profitability, as increasing climate-related risks can lead to higher credit losses and greater financial instability. Taking a structured approach to climate issues is therefore a prerequisite for the banks' long-term profitability. Much has changed in Sweden and internationally since Finance Sweden's Climate Roadmap was adopted in 2021. At that time, banks based their climate initiatives on a number of voluntary frameworks that served as guidelines, particularly in the area of transparency. Since then, the EU's climate policy has evolved. New regulations have been introduced that, as far as banks are concerned, largely overlap with and thereby replace the voluntary frameworks. Against this background, and in light of more mature climate-related work, this agenda has been developed to replace Finance Sweden's 2021 Climate Roadmap.

With this agenda, the Swedish banking sector aims to convey

- the sector's role in the climate transition and in strengthening climate resilience
- an overview of how banks collaborate through Finance Sweden
- the key factors that influence the banking sector's ability to contribute to the climate targets

The climate is part of the broader concept of sustainability, which encompasses environmental, social and governance-related dimensions (ESG). The climate comes under the environmental dimension, and involves reducing emissions, limiting global warming and adapting society to climate change.¹ The agenda is limited to climate-related issues.

Temperatures are rising globally and in Sweden

In its latest assessment report (AR6), the Intergovernmental Panel on Climate Change (IPCC) notes that the global average temperature has already risen by approximately 1°C compared to pre-industrial levels (1850–1900). This represents a faster and more extensive warming than previously observed in human history. The AR6 assessment concludes that, under all emission scenarios, global temperatures will continue to rise at least until the middle of the century, and that the possibility of keeping the temperature increase below 1.5°C is rapidly diminishing without immediate and large-scale emissions reductions. The latest measurements from the World Meteorological Organization (WMO), published in January 2026, indicate that global warming has now exceeded 1.4°C.

A report from the Swedish Meteorological and Hydrological Institute (SMHI) indicates that warming in Sweden is occurring at a faster rate than the global average. Temperatures in Sweden have risen by 1.9°C compared to pre-industrial levels.² This is consistent with the IPCC's assessment that high northern latitudes are warming faster than the global average.

1. The role of the banking sector



The banking sector is different from other industries. The role of the banks as enablers in the climate transition and their efforts in the area of climate action are described below.

Banks differ from other sectors

Unlike companies that produce and sell physical goods, the banks' offerings are tied to money and risk management. This means that the banks have a unique role in the economy – they act as intermediaries between savers and borrowers and facilitate the flow of capital throughout the economy. The fundamental role of banks in the economy involves managing financial risks, promoting long-term (sustainable) growth and ensuring that capital flows to where it is needed.

The specific role and operating methods of the banks mean that their ability to mitigate climate change differs from that of other industries. Since banks do not have direct control over physical production processes, their influence is primarily exerted through financing decisions, risk management (such as terms and conditions that reflect the risk), as well as dialogue with customers and the companies in which banks invests. As a result, the role of the banks in the climate transition is indirect, yet strategically important. This also means that the vast majority of the emissions attributed to banks do not come from their own operations, but rather from their customers (known as Scope 3 emissions).³ A bank's ability to reduce these emissions is therefore dependent on its customers reducing their emissions. In this regard, the dialogue between banks and their customers plays a key role, as the banks can support their transition through advice and financing, but also by setting requirements that promote such a transition.

While the regulatory framework for the banking sector is primarily designed to safeguard financial stability, most other sectors are regulated through requirements in respect of emissions reductions, energy efficiency and the technical transformation. In addition, there is legislation in place that applies to both financial and non-financial companies, such as requirements for sustainability reporting, regulations on due diligence with regard to sustainability, as well as the Taxonomy Regulation, i.e. the EU's common classification system for what are deemed environmentally sustainable economic activities.

Banks as enablers

To understand the role of banks in the climate transition, it is important to start by considering their basic function in society. The core duties of banks cover lending, deposit-taking, payment services, asset management and financial advisory services. They also offer various risk-mitigation solutions, such as risk-based pricing, where lower risk can result in a lower interest rate. An example of this is mortgages, where a discount may be offered if the home meets energy-efficiency requirements, making the property more attractive and more likely to retain its long-term value as collateral.

Another key task is to raise customers' awareness of climate-related risks and opportunities. Through active and ongoing dialogue, the banks can support their customers' transition to more climate-resilient value chains and production processes. An example of this is lending to businesses, where the bank attaches importance to transition plans that demonstrate that the company is tracking its emissions, has defined targets for emissions reductions and is planning specific measures to achieve them (see the "Transition plans – where banks and their customers are headed" section on page 13 for more information).

