



Bank Transition Disclosure Recommended best practice

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In the role of originators, issuers, and lenders of credit and other financial products, banks have a pivotal role to play in the net-zero transition. To facilitate this, banks are encouraged to develop, publish, and implement transition plans that articulate how they will reach net zero.

This paper aims to provide banks with best practice guidance for preparation and disclosure of their transition plans, focussing on enhancing transparency, consistency, and scope. While the guidance incorporates current practices and disclosures, it transcends them in many cases in order to encourage and support banks to plan ahead for future rounds of transition planning and disclosure. Thus stretching them to expand their transition planning and implementation to enable the rapid transition called for.

Overview

The importance of bank transition plans

Banks have a pivotal role to play in the net-zero transition. As originators, issuers, and lenders of credit and other financial products, they provide financing and facilitation today for investment in the future. As capital allocation is a critical mechanism to drive decarbonisation of an economy, banks are at the centre of the transition of the economy to net zero.

To enable this, banks are encouraged to develop, publish, and implement transition plans that articulate how they will reach net zero. These plans are a vital instrument, not only for the banks but also for their investors, lenders, clients, and other stakeholders such as regulators and civil society, to assess the credentials of banks' claims, progress, and contribution to a net-zero economy in 2050.

For several years, banks have been committing to align their activities with a net-zero-by-2050 economy, under the leadership of investor coalitions such as the Net Zero Banking Alliance (NZBA), part of the Glasgow Financial Alliance to Net Zero (GFANZ), and the Institutional Investor Group on Climate Change (IIGCC).

Several frameworks including Climate Bonds' earlier report *Lessons Learned From Bank Disclosures* have observed and reported that in their current form, bank transition reports do not always enable the reader to have a clear and comparable view of the breadth and depth of a bank's transition efforts.¹



Banks in scope

The guidance is applicable to all banks except multilateral or national development banks or development finance institutions which have a different role and set of tools to address the transition compared to global commercial and investment banks.

This report and its target audience

This report aims to provide best practice guidance for preparation and disclosure of bank transition plans. In this context, best practice refers to the information Climate Bonds Initiative (Climate Bonds) would like to see reflected in bank transition plan disclosures, to support a movement towards greater consistency and hence comparability, balancing robustness with flexibility. This includes guidance on the key data and qualitative points as well as corresponding methodologies.

This report will be of interest to investors in/lenders to banks seeking to assess the net-zero credentials of individual banks on the basis of their transition plan disclosures, as part of their own goals to finance the transition to a low-carbon, climate-resilient economy, whether through labelled instruments such as sustainability or sustainability-linked bonds (SLBs) or loans, general purpose debt, and/or equity.

It may also be useful for sustainability rating agencies and ESG data providers which are attributing scores to banks on the basis, inter alia, of the quality of their net-zero ambitions and targets. Other stakeholders, such as regulators and civil society with a concern for greenwashing (i.e., the misleading claims of entities such as banks to be net-zero aligned when they are not), can also find value in the best practice guidance for bank transition plans presented in this report.

The report adds to the range of transition assessment tools that Climate Bonds is making available to financial institutions, following the previously released *Entity Certification Checklist* and *Navigating Corporate Transitions: A Tool for Financial Institutions* assessment framework.² Climate Bonds is also publishing guidance for credible sovereign net-zero transitions.³ Sectoral transition pathways and criteria are also available.⁴ Climate Bonds currently offers Certification of transition finance debt issued by corporates, banks, sovereigns, sub-sovereigns, and others, and Certification of the transition plans of non-financial corporates. In the future, Certification of the transition plans of banks may be considered, based on this guidance.

Six principles underpinning the guidance

1

The guidance is intended to signpost banks towards addressing aspects of transition plan disclosures recommended by Climate Bonds, recognising that the guidance will stretch many banks beyond current practices and disclosures in many cases.

2

A key objective is promoting transparency and comparability in respect of planned transitions, while at the same time promoting the widest scope across bank financial statements. In this respect, it aims to articulate simplified, practical metrics and indicators addressing financial exposure, and emissions exposure subject to available methodologies, aligned with a rapid transition to a global net-zero economy by 2050.

3

The guidance addresses Climate Bonds' four previous suggestions for improvement in banks transition plan disclosures, namely: greater standardisation, clarity of the scope of the transition plan, clear connection to credible sectoral pathways, and improved documentation on engagement policies. See Box 1 for more information.

4

It is designed to be practicable for banks operating across all jurisdictions, in emerging markets as well as developed economies. Flexibility is incorporated where needed (specifically in respect of commitment- and target-setting, and decarbonisation action prioritisation) that considers distinct economic dynamics, regulatory landscapes, and other factors; keeping within a consistent guidance framework for all banks regardless of their jurisdictions of operation.

5

The selection of data, methodologies, and references are expected to be publicly and freely available from bank and 3rd party sources and documents, including external sectoral pathways and taxonomies.

6

It builds on existing guidance and assessment frameworks in order to promote consistency in market definitions and standards, and promote a common voice to advise banks on good or best practices. Specifically, it takes into consideration the main public access frameworks currently in use by markets to assess bank transitions. Appendix 1 lists the existing guidance and assessment frameworks reviewed. While Climate Bonds replicated the aspects considered essential, it added features and refinements from its own market insights.

Box 1: Suggestions for improvement in bank transition disclosures

1. Standardisation of net-zero disclosures across bank business lines and sectors, with metrics to enable peer-to-peer comparison between banks.
2. Disclosure conveys the extent to which a bank's business and balance sheet are in scope of their transition commitment, and those parts that are excluded.
3. A clear connection between net-zero alignment claims and officially recognised sectoral targets and pathways.
4. Precise documentation on the level of bank ambition with regard to raising the funding for climate finance and facilitation, in addition to more proactive policies for client engagement.

Source: Climate Bonds Initiative [Lessons Learned From Bank Disclosures](#)

Six important features of the guidance

1

Thematic scope: the focus is on bank decarbonisation transitions. Broader socio-economic-environmental aspects of this transition are also addressed but to a lesser degree.

2

Client scope: corporates, sovereigns, and financial institutions.

3

Product scope: the following within the banking book, to cover corporate lending, mortgages, motor vehicle loans, project finance, investment in securities, M&A and advisory, and underwriting.

4

Exposure scope: financial exposure to high-emitting sectors and climate solutions; and emissions exposure to high-emitting sectors (subject to available emissions allocation methodologies under the Partnership for Carbon Accounting Financials (PCAF)).

5

Key metrics and indicators: focus is on transparency over the degree of alignment with 1.50C sectoral pathways/taxonomies, highlighting gaps between targets and the expected impacts of strategies and action plans.

6

Guidance structure: structured around the six key elements of a transition plan: commitment, baselines and targets, delivery strategy, beyond emissions, governance, and reporting and review.

With thanks

This report was written with the support of a bank transition advisory group convened by Climate Bonds, which held six meetings between January and April 2025. During those meetings, the content of this report was discussed, and the group was given an opportunity to give feedback on its final content.

The advisory group was comprised of several global bank representatives, in addition to representatives from the Transition Pathway Initiative. Climate Bonds is grateful for the time and input extended on a pro bono basis by the group, which provided invaluable advice on the reality and aspirations of market practice.

Climate Bonds Initiative

Climate Bonds Initiative (Climate Bonds) is an international investor-focused not-for-profit organisation working to mobilise the USD100tn bond market for climate change solutions.⁵

It promotes investment in projects and assets needed for a rapid transition to a low-carbon and climate-resilient economy. The mission is to help drive down the cost of capital for large-scale climate and infrastructure projects and to support governments seeking increased access to capital markets to meet climate and greenhouse gas (GHG) emission reduction goals.

Citation request

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Key terms and definitions

Energy supply ratio	<p>The ratio of low-carbon to fossil-fuel facilitated financing.</p> <p>For example, BloombergNEF released a banking-specific Implementation Guide for the metric.⁶</p>
Climate solutions	<p>An economic activity or more granular asset, product, service or technology that directly reduces or removes emissions* and/or is a critical enabler of an accelerated transition towards a net-zero carbon economy**</p> <p>*i.e., activities/assets/ products/services/technologies that substantially and directly reduce or remove emissions, particularly in comparison to their substitutes e.g., solar and wind energy generation facilities. This is in contrast to high-emitting sectors/activities that need to be substantially decarbonised.</p> <p>**i.e., the critical technology, products, infrastructure, and services that provide or contribute to alternatives to high-emission products and services, supporting the transition of entities and whole sectors. These may or may not be inherently low carbon themselves e.g., manufacture of electric vehicle batteries.</p> <p>Eligible external references for the identification of climate solutions are:</p> <ul style="list-style-type: none"> • Regional taxonomies (e.g., ASEAN Taxonomy). • Legislative taxonomies (e.g., EU Taxonomy). • Regulatory disclosure or labelling classification frameworks (e.g., SFDR). • Scientific or intergovernmental frameworks and guidance (e.g., IPCC). • Industry, sector, market-based frameworks (e.g., Asia Transition Finance Guidelines, Climate Bonds Taxonomy, Exponential Roadmap Initiative, IIGCC sector guidance, China's Green Industry Catalogue). • Climate solutions data platforms (e.g., NZAOA Target-Setting Protocol (TSP) Third Edition, Project Drawdown).
Credible sectoral pathway	<p>A credible sectoral pathway is a sector-specific decarbonisation trajectory that meets the following principles:</p> <ol style="list-style-type: none"> 1. It is consistent with a carbon budget that limits the global mean temperature rise to 1.5°C with a 50% probability with low or no overshoot; 2. It may be global or regional (to reflect differentiated capabilities and responsibilities) but in either case it has been derived from and is consistent with climate modelling where the global carbon budget is allocated across time and to different regions and sectors – typically via an integrated assessment model. For example, derived from IEA climate scenarios; 3. It includes all material emissions for that sector; 4. It covers the full timeline to the earlier of net zero/only residual emissions or 2050, as long as any residual emissions are clearly identified; 5. It does not incorporate the use of offsets i.e., it does not assume the corporate will need to use offsets to meet the pathway, except in the case of residual emissions; 6. Any emissions intensity metric used is product or physical emissions intensity only (e.g., tCO₂e/tonne of cement) not economic intensity (e.g. cCO₂e/\$ revenue); 7. Its technical documentation confirms that it meets principles 1-6; 8. It has been produced by an independent third party, i.e., not by the bank themselves, with climate science expert input to the process and has been subject to public review, or if produced by the bank, it has been produced with climate science expert input and with full transparency over the methodology, inputs and assumptions, and comparison to other external scenarios to facilitate consistency and comparability across banks. <p>For convenience, a number of (sources of) pathways have been pre-assessed as meeting these principles. These are the 1.5°C aligned sectoral pathways of SBTi, TPI, Climate Bonds Initiative.</p> <p>Source: Climate Bonds Initiative, Navigating Corporate Transitions: A tool for financial institutions.</p>

Key terms and definitions

In-scope products	Corporate lending (all sectors); mortgages (retail); motor vehicle loans (retail); project finance; debt investments; equity investments; M&A and advisory; underwriting.
Financed and facilitated emissions	<p>Financed emissions = GHG emissions related to on-balance sheet lending and investment exposures, and off-balance sheet committed financing, guarantees, and letters of credit.</p> <p>Facilitated emissions = GHG emissions associated with financial services provided by institutions when arranging financing, such as underwriting, securitisation, and advisory services.</p>
Financial exposure	Credit exposure = committed and/or outstanding amount (USD or alternative currency).
Financially material	<p>Revenue exposure = fees and commissions + interest margin + net capital gains (USD or alternative currency).</p> <p>Financial material sector: a high-emitting sector that accounts for at least 1%* of the bank's total credit or revenue exposure.</p> <p>Financially material products within a financially material high-emitting sector: an in-scope product in the banking book that accounts for more than 1%* of the total credit or revenue exposure to the financially material sector.</p> <p>Financial material products within climate solutions: an in-scope product in the banking book that accounts for more than 1% of the total credit or revenue exposure to climate solutions.</p> <p>*or 2% where the bank discloses a sector cluster (e.g., transport) instead of a specific sector (e.g., automotive, airlines, or shipping).</p>
High emitting sectors	<ul style="list-style-type: none"> • Agriculture and agrifood • Forestry • Cement • Steel • Chemicals • Real estate (commercial and residential) • Oil and gas • Coal • Power generation • Aviation • Shipping • Automotive (rail and road transport) <p>The clients, projects, and physical assets through the value chain that the bank attributes to and includes within each sector will be determined by the applicability guidance provided by the developer of the sectoral pathway/taxonomy used by the bank to set or benchmark its sectoral targets.</p> <p>Of course, banks can include other high-emitting sectors in their disclosures if important or material to the bank. The list above is a minimum list.</p>
Just transition and just transition principles	<p>A just transition is focussed on ensuring equal access to the opportunities generated by the climate transition and prevents damaging inequalities arising from climate change and climate action.</p> <p>Just transition principles have been defined by a number of recognised sources. These include the International Labour Office (ILO) Just Transition Guidelines, and the ILO and LSE Grantham Research Institute for Climate Change and the Environment Just Transition Finance Tool.</p>
Material emissions	At least 95% of scope 1 and 2 emissions, and for sectors with scope 3 emissions that are at least 40% of total emissions (scope 1, 2, and 3 emissions), at least 90% of scope 3 emissions, taking into account the seven GHGs (carbon dioxide (CO ₂), methane (CH ₄), nitrous oxide (N ₂ O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulphur hexafluoride (SF ₆), and nitrogen trifluoride (NF ₃).
Scope 3 category 15 emissions	GHG emissions associated with a bank's lending, investment activities, and provision of other financial services.