By combining risk analysis with financing solutions and advisory services, banks can facilitate financing in a manner that supports the climate transition. In this way, banks are able to become a stabilising force and an enabler for a more cost-effective climate transition, while also contributing to the development of energy-efficient, low-carbon and future-proof business models.

The banks must also ensure that credit decisions are based on a sound assessment of risks and opportunities, including climate-related aspects. This is essential for being able to assess customers' long-term repayment capacity and for complying with regulatory requirements. Where sufficient repayment capacity is lacking, banks cannot offer financing. This also means that banks cannot finance unprofitable projects and operations.

Transition risk and physical risk

Transition risk refers to the risks faced by companies as a result of society's transition to a more sustainable and climate-neutral economy. If companies are not prepared for the changes taking place in relation to prices, technical developments, market expectations, climate policy or regulations, this can lead to disruptions and financial risks. This could, for example, affect companies and sectors that are dependent on fossil fuels or emission-intensive processes. These disruptions might, in turn, lead to financial losses for banks and investors. These consequences can be exacerbated by rapid changes, which is why, for example, policymaking in this area should be long-term and predictable.

Transition plans serve as tools for companies in managing transition risks. These plans can demonstrate that companies understand the climate-related risks they are facing, have analysed their potential impact on business operations, and have developed a long-term strategy for addressing them. They clarify both the current situation and the path the company intends to take in the transition (see the "Transition plans – where banks and their customers are headed" section on page 13 for more information).

At the same time, climate change in itself can lead to increased physical risks, both acute and chronic. Acute physical risks include extreme weather events such as torrential rain, flooding, storms and heat waves. For the property sector, this might result in damage to buildings, increased repair and insurance costs, as well as operational disruptions. It may also affect the market values and collateral values of properties, particularly in climate-vulnerable areas. Chronic physical risks develop over time and include rising temperatures, changing precipitation patterns and rising sea levels. These changes can impair the functionality and energy efficiency of buildings, as well as increase the need for climate adaptation measures, thereby raising costs for property owners. For banks, this might result in increased credit risks due to lower collateral values and a decline in borrowers' repayment capacity. In the long run, this may affect financial stability.

Increasing physical risks are associated with a need for preventive measures and climate adaptation (see the "Climate adaptation – the need for measures to reduce physical risks" section on page 14 for more information).

The climate transition requires various forms of capital that complement one another as projects mature and risks evolve. In the early stages, venture capital and equity play a key role in facilitating innovation, technological development and new business models that offer significant potential for transformation, but also carry high risk.

Venture capital means that the investor acquires an ownership stake in the company and assumes the associated risk – something that banks typically do not do, as their business model is based on secured loans. In Sweden, venture capital comes primarily from venture capital firms. However, banks sometimes operate separate venture capital operations through subsidiaries or specialised units. In addition, guarantees and risk-sharing mechanisms

provided by public actors, such as the European Investment Bank (EIB), can help reduce the risk to private investors and thereby increase their willingness to invest in climate and environmental projects.

Once projects and operations reach a more established phase, loan capital can take over, for example in the form of project financing and bank loans. As regards loan financing, there are different levels of risk, with more stable and predictable cash flows enabling financing on more favourable terms. Capital market instruments, such as green bonds, further help to scale up investments and mobilise long-term capital.

New regulations replacing the voluntary efforts

Climate-related legislation has gradually been established within the EU, and many previously voluntary initiatives have consequently been replaced by mandatory requirements. As a result, voluntary sustainability efforts have largely been integrated into the formal regulation of banks.

An example of this is the fact that the sector's previous voluntary efforts were often based on the 2017 recommendations for climate-related financial disclosures from the TCFD (Task Force on Climate-related Financial Disclosures) as well as the 2019 Principles for Responsible Banking.⁴ In practice, these frameworks have served as precursors to the sustainability reporting regulations that now impose similar requirements. This means that there are now legal requirements for greater transparency for both banks and companies in other sectors.

Examples of key EU regulations that the major banks must comply with:

- Sustainability reporting under the CSRD (Corporate Sustainability Reporting Directive)
- Corporate sustainability due diligence under the CSDDD (Corporate Sustainability Due Diligence Directive)
- The EU Taxonomy Regulation

Requirements that all banks must comply with:

- Disclosure of ESG risks under the Pillar 3 disclosure framework
- Management of ESG risks in accordance with the European Banking Authority's guidelines on the management of ESG risks. These requirements mean that banks must be able to identify, measure and manage climate-related risks, among others, across their entire business – from credit portfolios to investment strategies.

For banks, the identification and management of climate risks have also been integrated into regulatory compliance and are subject to supervision by the Swedish Financial Supervisory Authority. This requires clearer internal governance within the bank, as well as robust processes and systems to ensure that reporting, risk management and lending comply with the new regulatory requirements.

Transition plans – where banks and their customers are headed

Transition plans can serve as strategic roadmaps for how companies intend to reduce emissions and adapt their business models to different forward-looking climate scenarios. A credible transition plan outlines how a company manages the costs and investments required to transform its operation in order to achieve its climate targets. Under the Corporate Sustainability Reporting Directive (CSRD), both companies in the real economy and financial sector entities are required to disclose information about their transition plans, where such plans exist. Transition plans may also address how physical risks are managed and how climate impacts are reduced over time.

For banks, borrowers that struggle to adapt to the transition may lead to an increased exposure to credit risk. This might apply, for example, to companies in energy- and transport-intensive sectors that may face significantly higher costs or lose competitiveness if they fail to reduce their emissions, thereby impairing their ability to repay loans. It might also apply to property owners who do not implement energy efficiency measures and thereby face higher operating costs and potentially lower property values as new requirements are introduced. As a result, the collateral backing existing loans may gradually weaken over time.

For banks, their customers' transition plans are an important tool for assessing lending risk. In particular, companies in high-risk sectors (i.e. where there are significant carbon emissions) that lack a credible plan are at risk of facing higher costs and weaker profit and value growth. Large companies often have a formal transition plan in place, while smaller companies rarely do. In such cases, banks may need to obtain the relevant information by other means. As transition risk may affect a customer's ability to repay a loan, banks need to assess their customers' exposure to transition risk.

The EBA Guidelines on the management of ESG risks require banks to integrate these risks into their credit risk management process. Transition plans are a key tool for meeting these requirements, as they provide insight into how customers intend to manage climate-related risks over time.

According to the guidelines, the banks are also required to develop their own transition plans, sometimes referred to as prudential transition plans. These plans should be designed in such a way that they describe, in a forward-looking manner, the management of climate risks, including both transition risks and physical risks. The plans should be aligned with transition plans under the CSRD and be integrated into the bank's governance, risk management and capital planning frameworks.

Climate adaptation – the need for measures to reduce physical risks

Climate adaptation involves preparing society and the economy for what is already happening or can be expected to happen as a result of climate change. This includes physical climate risks such as increased flooding, heat waves, storm damage and rising sea levels (see the box on page 12 for more information). Preventive and adaptive measures can reduce vulnerability and strengthen societal and economic resilience. In this way, essential societal functions – such as energy supply, transport operations, financial services and healthcare – can be maintained, even when climate-related pressures are increasing.

For banks, customers' exposure to physical climate risks may lead to increased credit losses, declines in the value of collateral (such as property), disruptions to financed activities, and higher operational risks. It is therefore important to understand and integrate climate adaptation into risk management. This makes banks better equipped to assess their customers' resilience and ensure stability in lending and portfolio management. Through advisory services and the financing of projects such as flood protection measures and climate adaptation of buildings, customers can implement the necessary measures.

Banks' transition plans

A bank's transition plan generally describes, in a structured and long-term manner, how the bank addresses sustainability and climate-related issues that may affect its operations. The plan is designed to provide a comprehensive overview of how the bank identifies, analyses and manages sustainability issues over time, as well as how this work is linked to the bank's overall strategy and governance framework.

The transition plan typically includes descriptions of:

- the bank's overall strategic direction, ambitions and objectives regarding the management of sustainability- and climate-related risks and opportunities in the short, medium and long term
- how sustainability issues are taken into account in the bank's regular governance and business management processes, including strategic considerations, risk management and internal processes
- the analytical methods and supporting data that are used to assess how external changes and future events may affect the bank
- how the bank engages with relevant internal and external stakeholders to manage identified risks and strengthen the conditions for long-term sustainable development.



This might involve property owners having to take preventive measures to protect their properties and reduce their vulnerability to recurring flooding.

The insurance companies play a key role in managing physical risks. As long as a property or other asset is adequately insured, the financial losses incurred by the owner in the event of climate-related damage can be reduced. Property insurance is generally a prerequisite for obtaining a mortgage. It is therefore important for banks to monitor developments in the insurance market with regard to physical risks, as higher premiums or reduced access to insurance may directly affect credit risk. In the future, banks may also need to adapt their credit processes to an environment in which the availability and scope of insurance coverage are changing.

Municipalities play an important preventive role in climate adaptation, particularly through measures such as spatial planning, building permits and the design of water and wastewater infrastructure. The work carried out by municipalities helps reduce vulnerability to climate-related damage, thereby limiting future risks and costs.

If physical climate risks are not addressed in time, costs will inevitably arise sooner or later. The question is when those costs will materialise and who will bear them. In the absence of climate adaptation measures, or if the measures are inadequate, this can lead to increased damage, higher insurance premiums, a decline in the value of assets and, ultimately, increased credit losses. In this case, the costs may be shared among property owners, insurance companies, banks and the public sector. Early investments in climate adaptation can reduce future costs and contribute to a more predictable and stable risk landscape for both financial institutions and society as a whole.