Who and what the guidance relates to

Aspect	Best practice	Notes and rationale												
<p>Products and associated emissions in scope</p>	<p>Disclosure to address financed and facilitated emissions from all of the following products in the banking book:</p> <table border="1" data-bbox="293 584 850 965"> <thead> <tr> <th data-bbox="293 584 437 663">Emissions category</th> <th data-bbox="437 584 850 663">Product</th> </tr> </thead> <tbody> <tr> <td data-bbox="293 663 437 875" rowspan="5">Financed emissions</td> <td data-bbox="437 663 850 696">Corporate lending (to all sectors)</td> </tr> <tr> <td data-bbox="437 696 850 730">Mortgages (retail)</td> </tr> <tr> <td data-bbox="437 730 850 763">Motor vehicle loans (retail)</td> </tr> <tr> <td data-bbox="437 763 850 797">Project finance</td> </tr> <tr> <td data-bbox="437 797 850 875">Investments in securities</td> <td data-bbox="683 797 850 875">Debt (bonds) Equity</td> </tr> <tr> <td data-bbox="293 875 437 965" rowspan="2">Facilitated emissions</td> <td data-bbox="437 875 850 909">M&A and advisory</td> </tr> <tr> <td data-bbox="437 909 850 965">Underwriting</td> </tr> </tbody> </table> <p>These emissions are to include all material emissions, across all GHGs, for the sectors to which the client, project, or asset relates, as determined by the selected credible sectoral pathway or taxonomy benchmarked against (as per Best Practice Section 2.2).</p>	Emissions category	Product	Financed emissions	Corporate lending (to all sectors)	Mortgages (retail)	Motor vehicle loans (retail)	Project finance	Investments in securities	Debt (bonds) Equity	Facilitated emissions	M&A and advisory	Underwriting	<p>The Carbon Disclosure Project (CDP) estimated that over 99% of a bank's overall carbon footprint is attributable to Scope 3 Category 15 emissions.⁹ Hence, the guidance focuses specifically on emissions associated with its banking activities, rather than the bank's own operating emissions (scopes 1 and 2). That said, it is noted that operations are taken into account when incorporating aspects beyond emissions in the transition plan. See Best Practices Section 4.</p> <p>Asset management and (re) insurance activities are not in the scope of this guidance as they are different in nature from those of traditional (commercial and investment) banking. Climate Bonds is considering best practices for transition of asset management activities in a separate guidance module.</p> <p>At this stage, the trading book is excluded from this guidance in its entirety, due to the lack of methodologies to allocate emissions from and/or exposures to clients in high-emitting sectors of the real economy.</p> <p>Climate Bonds Initiative may develop additional guidance for the excluded activities in the future.</p> <p>A note on sovereign lending: sovereign lending is not addressed comprehensively in this guidance. However, for best practices to address the reporting of the bank's sovereign exposure see Best Practices Section 2.</p>
Emissions category	Product													
Financed emissions	Corporate lending (to all sectors)													
	Mortgages (retail)													
	Motor vehicle loans (retail)													
	Project finance													
	Investments in securities	Debt (bonds) Equity												
Facilitated emissions	M&A and advisory													
	Underwriting													
<p>Organisational boundary</p>	<p>The boundary of transition plan disclosure is consistent with the organisational boundary used in the company's financial accounts.</p> <p>The bank should disclose the list of entities included in this boundary.</p>	<p>This guidance refers to the scope of banking as consistent with the international standards of banks or jurisdictional accounting rules when necessary. This will include IFRS US GAAP and other main international accounting reference frameworks.</p> <p>Having the same scope for the transition disclosure and integrated accounts makes it easier to reconcile data points with audited accounts, particularly in respect of reported exposure data. It also ensures that governance and supervision are uniform across the activities covered by the transition plan.</p>												

Recommended best practices

1. Commitment

Aspect	Best practice
1.1 Commitment	<p>For globally operational banks: the bank has publicly committed to endeavour to transition its banking book* in alignment with pathways consistent with a maximum temperature rise of 1.5°C above pre-industrial levels by 2100, with low or no overshoot.</p> <p><i>*including on- and off-balance sheet, and financed and facilitated emissions, subject to available methodologies.</i></p>
Rationale	<p>The world's long-term climate goal is enshrined in the Paris Agreement, namely, to hold the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels.</p> <p>In line with the accepted principle of equity and common but differentiated responsibilities and respective capabilities, and in the light of different national circumstances, it is recognised that the interpretation of 'alignment with pathways consistent with 1.5 degrees' will mean different speeds and shapes of transition for banks primarily operating in emerging markets compared to globally operational banks or those operating primarily in non-emerging markets.</p> <p>The best practice here has been expressed in terms of alignment with temperature-specific pathways rather than a net-zero target as net zero depends not only on the mix of regional exposure but also sectoral exposure, as some sectors could and/or should transition to net zero earlier than others, and hence, cannot be easily translated into a shared best practice for all banks.</p>

2. Baselines and targets

Aspect	Best practice
	<p><i>Note: banks are encouraged to disclose separate baselines and targets for i) financed emissions and exposures, and ii) facilitated emissions and exposures, per the list of in-scope products and their association with financed or facilitated emissions as detailed above.</i></p>
2.1. Disclosure of emissions and exposure trajectories	<p>2.1.1.</p> <p>For each high-emitting sector that is financially material to the bank, aggregating across all financially material products within that sector, the bank determines:</p> <ol style="list-style-type: none"> Its absolute emissions reductions trajectory from current actual emissions to short-, medium-, and long-term target emissions, taking into account all material emissions for that sector; and Related current and targeted financial exposure; and % of that financial exposure supported by a client transition plan* or aligned with the (substantial contribution or equivalent) mitigation criteria of a referenced taxonomy**, disclosing the sources or methodology used to assess those transition plans/which taxonomy is being used. <p><i>See Figure 1 for a detailed illustration of key data. Items in black text should be publicly disclosed. Items in green text should be publicly disclosed, or an independent third party should give assurance that this analysis exists. The bank should also disclose the sectoral pathway(s) they have used to set their sectoral targets, if any.</i></p>

Recommended best practices

2. Baselines and targets

Aspect	Best practice <i>Note: banks are encouraged to disclose separate baselines and targets for i) financed emissions and exposures, and ii) facilitated emissions and exposures, per the list of in-scope products and their association with financed or facilitated emissions as detailed above.</i>
2.1. Disclosure of emissions and exposure trajectories	<p>2.1.2. In aggregate across all financially material high-emitting sectors and financially material products (as disclosed under Best Practice 2.1.1.) the bank determines and discloses:</p> <ul style="list-style-type: none"> a) Its absolute emissions reductions trajectory from current actual emissions to short-, medium-, and long-term target emissions, taking into account all material emissions for those sectors; and b) Related current and targeted financial exposure; and c) % of that financial exposure supported by a client transition plan* or aligned with the (substantial contribution or equivalent) mitigation criteria of a referenced taxonomy**, disclosing which sources or methodology is used to assess those transition plans/which taxonomy is being used. <p><i>Note: Items in black and purple text in Figure 1 should be publicly disclosed at this aggregate level.</i></p> <p>2.1.3. In aggregate, across all climate solutions, aggregating across all financially material products within climate solutions, the bank:</p> <ul style="list-style-type: none"> a) Determines its financial exposure trajectory from current actuals to short-, medium-, and long-term targets; and b) Discloses which activities/assets/products/services/technologies they recognise and include as climate solutions, and the supporting external references for this; and c) Discloses how it applied climate scenarios to arrive at its climate solution targets. <p><i>See Figure 2 for a detailed illustration of key data, all of which should be publicly disclosed at this aggregate level.</i></p> <p>2.1.4. In respect of sovereign exposure, aggregating across all in-scope products, the bank discloses:</p> <ul style="list-style-type: none"> a) Its current financial exposure; and b) The % of that exposure that the bank considers as supported by a credible sovereign transition plan and the methodology or assessment tool used for that credibility assessment. <p>2.1.5. In respect of credit institutions exposure, the bank discloses:</p> <ul style="list-style-type: none"> a) Its current financial exposure; and b) The % of that exposure that the bank considers as supported by a credible credit institution transition plan and the methodology or assessment tool used for that credibility assessment. <p>2.1.6. Across all in-scope products, the bank discloses its current and forecast energy supply ratio (and the methodology used to calculate it) and the ratio falls below the recommended 2030 and 2040 thresholds established by the IEA's Net Zero Emissions by 2050 Scenario.</p> <p>*where unknown use of proceeds such as general purpose corporate lending, equity. **where known use of proceeds, such as project finance, targeted corporate loans, mortgages, car loans.</p>

Recommended best practices

2. Baselines and targets

Aspect	Best practice <i>Note: banks are encouraged to disclose separate baselines and targets for i) financed emissions and exposures, and ii) facilitated emissions and exposures, per the list of in-scope products and their association with financed or facilitated emissions as detailed above.</i>
2.1. Disclosure of emissions and exposure trajectories	2.1.7. For all of the above, the bank discloses: a) The methods, assumptions, and variables used to quantify baseline and target emissions and exposures; and b) Results from PCAF's data quality scoring methodology to assess the quality of underlying client emissions data.
2.2. Benchmarking of emissions trajectory	2.2.1. For each financially material high-emitting sector, aggregating across all financially material products within that sector (i.e., for all the sectoral emissions trajectories disclosed per Best Practices 2.1.1. and 2.1.2.), the bank discloses: a) The equivalent sectoral physical emissions intensity of its current actual emissions, and future targets and benchmarks those figures against a credible sectoral pathway; and b) The source of the sectoral pathway(s) it has chosen to benchmark its sectoral targets against. <i>See Figure 3 for an illustration.</i>
Notes and rationale	<p>Prescribing the sectors and products to report, the metrics to report against, and (to some extent) the tools/methodologies and data to use.</p> <p>As noted above, one of the greatest challenges at present for users of bank transition plans is the lack of consistency and hence comparability between different transition plans. These best practices aim to support a movement towards greater consistency and comparability, balancing robustness with flexibility by a) describing sets of principles for credible tools and methodologies with full disclosure to maximise transparency, at the same time as b) being prescriptive about the metrics to be reported. Additionally, these recommendations are intended to be compatible with existing guidance and assessment schemes relating to bank transition plans, to promote a common voice to advise banks on good or best practices.</p> <p>Focussing on high-emitting sectors and climate solutions.</p> <p>At this time, priority should be given to transitioning high-emitting sectors that need to decarbonise and/or phase out, and scaling up climate solutions. In time, bank transition planning and disclosure should extend to all sectors but this comes in a second phase.</p> <p>However, climate solutions require a slightly different approach to high-emitting sectors as a) what could be recognised as climate solutions are very diverse, not facilitating the identification of a prioritised list of sectors; b) climate solution providers are unlikely to have disclosed their own transition plan, and transition pathways have not been identified for climate solutions (as priority has been given to high-emitting sectors) although some taxonomies do include activities/assets/products/services/technologies that could be deemed climate solutions; and c) banks often address these climate solutions in a siloed way with sectoral pathways and emissions targets for those needing to decarbonise and funding targets for climate solutions.</p>

Recommended best practices

2. Baselines and targets

Aspect	Best practice <i>Note: banks are encouraged to disclose separate baselines and targets for i) financed emissions and exposures, and ii) facilitated emissions and exposures, per the list of in-scope products and their association with financed or facilitated emissions as detailed above.</i>
Notes and rationale	<p>For these reasons, disclosure is recommended at the aggregate level for climate solutions as individually each climate solution may not pass any materiality test and disclosure focuses on financial exposure rather than emissions.</p> <p>For high-emitting sectors, both emissions and financial exposure disclosure is recommended. Emissions disclosure relating to the highest emitters is of course critical to any emissions reduction plan, and financial exposure metrics are pivotal to illustrating the current scope of the bank's transition plan.</p> <p>Separated disclosure of financed and facilitated targets. At present, the focus of many banks is on financed emissions only, so the first step is to expand that focus to include facilitated emissions. Ideally, banks would separate targets by financed and facilitated emissions and are strongly encouraged to do so.</p> <p>Disclosing the proportion of those emissions and exposures supported by a transition plan. The risks to a bank of being exposed to a high-emissions sector via a client are substantially reduced if those clients have developed and are implementing their own transition plans. Hence, this information aids in understanding the transition risk of banks. Furthermore, if one of the bank's actions in its transition delivery strategy (as per Best Practice Section 3.1.1.) is engagement or conditionality relating to client transition plans, this will be a key metric to track and disclose.</p> <p>Determining and disclosing an emissions trajectory, and benchmarking those targets against a credible sectoral pathway. The emissions (reduction) targets of banks are often determined top down, which means they are set to align with the selected sectoral pathway, at least in the long term, rather than bottom up based on estimates of the impact of planned transition strategies on the part of the bank and on the part of its clients. Therefore, an emissions trajectory as illustrated in Figure 1 plays an important role in exploring and communicating internally and externally the estimated impact of actions planned by the bank (which are often not well quantified, see Section 3.5) and therefore, by extension any gaps between aspirational targets and planned actions to deliver those targets.</p> <p>Benchmarking emissions baselines and targets provides transparency on the progress being made in aligning with the bank's commitment to align with the Paris-agreement (as per Section 1.1).</p> <p>Separating actuals and baseline (and bank- versus client-emissions impacts). Ideally, current financed and facilitated emissions would be estimated bottom up using disclosed client emissions data. However, at present such client disclosures are limited, and often use different methodologies and assumptions, so bank's baselines are often generated using proxy or default sectoral data instead. Notwithstanding, it is considered useful to be transparent about the roll out over time of bottom up emissions estimates. Similarly, it would be insightful to see over time the share of planned emissions reductions arising from (hopefully) increased disclosure of client emissions targets and associated transition plans.</p>