Forward-looking scenario analysis is an important tool

Climate-related risks can have a very long time horizon and may unfold over decades, such as in the case of rising sea levels. This also applies to transition-related regulations, such as the gradual tightening up of emissions standards or the gradual prohibition of fossil technologies. Climate risks may therefore arise long after a bank has granted a loan or refinanced its debt. As a result, these risks are difficult to incorporate in traditional financial models, which focus on shorter time frames (approximately 3–5 years) and therefore tend to underestimate long-term climate risks. For this reason, scenario analyses and stress tests with a longer time horizon – of at least ten years – are used to provide a basis for more robust risk management and long-term planning.

Compared to banks, insurance companies often have a more direct and short-term exposure to risk, where climate-related damage can quickly be reflected in insurance premiums and policy terms. For banks, the effects are often longer-term and more indirect, stemming from customers' repayment capacity, the value of collateral as well as credit losses over time. As a result, banks need to rely more heavily on long-term scenarios to identify climate-related risks.

The Network for Greening the Financial System (NGFS), an international network of supervisory authorities and central banks focused on climate and environmental risks, develops long-term climate scenarios. The NGFS emphasises that the later the transition takes place, the greater the human and economic losses resulting from climate-related damage will be.⁵ Among other things, the NGFS has introduced a revised damage function based on the latest climate science. This function takes into account factors such as temperature fluctuations, variations in precipitation, the number of rainy days and extreme rainfall events. The model produces significantly higher estimates of physical risks – two to four times higher than previous 2050 scenarios. This is a clear indication that emissions reductions must be accelerated and implemented more quickly and in a more coordinated manner.

Banks have different business models

Risk appetite is the term sometimes used to describe the level of risk a bank is prepared to accept in order to achieve its business objectives. Banks have different risk appetites built into their business models and, consequently, different strategies regarding how much risk they are willing to accept. When it comes to climate-related risks, a bank's risk appetite can determine the level of exposure to high-emission sectors it is willing to accept.

Banks also differ in their business focus and business models, which means they have varying abilities when it comes to supporting different sectors of the economy. Some banks focus on mortgages, while others focus more on lending to business customers. On the whole, variations in risk tolerance, business models, portfolio composition and exposure to different sectors and countries make it difficult to compare banks' operations with one another.

In their internal risk models, banks use climate stress tests and climate scenario analyses as risk management tools. Climate scenarios differ from traditional macro-financial scenarios in that they are forward-looking over longer time periods, are characterised by greater uncertainty, and incorporate structural changes linked to both physical climate impact and the transition to a more sustainable society (see the box above for more details). The analyses are an important tool for understanding how climate-related risks may affect the bank's balance sheet over time and for ensuring the bank's long-term resilience.

Starting in January 2026, banks' management of climate-related risks is subject to supervision by the Swedish Financial Supervisory Authority. The European Banking Authority (EBA) has drawn up guidelines to support this work.

The EBA has also developed guidelines for ESG scenario analyses, designed to strengthen banks' ability to assess climate and environmental risks over both the short and the long term. These will take effect in January 2027.

Banks establish their overall risk strategies and objectives within the framework of their business models. The strategic choices each bank makes set the framework for how they act when financing companies in emission-intensive sectors. Some banks choose to reduce or completely cease lending to sectors that face greater challenges in transitioning, while others continue to provide financing with the aim of supporting the shift towards more sustainable business models through dialogue and collaboration with their customers.

A fundamental prerequisite for banks to be able to facilitate financing for the climate transition is that the projects are profitable in the long term and generate stable cash flows. Profitability and repayment capacity are key factors in the banks' credit assessments. This means that companies need to be able to demonstrate that they are managing their climate-related risks over both the short and long term (see the "Transition plans – where banks and their customers are headed" section on page 13 for more information).

It is up to each bank to publish its own targets for its climate-related work, which are partially regulated by EU legislation. For example, banks can set targets at sector level regarding the amount by which greenhouse gas emissions from lending should be reduced (known as intensity metrics) and then measure progress against these targets.



2. The banks are collaborating on climate issues



The banks' principal climate efforts are carried out within each individual bank, but there are areas where they collaborate through Finance Sweden.

The role of Finance Sweden – dialogue and advocacy

The banks collaborate within Finance Sweden in areas where joint efforts create value without hindering competition, with the best interests of both customers and society in mind. Finance Sweden supports its members by monitoring and commenting on new regulatory initiatives, as well as by interpreting and applying sustainability- and climate-related regulations in an appropriate and effective manner, with a focus on delivering tangible benefits for customers and society.

The collaboration also encompasses a certain amount of coordination regarding climate data that is needed to meet new regulatory requirements. In this respect, access to and use of data, for example from the Swedish National Board of Housing, Building and Planning's energy performance certificate register, has been a challenge. Finance Sweden is also involved in developing relevant standards and guidelines for how banks should calculate and present climate-related information, such as financed emissions, with the aim of facilitating consistent and transparent application.⁶

Collaboration with other stakeholders is essential. In order to monitor, interpret and facilitate the implementation of new regulations, Finance Sweden conducts an ongoing dialogue with relevant authorities, government agencies (such as government inquiries) and business associations. An increasing proportion of the relevant regulation is being determined at EU level, and Finance Sweden has therefore strengthened its presence in Brussels and its involvement in organisations such as the European Banking Federation (EBF). At the same time, there is still a need to monitor and discuss the national agenda in order to promote favourable conditions for banks in their role as enablers in the climate transition.

The banks strive to be transparent about their climate-related work. The best way to understand how a bank operates is to review its sustainability reports and other information that the bank publishes. Finance Sweden has a complementary role, for example by conducting thematic monitoring and in-depth analyses in certain focus areas, such as access to climate and sustainability data, methodology development and the implementation of new regulations.

The banking sector supports the Paris Agreement and the EU's climate targets

In their role as enablers, the banks aim to contribute to society's climate transition. At the same time, the banking sector's ability to contribute depends on certain fundamental conditions being in place (see the "Key success factors" section on page 20 for more information).

With this agenda, Finance Sweden aims to make clear that the Swedish banking sector supports the adopted international and European climate objectives, including the Paris Agreement and the EU's climate objectives. Several of Finance Sweden's member banks engage in cross-border operations, and the sector is subject to a highly harmonised EU regulatory framework. This means that the climate objectives and the work to achieve them need to be considered in an international context. At the same time, as previously mentioned, it is up to each individual bank to set its own targets (see the "Banks have different business models" section on page 16 for more information).

Clear and appropriate climate regulations are beneficial, as they contribute to improved data quality, enhanced traceability and greater transparency. Each individual bank is constantly working to integrate relevant regulatory requirements into its own processes, governance models and risk management. Banks compete with one another to offer effective and affordable financing solutions.

Banks strive to be a natural part of the climate transition and, in their role as enablers, to help achieve the agreed climate objectives. Through collaboration within Finance Sweden, banks can exchange experiences, contribute to the effective implementation of new regulations and engage in a constructive dialogue with legislators, government agencies and other stakeholders. Within the framework established by policymakers, Finance Sweden and its members are committed to working together to ensure an effective and socio-economically sustainable climate transition. In this way, the climate transition is combined with long-term profitability and stability in the banking sector.

3. Key success factors

Certain fundamental conditions must be met in order for banks to facilitate society's climate transition – while also achieving their own climate targets. A number of such conditions are described below. This list is not exhaustive and may be updated over time.

Climate policy and legislation are the key drivers of the climate transition

In order for the climate transition to take place, there needs to be increased demand for sustainable solutions across society. Such demand will help channel capital and financing away from emissions-intensive activities and towards low-carbon activities. Policy instruments play a key role in creating this demand.

In addition to the legal requirements directly imposed on banks (see the “New regulations replacing the voluntary efforts” section on page 13 for more information), they are also indirectly affected by the EU's climate policy, in particular through the Fit for 55 package, which the EU adopted in 2023 to achieve the 2030 target (see the box on page 22 for more information). This package reforms the Emissions Trading System (EU ETS), strengthens the requirements for Member States to reduce emissions, increases the requirements to enhance carbon sinks in forests and land (LULUCF), introduces new regulations for transport, buildings and industry, and raises energy-related requirements.

The EU's 2040 targets, which were adopted in March 2026 (see the box on page 22 for more details), are to be achieved through substantial emissions reductions across all sectors, including through a strengthened and expanded ETS as well as increased permanent carbon sequestration within the EU. This will also be supported by limited use of international carbon credits up to 5 per cent, as well as significant investments in clean energy and industrial transition.⁸

The EU ETS is one of the most important policy instruments for reducing the Union's emissions and achieving its climate objectives. By putting a price on greenhouse gas emissions and gradually reducing the total cap for emission allowances, strong incentives are being created for companies to reduce their emissions. Those companies that fail to adapt will have to pay more, which will affect their profitability and long-term viability. This, in turn, has implications for the banks' lending activities and their assessment of climate-related risks associated with corporate exposures.