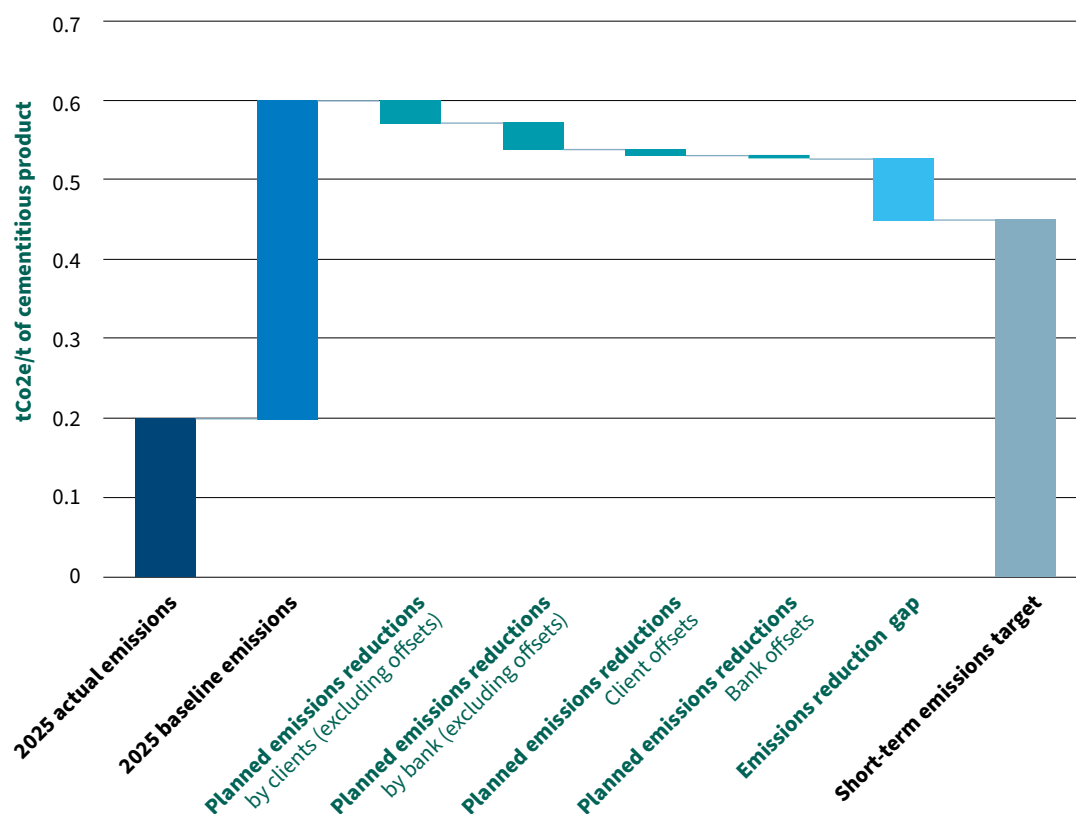
Recommended best practices

2. Baselines and targets

Aspect	Best practice <i>Note: banks are encouraged to disclose separate baselines and targets for i) financed emissions and exposures, and ii) facilitated emissions and exposures, per the list of in-scope products and their association with financed or facilitated emissions as detailed above.</i>
Notes and rationale	<p>Separate out the impact of any emissions offsetting.</p> <p>Banks and their clients should focus primarily on actions they can take to reduce their scope 1, 2, and 3 emissions, including the emissions in their value chains. Offsets should be restricted to balancing any residual emissions where there are limited technologically or financially viable alternatives to eliminate emissions. For this reason, it is helpful to separately identify emissions reductions achieved or planned to be achieved via the use of offsets.</p> <p>Where offsets are used to address residual emissions, these should be certified and the standard or methodology used/ to be used to certify the carbon credits identified.</p> <p>Reporting exposure to sovereigns and banks.</p> <p>Sovereign lending can make up a significant portion of a bank's assets.¹⁰ Therefore, it would be desirable to set targets and associated strategies to reduce financed and facilitated emissions related to that lending. However, despite the PCAF methodology on calculating allocated sovereign emissions, this remains a fledging area at present in terms of available sovereign transition plans, guidance methodologies for the assessments of those plans, and bank practice. Similarly, banks assessing the transition plans of other banks is at a relatively early stage. Hence, at this juncture, simply the reporting of financial exposure to sovereign lending and bank lending is proposed. Climate Bonds is currently undertaking further work on sovereign transition plans and this aspect of the guidance may be updated shortly.</p>

Figure 1 **Example of an emissions and exposure reduction trajectory for the cement sector**

Illustrated to short-term target date, but repeat to medium- and then to long-term target dates



Related current and target financial exposure information to disclose

- Credit exposure
- Revenue exposure
- That credit exposure as a % of the total balance sheet
- That revenue exposure as a % of total revenue

Associated definitions

Actual emissions: as reported by the client in their transition plan or elsewhere.

Baseline emissions: calculated by the bank on the basis of proxy/default data.

Planned client emissions reductions: as reported by the client in their transition plan.

Planned bank emissions reductions: arising from the actions the bank has identified in its transition strategy (see Best Practices Section 3).

Emissions reductions gap: calculated as the difference between targeted emissions and planned emissions reductions from the baseline.

Target emissions: short-, medium-, and long-term emissions targets set by the bank, where:

- Short-term is within the next three to five years (from the year of assessment).

- Medium-term is from 2028 to 2035.

- Long-term is from 2036 to 2050.

Figure 2 **Example of scale-up trajectory for climate solutions exposure**

Illustrated to short-term target date, but repeat to medium- and then to long-term target dates