Key political decisions in the EU

The EU's climate policy has set a target of net-zero greenhouse gas emissions by 2050.⁷

Key policy decisions that affect all EU Member States include:

- The EU Emissions Trading System (EU ETS) – a cap-and-trade-system that auctions emission allowances within a gradually declining cap, thereby putting a market-based price on carbon and incentivising companies to reduce their emissions
- The Carbon Border Adjustment Mechanism (CBAM) – a border adjustment mechanism that imposes a carbon price on imported goods to eliminate competitive advantages for foreign companies that are not subject to the EU's stricter regulations
- The EU's Clean Industrial Deal, launched in 2025, which aims to strengthen Europe's competitiveness and accelerate industrial decarbonisation through lower energy costs, increased circularity and recycling, and targeted investments
- The Energy Performance of Buildings Directive (EPBD) – an EU directive aimed at reducing emissions and improving the energy performance of the EU building stock

The Energy Performance of Buildings Directive (EPBD) is another example. Stricter regulations are intended to accelerate the energy efficiency of the EU's building stock and achieve a climate-neutral building stock by 2050. For banks, this means that the energy performance of buildings will play a greater role in the lending process. The need to renovate or upgrade properties affects both the banks' credit risk assessments and the valuation of the collateral that provides the basis for the lending.

Research in environmental economics shows that the pricing of greenhouse gas emissions is the most effective and cost-efficient policy measure for achieving the goals of the Paris Agreement. Studies also indicate that a global carbon price is essential for limiting the global temperature rise.⁹ It is therefore important for companies and banks to take the significance of carbon pricing and climate policy measures into account in their analyses. This contributes to a better understanding of long-term risks and how economic incentives influence investment and financing decisions.

Long-term policy predictability and stability

The investments being made in the climate transition are substantial and, in many cases, will generate returns only over the long term. A long-term and stable climate policy is therefore a prerequisite for businesses and society to feel confident to invest. Predictable regulatory frameworks and policy measures reduce risks and costs. Stability also creates incentives for innovation and strengthens competitiveness. It also facilitates coordination among stakeholders such as governments and businesses, which is essential for achieving the climate objectives in a cost-effective and sustainable manner.

The current climate policy framework consists of a complex patchwork of regulations that are not always coordinated. Different objectives and policy instruments span multiple policy areas, which can give rise to conflicting objectives, for example between climate transition, energy supply, land use and biodiversity protection. When the regulations are not coherent, they risk creating uncertainty, sending mixed signals and reducing cost-effectiveness for businesses and the financial sector.

The Paris Agreement and the EU's and Sweden's climate laws – what are the objectives?

The Paris Agreement sets a global objective of limiting global warming to well below 2°C, while pursuing efforts to limit it to 1.5°C. This objective is based on the collective body of climate science research, which shows that the risks of extreme weather events, sea-level rise and ecosystem collapse increase dramatically above these thresholds. By grounding its objectives in scientific evidence, the Paris Agreement provides a common framework for governments, businesses and the financial sector to take timely action in order to avoid the most severe consequences of climate change.

The EU's overarching objective is to achieve climate neutrality by 2050, as enshrined in the European Climate Law. Before then, the Union aims to reduce net greenhouse gas emissions by at least 55 per cent by 2030, compared with 1990 levels. By 2040, net emissions are to be reduced by 90 per cent compared with 1990 levels. These targets represent the EU's collective contribution to the objectives of the Paris Agreement.

Sweden's climate policy is based on a framework established in 2017 that includes the Climate Act, interim targets and the Climate Policy Council. The Council's role is to assess independently whether the Government's overall policies are aligned with the climate objectives adopted by the Swedish Parliament. The overarching objective is to achieve net-zero emissions by 2045, with negative emissions thereafter. Annual climate reports and a climate policy action plan every four years are intended to ensure a long-term consistency and clear governance of climate policy. Sweden has ambitious interim objectives: a 63 per cent reduction in emissions by 2030 and 75 per cent by 2040, compared with 1990 levels.

If a Member State fails to meet the EU's requirements, it may be required to take corrective measures or acquire emission credits. This could ultimately lead to EU legal proceedings or fines. Non-compliance can also entail costs for society, for example in the form of increased climate-related damage, environmental pollution and a loss of political credibility.

Global warming is an external effect

Global warming is considered to be a so-called external effect in research, since greenhouse gas emissions impose costs (environmental, social and economic) that are not borne by those who generate them, but rather by third parties and future generations.¹³ This means that the market alone cannot effectively address the problem. A widely accepted solution is to ensure that those responsible for emissions also bear the associated costs. Doing so strengthens incentives to reduce emissions and promotes more efficient resource allocation. This can be achieved through policy measures such as carbon taxes, emissions trading schemes, renewable energy subsidies and regulations.