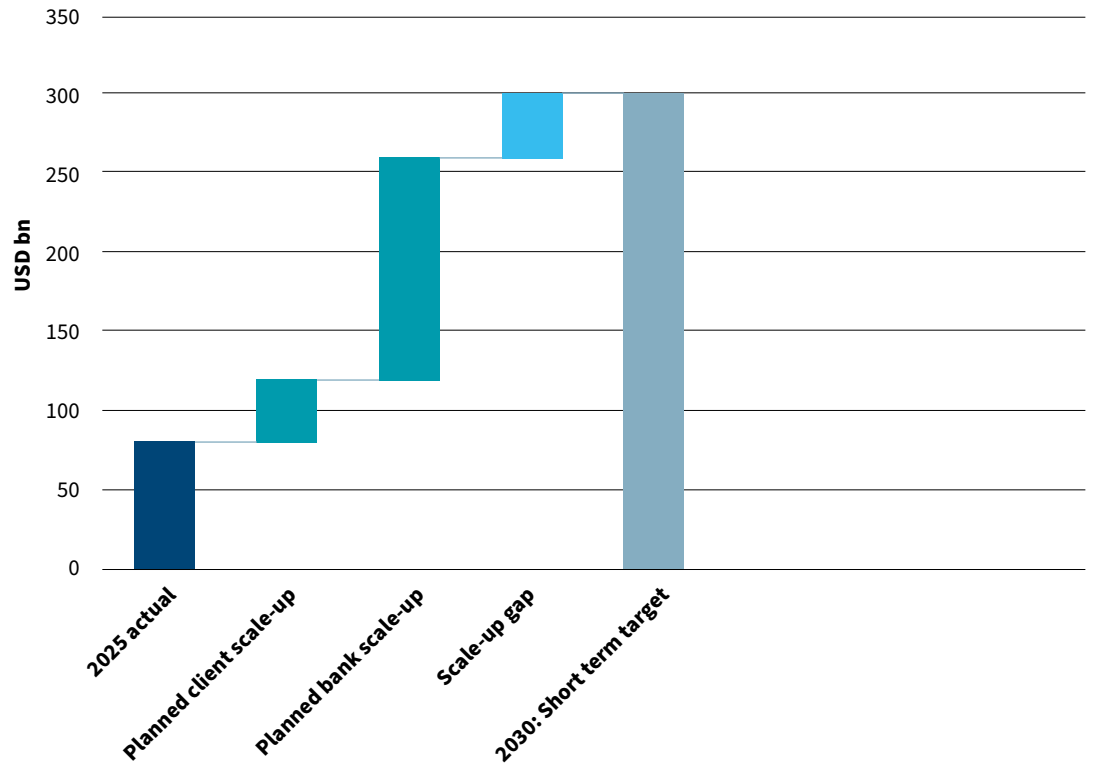
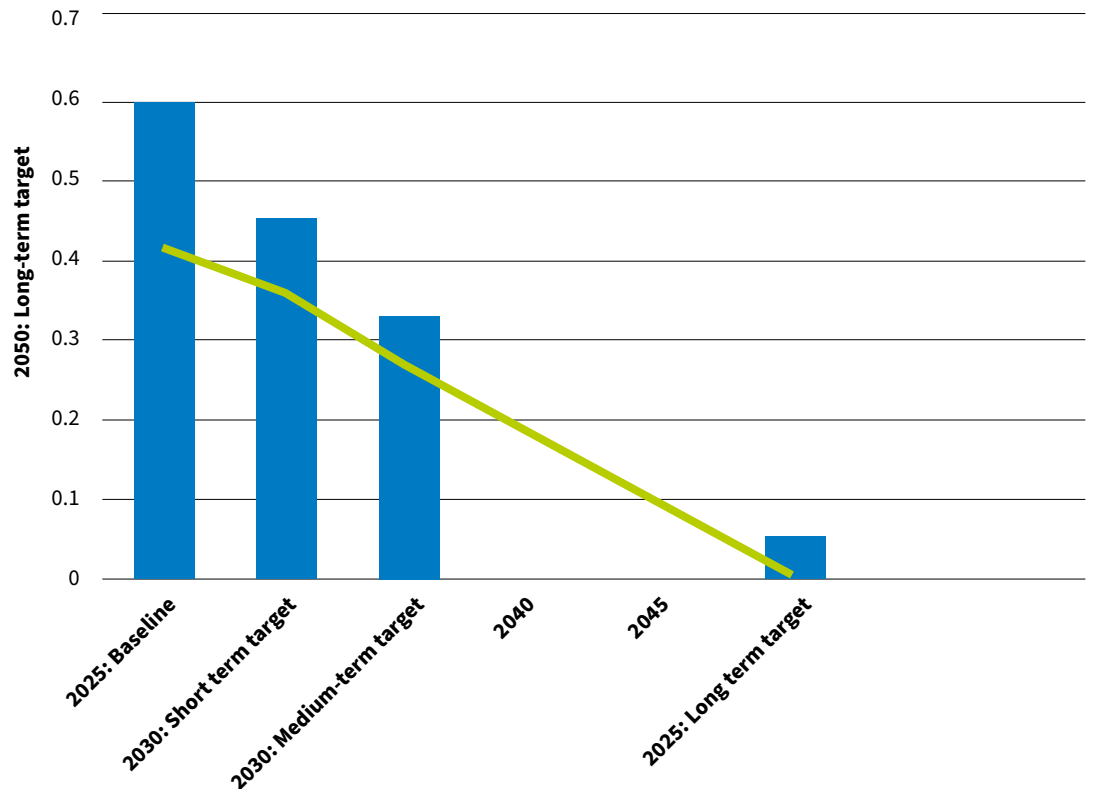


Figure 3 **Example of benchmarking of emissions intensity for the cement sector**

■ Baseline/targets
 — 1.5 degree pathway



Recommended best practices

3. Delivery strategy

Aspect	Best practice
3.1. Financing conditions for high-emitting sectors	<p>3.1.1. The bank is applying conditions on financing and facilitating activities for all financially material high-emissions sectors (as per Best Practice Section 2.1.1.) and discloses the conditions applied, to which sectors, and over what timeframe.</p> <p>Such conditions aim at putting and maintaining the client on a 1.5°C transition pathway appropriate to their sector and region of operation. For example, requesting that client entities have a transition plan addressing all material emissions. For oil and gas, coal, and agriculture sectors, this is to include methane abatement targets and strategies. Preferential or penalty interest rates or fees, or covenants related to the trajectory, such as an interest ratchet in sustainability-linked loans (SLLs) and sustainability-linked bonds (SLBs), may also be included.</p> <p>3.1.2. The bank has determined a process and takes and discloses actions to ensure that financing conditions and/or covenants are enforced.</p> <p>For example, developing a watch list, suspending loan disbursement, providing pricing incentives, and/or divestment.</p>
3.2. Addressing misaligned exposures	<p>Coal</p> <p>3.2.1. From 2025 onwards, the bank no long finances or facilitates new coal capacity (mining and power generation). 3.2.2. The bank has publicly committed to phase out all on- and off-balance sheet activities that finance unabated thermal coal (mining and power generation) by 2030 in OECD countries and by 2040 in the rest of the world. 3.2.3. The bank and has disclosed a time-bound action plan for how it will implement, track, and report progress on the delivery of this commitment.</p> <p>Oil and gas</p> <p>3.2.4. From 2025 onwards, the bank no longer finances or facilitates the exploration and development of new oil and gas fields. 3.2.5. The bank has publicly committed to phase out all on- and off-balance sheet activities that finance unabated oil and gas on a timeline compatible with a credible sectoral pathway. 3.2.6. The bank and has disclosed a time-bound action plan for how it will implement and track and report progress on the delivery of this commitment. Any consideration of abatement must include at least one of the methane abatement measures described in the MAFT report.¹¹</p> <p>Deforestation</p> <p>3.2.5. The bank has publicly committed to monitor and phase out commodity-driven deforestation within its financed and facilitated activities by 2030. 3.2.6. The bank has disclosed a commodity-specific deforestation policy for all high ‘forest-risk’ commodities (wood, timber, pulp and paper, soy, palm oil, and biofuels). 3.2.7. The bank has disclosed an outline of the methodologies and related metrics being used to track deforestation, referencing best practices.</p>

Recommended best practices

3. Delivery strategy

Aspect	Best practice
3.3. Climate solutions strategy	3.3.1. The bank has disclosed its strategy to deliver its climate solutions targets, identifying specific actions it intended to take and associated policies. This might include lending and investing strategies, and changes to products and services to increase the financing of climate solutions.
3.4. Wider engagement for systemic change	3.4.1. The bank has disclosed its proactive support to government 1.5°C policies that make the transition possible. Possible indicators of support by a bank to government transition policies might be: rate of distribution of government subsidised loans for clean energy such as the Eco PTZ in France; preferential conditions for customer lending into clean development government policies and actions, such as EV lease, home thermal retrofit or agrifood eco investment; advertising and promotional campaigns by the bank supporting these policies. 3.4.2. The bank is funding local, national or global research, pilots, and advocacy that can support wider systemic transition across the banking industry. For example, funding publications, NGOs, pilots, cross-cutting initiatives such as NGFS research, academia, etc.
3.5. Quantifying impact	3.5.1. The bank has disclosed quantified estimates of the impact of the actions detailed in 3.1-3.4. on its emissions from and exposure to high-emitting sectors, and the impact on its exposure to climate solutions. <i>This to feed into the high-emitting sectors and climate solutions trajectories detailed in Best Practice Section 2.1.</i>
Rationale	<p>The focus here is the active steps the bank is taking to transition its banking book, based on an underpinning strategy and identified set of levers to actively deliver it. Identifying and disclosing those actions enables users of the transition plan to make an initial assessment of the credibility of the ambition and targets set by the bank i.e., if the proposed actions to deliver add up to the scale of targeted emissions reductions and scaled up climate solutions, while also enabling the ongoing tracking on progress in the implementation of the plan. This is equivalent to the disclosure requests of corporates in respect of the disclosure of their action plan underpinning their transition targets.</p> <p>The best practices are not prescriptive in terms of the conditions a bank might apply on financing and facilitating activities for all high-emissions sectors or delivering its strategy for scaling up climate solutions, as these will need to be designed with regional and sectoral contexts in mind.</p> <p>However, the best practices are prescriptive in terms of misaligned activities as the IEA is clear that these activities are not compatible with the goal of decarbonising energy.¹²</p> <p>The scope of this action plan includes actions supporting a wider systemic transition which will flow back into transition of the banking book which cannot be achieved by institutions and organisations working in isolation.</p>

Recommended best practices

4. Beyond emissions

Aspect	Best practice
4.1 Just transition	<p>4.1.1.</p> <p>The bank discloses how its transition strategy addresses the management of the social impacts of the low-carbon transition, specifically how far externally defined just transition principles have been integrated into its decarbonisation strategy and the actions taken to ensure relevant just transition considerations are addressed e.g., any just transition-related requirements in lending covenants and conditions, pre-investment screening, sector policies, etc.</p> <p>The bank also discloses which just transition principles have been used 5.2.1. For any phase out activities, the bank discloses its policies to address how they engage the companies they support to deliver a just transition.</p>
4.2. Adaptation & resilience	<p>4.2</p> <p>In respect of its exposure to adaptation and resilience risks and opportunities via its clients, the bank discloses:</p> <ul style="list-style-type: none"> • Whether and how it identifies, assesses, and takes into account the impacts and dependencies of its transition plan to the impacts of climate change, and pursues its objectives and priorities in a manner that safeguards the natural environment, and any methodology followed for that e.g., TCFD, TNFD. This to include identification of: <ul style="list-style-type: none"> • Its policies and conditions to activities related to client sectors, activities or assets that may be particularly vulnerable to a changing climate or that are at risk of maladaptation (e.g., policies to screen investments for climate vulnerability, or identification of any misaligned activities); • Its lending and investing strategies that maximise resilience (e.g., increasing the financing of nature-based solutions and adaptation activities) and associated capital allocations; • Any direct and indirect policy, regulatory or wider stakeholder engagement activities in relation to national adaptation targets and strategies, or policies to which attract investment of capital into nature solutions; • Any potential trade-offs, synergies, or co-benefits identified between its emissions objectives and priorities and impacts on the natural environment and adaptation and resilience action; • The number and proportion of client transition plans that include relevant information about the impacts and dependencies of their transition plans on stakeholders, society, the economy, and the natural environment. <p>4.2.2</p> <p>In respect of the bank's direct exposure to adaptation and resilience risks, the bank discloses:</p> <ul style="list-style-type: none"> • The extent of its operating assets exposure to physical risks (e.g. data centres or branch sites vulnerable to acute and chronic physical risks); • The adaptation and resilience strategies and actions it deploys to mitigate such risks.
Rationale	<p>The imperative of addressing climate adaptation and resilience and ensuring a 'just transition' is recognised in the Paris Agreement on climate change.</p> <p>A bank's transition plan may rely on the ability of its clients to ensure their transition is a just transition, as transitions that have not considered the broader-socio-economic impacts on jobs, income, and economic diversification, particularly support for vulnerable groups, are more volatile and less likely to succeed.</p> <p>Similarly, a bank's transition plan may rely on the ability of its clients to ensure the resilience of their operations to the physical impacts of the changing climate. For example, where a borrower relies on ecosystem services for flood, storm, and heat protection, this creates an indirect dependency on nature for the lending bank.</p> <p>These impacts and dependencies of a bank's transition plan may give rise to a wide range of both socio-economic and nature-related risks and opportunities. Banks may find that they can mitigate these risks and create opportunities through actions such as implementing policies and conditions on their financing activities, engaging with clients and customers on their social-, economic- and nature-related impacts and dependencies, and financing and facilitating activities that positively contribute to a just transition and a resilient social, economic, and natural environment.</p>

Recommended best practices

5. Governance

Aspect	Best practice
5.1. Board competency	<p>5.1.1. Bank shareholders have appointed a board member and/or the bank has nominated a board committee which has specific responsibility for climate change and transition related matters.</p> <p>5.1.2. The bank has disclosed criteria on assessing the board competencies with respect to managing climate risks.</p>
5.2. Remuneration	<p>5.2.1. The bank has established a remuneration scheme at C-suite level that incorporates the progress on the overall emissions reductions targets set out in the precise metrics and milestones in the transition plan.</p>
5.3. Ongoing responsibilities	<p>5.3.1. The transition plan is approved and its implementation monitored by the highest-level governance body in the bank that normally oversees and approves the strategic plan.</p> <p>5.3.2. The bank has publicly committed to review and (if necessary) revise its transition plan at least every five years and in line with strategic business planning.</p>
Rationale	<p>Transition will not succeed unless the transition strategy and the wider business strategy are united. Hence, responsibility for the development and roll out of the transition plan should sit at the highest level of the bank, with those responsible for the bank's wider strategic plan. This will not only help to ensure compatibility between them, but also attach equal importance to both.</p> <p>Regular review of all aspects of the transition plan (targets, strategy, governance, etc.) is required to ensure consistency with:</p> <ul style="list-style-type: none"> • The latest climate science; • Any major changes in international agreements or national goals; • Significant changes that might compromise the relevance and consistency of the existing targets and strategies such as material portfolio changes, methodological developments, technological, consumer or policy developments;