The Climate Policy Council assesses that current policies are insufficient for Sweden to meet its climate targets or the EU's commitments by 2030.¹⁰ The gap between current progress and these targets has widened in recent years, and there is a pressing need for swift and robust policy decisions. In an increasingly uncertain world, this underscores the importance of strong and consistent climate policy leadership. In order to achieve the EU's 2030 climate targets and to ensure stable and predictable conditions for Swedish stakeholders that have already invested in the transition, Sweden needs to actively oppose proposals aimed at weakening existing climate regulations. The Climate Policy Council notes that the costs associated with extreme weather events have increased significantly in Europe, and that climate change is also exacerbating other threats to public safety.

If the level of political ambition in climate policy is lowered and established targets are not met, banks' ability to act fully as enablers of the transition will be limited. At the same time, physical climate risks are increasing, placing greater strain on society, the economy and infrastructure. Climate adaptation is therefore essential. In addition, climate research has made it clear that if the underlying climate risks change rapidly while political uncertainty persists, long-term planning becomes more difficult, which risks undermining the stability of the financial system.^{11 12}

Banks are an integral part of the economic ecosystem and operate within the framework determined by the policymakers. When climate policy is clear, long-term and aligned with established objectives, this is reflected in the banks' risk assessments and business decisions, as well as in their customers' willingness to invest. The business community's ambitions are largely driven by what is profitable in the long term – and profitability, in turn, is influenced by how stable, coordinated and predictable the climate policy is.

Technological development

The extensive transformation that is required to achieve the climate targets depends on the development of viable technologies. Innovation in areas such as renewable energy, energy storage, electrification and carbon capture creates opportunities to reduce emissions across the energy, real estate, transport and industrial sectors. At the same time, digitalisation and advanced control technologies contribute to more efficient use of resources and increased competitiveness (see the section "Growth and competitiveness" on page 24 for more information).

Without continuous technological progress, transition risks becoming both slower and more expensive, underscoring the need for research, investment and collaboration between public and private actors. For new solutions to be developed and widely adopted, capital must be mobilised for innovative projects. In addition, funding must be available for technologies that need to be scaled up and commercialised. Various actors in the financial sector, including banks, can contribute to the transition by supporting investments in sustainable and technology-driven projects. Banks are part of a broader ecosystem of businesses that can collectively enable the technological development needed to achieve the climate transition (see the “Banks as enablers” section on page 11 for more information).

Growth and competitiveness

A strong and competitive European economy is key to achieving the climate objectives. Economic growth generates resources both for investments in renewable energy, electrification and climate-smart infrastructure, as well as in research and technological innovation. In order for the climate transition to proceed at the necessary pace, there is a need for clear rules, predictability and efficient processes. At the same time, unnecessary complexity and administrative burdens should be minimised. The EU’s regulatory framework plays a key role in the Union’s long-term growth and competitiveness. While regulation is necessary to ensure stability, consumer protection and a well-functioning internal market, it must be designed in a way that strengthens, rather than hinders, the economy’s dynamism.

The EU is currently pursuing a regulatory simplification agenda, aimed at strengthening the Union’s competitiveness and reducing administrative burdens on businesses (primarily small and medium-sized enterprises). For banks, the simplification agenda is positive if it helps reduce the administrative burden and leads to more effective regulations for banks and their customers. However, it is important for EU regulations to be simplified in the right way: by reducing complexity and overlap, limiting national gold-plating and divergent supervisory practices, and establishing a clearer, more coherent and more efficient prudential and conduct regulatory framework for banks.

Up until now, the European Commission has maintained that the simplification initiatives relating to sustainable finance – including the

streamlining of sustainability reporting requirements (CSRD) and due diligence requirements for companies regarding sustainability (CSDDD) – should not be seen as the EU scaling back its ambitions in respect of sustainability. For banks, however, a significant decline in the number of companies subject to sustainability reporting requirements could pose a challenge, as it would limit the banks’ access to the comparable and reliable data they need for risk assessment and other purposes (see the “Access to data and methods” section on page 25 for more information).

Geopolitics

Geopolitical developments are a significant factor that can impede companies’ climate transition. Conflicts, trade barriers and political instability affect access to raw materials, energy and critical components for green technologies. Sanctions or changes in trade relations can lead to increased costs and disruptions in supply chains, making investments in sustainable solutions more uncertain. In addition, geopolitical tensions can slow down international climate negotiations and create uncertainty regarding global climate objectives, which in turn affects companies’ long-term business planning. At the same time, this also highlights the vulnerability of today’s fossil-fuel-dependent economic system. Companies therefore need to adopt flexible strategies and incorporate geopolitical scenarios into their risk assessments in order to ensure a robust transition.