Recommended best practices

6. Reporting & review

Aspect	Best practice
6.1. Disclosure of the transition plan	6.1. See the specific disclosures recommended in the best practices outlined in sections 1 to 5 above.
6.2. Ongoing reporting of implementation progress of transition plan	<p>6.2.1. Publish progress annually against the targets disclosed in line with Best Practices Sections 2 and 4.</p> <p>6.2.2. Publish annually progress against the planned transition delivery strategy actions in line with Best Practices Sections 3 and 4.</p>
6.3. External review of transition plan	6.3. The transition plan has been subject to review and assessment by an independent, external review provider and their assurance statement or opinion has been made public.
6.4. Consistency with financial reporting	<p>6.4.1. The bank includes in its annual report a section on the implications of climate change for the bank, the risks and related actions taken, the opportunities and related strategy to address them, and this strategy is consistent with the transition plan.</p> <p>6.4.2. The bank has disclosed, where material, where climate-related matters are incorporated in its financial statements, and explained how. Where not material, explanations and quantitative data to support this conclusion have been disclosed.</p> <p>6.4.3. The bank has disclosed the quantitative climate-related assumptions and estimates (e.g., estimates of future cash flows used in impairment testing) in its financial statements.</p> <p>6.4.4. The bank has used or disclosed a sensitivity to assumptions and estimates aligned with achieving its transition targets in its financial statements.</p>
6.5. Financial statement audit	<p>6.5.1. The audit report identifies how the auditor has assessed the material impacts of climate-related matters.</p> <p>6.5.2. The audit report analyses the bank's assumptions and estimates used in quantifying the financial consequences of climate-related matters.</p> <p>6.5.3. The auditor has confirmed that the financial statements and the bank's other reporting (e.g., annual Report, Pillar 3 disclosures, TCFD index, sustainability report, transition plan etc.) are consistent.</p>
Rationale	Transparency is essential for credibility. While transitions are not expected to be perfect in their first iterations, it is critical that users of transition plans have available to them, via bank disclosure and external assessments, the necessary information to be able to evaluate the robustness and feasibility of the targets and delivery strategies being proposed. Consistency with financial reporting is also a principal indicator of credibility given the legal obligations for accurate and timely financial reporting. Inconsistencies between the transition plan and financial reporting indicate that the transition plan has not been fully embedded in the business and business decision making.

Appendix 1: Existing guidance and frameworks reviewed

	Organisation	Framework reviewed	Link(s)
Guidance	Net Zero Banking Alliance	NZBA Commitment Statement <i>with</i>	10-NZBA-PRB-Commitment-statement-D3.pdf
	(NZBA)	Guidelines for climate target setting for banks, Version 3, April 2025	Guidance for Climate Target Setting for Banks – Version 3 – United Nations Environment – Finance Initiative
	Transition Plan Taskforce (TPT)	Disclosure Framework, October 2023 <i>and</i> Banks Sector Guidance, April 2024	disclosure-framework-oct-2023.pdf banks-sector-guidance-apr-2024.pdf
Assessment framework	Transition Pathway Initiative (TPI)	Banking assessment framework methodology, December 2024	2024-tpi-centre-banking-assessment-framework-methodology-note.pdf
	World Benchmarking Alliance (WBA)	Methodology ACT Finance Banking, Version 2.2, May 2024	act_finance_investing_methodology_20240222.pdf
	Science Based Targets Initiative (SBTi)	Financial institutions net-zero standard, Consultation Draft V0.1 July 2024	FINZ Consultation Draft

End notes

- 1 See for example: Creed, A., & Martini, M., 2025. 'The Transition to Net Zero: Banks Can Do Better - Lessons learned from bank disclosures', January 2025, Climate Bonds Initiative: [cbi_banking_lessons_02a.pdf](#). Jahn V, Brochard A, Diaz N, Hajagos-Tóth Á and Dietz S (2024) State of transition in the banking sector. London: Transition Pathway Initiative Centre, London School of Economics and Political Science. December 2024: [2024-state-of-transition-in-the-banking-sector-report-2024.pdf](#), and World Resources Institute [Financial Institutions Net Zero Tracker](#) | World Resources Institute.
- 2 Climate Bonds Initiative, 'Checklist for Entity Certification, Version 1.0', April 2023: [CBSv4_0 - ENTITY Certification Checklist.pdf](#) and Climate Bonds Initiative, 'Navigating Corporate Transitions: A tool for financial institutions to assess and categorise corporates by their transition credibility and maturity', 2023: [cbi_navcorptran_03b.pdf](#)
- 3 Climate Bonds Initiative, 'Unlocking investment for sovereign transition - A guide for investors', June 2025: <https://www.climatebonds.net/data-insights/publications>
- 4 See the sectoral page links available here: [Sector Criteria Available for Certification | Climate Bonds Initiative](#)
- 5 OECD (2025), Global Debt Report 2025: Financing Growth in a Challenging Debt Market Environment, OECD Publishing, Paris, <https://doi.org/10.1787/8ee42b13-en>.
- 6 Bloomberg New Energy Finance, September 2018, Banking Energy Supply Financing Ratio Implementation Guide: [BNEF](#)
- 7 Climate Bonds Initiative, 'Checklist for Entity Certification, Version 1.0', April 2023: [CBSv4_0 - ENTITY Certification Checklist.pdf](#) and Climate Bonds Initiative, 'Navigating Corporate Transitions: A tool for financial institutions to assess and categorise corporates by their transition credibility and maturity', 2023: [cbi_navcorptran_03b.pdf](#)
- 8 International Labour Office and LSE Grantham Research Institute for Climate Change and the Environment, 2022, Just Transition Finance Tool for banking and investing activities: [wcms_860182.pdf](#) and International Labour Office, 2015, Guidelines for a just transition towards environmentally sustainable economies and societies for all: [Microsoft Word - Guidelines for a just transition - copyrighted.docx](#)
- 9 Carbon Disclosure Project [CDP] (2024) Technical note: Relevance of Scope 3 Categories by Sector. <https://cdn.cdp.net/cdp-production/cms/guidance-docs/pdfs/000/003/504/original/CDP-technical-note-scope-3-relevance-by-sector.pdf?1649687608>.
- 10 See <https://blogs.worldbank.org/en/psd/the-rise-of-sovereign-bank-nexus-risks-in-developing-economies>
- 11 MAFT, 'Guidance for Including Methane Abatement in Oil and Gas Debt Structuring', June 2025: <https://methanefinance.org/>
- 12 As noted in the Transition Pathway Initiative methodology for assessing bank transition plans (Jahn V, Brochard A, Diaz N, Hajagos-Tóth Á and Dietz S (2024) State of transition in the banking sector. London: Transition Pathway Initiative Centre, London School of Economics and Political Science. December 2024: [2024-state-of-transition-in-the-banking-sector-report-2024.pdf](#)) the Net Zero Emissions (NZE) by 2050 scenario from the International Energy Agency (IEA) states that "No new long-lead time upstream oil and gas projects are needed in the NZE Scenario, neither are new coal mines, mine extensions or new unabated coal plants"; The World Energy Outlook 2024 confirms that in the NZE scenario, "declines in demand are sufficiently steep that no new long lead-time conventional oil and gas projects are required, and no new coal mines or coal mine lifetime extensions are needed either". See P16 of International Energy Agency (2023) Net Zero Roadmap. <https://www.iea.org/reports/net-zero-roadmap-a-global-pathway-to-keep-the-15-0c-goal-in-reach> and P239 of International Energy Agency (2024) World Energy Outlook 2024. <https://www.iea.org/reports/world-energy-outlook-2024>

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