There is currently considerable uncertainty regarding how the EU’s substantial investment needs will be prioritised. Significant investment is likely to be required for many years in areas such as security and defence. This may constrain the resources available for investments aimed at reducing emissions, particularly in the public sector. At the same time, the geopolitical situation is creating strong incentives to reduce the EU’s dependence on imported fossil fuels, such as oil and gas. Increased uncertainty regarding energy supply, price fluctuations and vulnerability to external shocks has highlighted the importance of building a more resilient energy system within the Union. Strengthening energy security and reducing dependence on imported fossil fuels could become a driving force in accelerating the climate transition and thereby improve the EU’s ability to achieve its long-term climate objectives.

Key factors for the banks to contribute successfully to the transition:

- Climate policy aligned with climate objectives for the real economy and the financial sector
- Long-term policy predictability and stability
- Technological development
- A strong and competitive economy in the long term
- Access to data and models; it is important that national data be made available to the greatest extent possible

Access to data and methods

Good access to reliable data is essential for banks to be able to identify, measure and manage their climate-related risks and opportunities. It is therefore important that national data be made available to the greatest extent possible.

The banks' exposure is affected by both transition risks and physical risks such as flooding, storm damage or heat-related events. They are therefore dependent on high-quality data from companies and national registers, such as the Swedish National Board of Housing, Building and Planning's (Boverket) register of energy performance certificates for buildings and data from the Swedish Meteorological and Hydrological Institute (SMHI) regarding flooding risks in various areas. Without reliable data, it is difficult for the banks to assess the resilience of their credit and investment portfolios and make well-informed credit decisions. Climate data is also essential for banks to meet regulatory requirements.¹⁴ Insufficient access to data therefore risks directly impacting both regulatory compliance and banks' ability to manage strategic and financial risks.

The challenges related to data access are particularly acute when it comes to small and medium-sized enterprises (SMEs), which play a significant role in the economy and the climate transition. SMEs often lack the internal resources to carry out advanced data collection and are generally not subject to the same reporting requirements as larger companies.¹⁵ At the same time, it is important for the administrative burden placed on SMEs to be proportionate to their size and resources.

When complete data is unavailable, banks may need to rely on proxy values, assumptions and model-based approaches. In this case, it is important for the methods to be transparent, robust and standardised, so that reporting and risk assessment are comparable across banks and over time. This requires common industry standards, development of methodologies and, in many cases, collaboration between banks and public authorities.

Methodologies also need to evolve continuously as more data becomes available and as supervisory and market requirements evolve. This applies, for example, to credit risk models that incorporate climate risks, scenario-based methodologies, as well as tools for assessing the impact of both physical risks and transition risks on the future risk profiles of customers and portfolios.

Footnotes

¹ Environmental issues within ESG include climate impact, resource management, biodiversity, pollution and environmental risks in the supply chain. The aim is to reduce environmental risks and promote sustainable development.

² See “Climate data for climate and vulnerability analyses”, KLIMATOLOGI No. 74, SMHI, 2025.

³ According to the Greenhouse Gas Protocol (GHG Protocol), Scope 1 is defined as direct greenhouse gas emissions from owned or controlled sources, Scope 2 as indirect emissions from purchased energy, and Scope 3 as all other indirect emissions throughout the value chain, both upstream and downstream.

⁴ See Finance Sweden’s 2021 Climate Roadmap towards net-zero emissions, which was largely based on the PRB and the TCFD.

⁵ See “NGFS long-term climate scenarios – Phase V: High-level overview”, November 2024.

⁶ See “Guidelines for calculating financed emissions from properties”, Finance Sweden, 2026.

⁷ See Regulation (EU) 2021/1119 of the European Parliament and of the Council (the EU Climate Law).

⁸ International carbon credits are emissions reductions or carbon removals generated outside a country’s own borders and used as a complement to domestic measures, in accordance with the Paris Agreement.

⁹ See Hassler, J., “A global CO₂ price – Necessary and sufficient”, Journal of the Finnish Economic Association, 2020.

¹⁰ See the Climate Policy Council’s report, 2026.

¹¹ See “Climate Change 2023: Synthesis Report”, IPCC, 2023.

¹² See “Climate Scenarios for Central Banks and Supervisors”, NGFS, 2024.

¹³ See Nordhaus, William D., “Managing the Global Commons: The Economics of Climate Change”. MIT Press, 1994.

¹⁴ Such as the ESG risk management requirements in the banking package and the comprehensive sustainability reporting requirements under the CSRD/ESRS, Pillar 3 ESG risks, and other sustainability-related standards.

¹⁵ Within the EU, there is the Voluntary Sustainability Reporting Standard for SMEs (VSME).

The agenda has been approved by Finance Sweden’s Board. The work has been guided by Finance Sweden’s Sustainability Council, which comprises sustainability executives from a number of the member banks. A reference group comprising sustainability experts from the banks has assisted Finance Sweden in its work.





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