SCIENCE BASED TARGETS

DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

SBTi FINANCIAL INSTITUTIONS NET-ZERO STANDARD IN BRIEF

July 2025

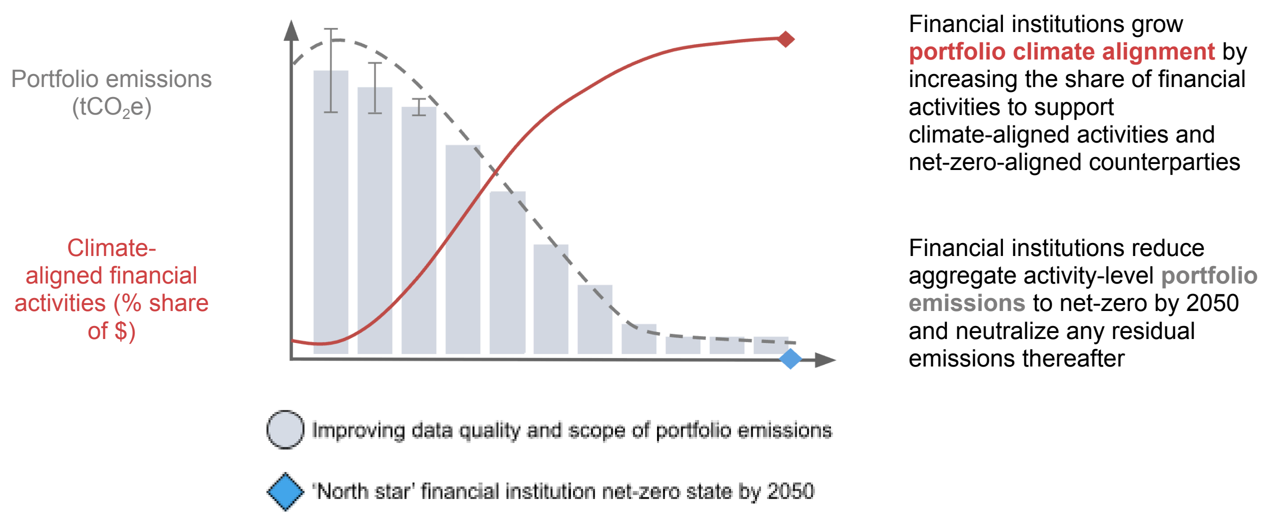
The importance of the finance sector in the net-zero transition

Financial institutions have a critical role in the global economy's transformation to net-zero. As climate risks intensify through both transition risks—such as abrupt changes in policies, technological innovations, or consumer preferences—and physical impacts, including floods and droughts, the stability of the financial system is increasingly at stake.

By aligning lending, investment, and underwriting decisions with climate goals, financial institutions can steer capital toward the solutions needed to decarbonize the real economy. Setting science-based targets is a key step to mitigate exposure to climate-related risks, build resilience, and maintain competitiveness in a rapidly transforming market, all while supporting the global net-zero transition.

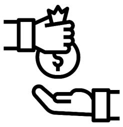
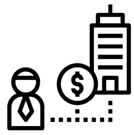
Overview of the Financial Institutions Net-Zero Standard

The SBTi developed the Financial Institutions Net-Zero Standard to provide a science-based framework for financial institutions to align their lending, investing, insurance underwriting, and capital market activities with net-zero. The Standard is structured in line with the net-zero journey of financial institutions: commitment to net-zero, base year assessment, development of policies and targets, assessment of progress, and communications and claims related to this process. The Standard presents several innovations compared to the existing Financial Institutions Near-Term Criteria, including: a more comprehensive set of asset classes and financial activities (i.e., insurance underwriting and capital market activities); extended use of more actionable metrics and targets (in addition to emission reduction targets); and policies to align the most emission intensive activities, such as financing for fossil fuel activities and deforestation. The figure below illustrates the Standard's conceptual framework, focused on increasing the share of climate-aligned financial activities and reducing portfolio emissions.



Who can use the Standard?

The Standard is designed primarily for financial institutions, which the SBTi defines as entities that generates 5% or more of their revenue from any of the following five financial activities:

Lending	Asset Owner Investing	Asset Manager Investing	Insurance Underwriting	Capital Market Activities
				

It is intended for all commercially-operated, private, and public financial institutions, including public pension funds and sovereign wealth funds. Other businesses that generate less than 5% of their revenue from financial activities are encouraged, but not required, to use the Standard when setting science-based targets.

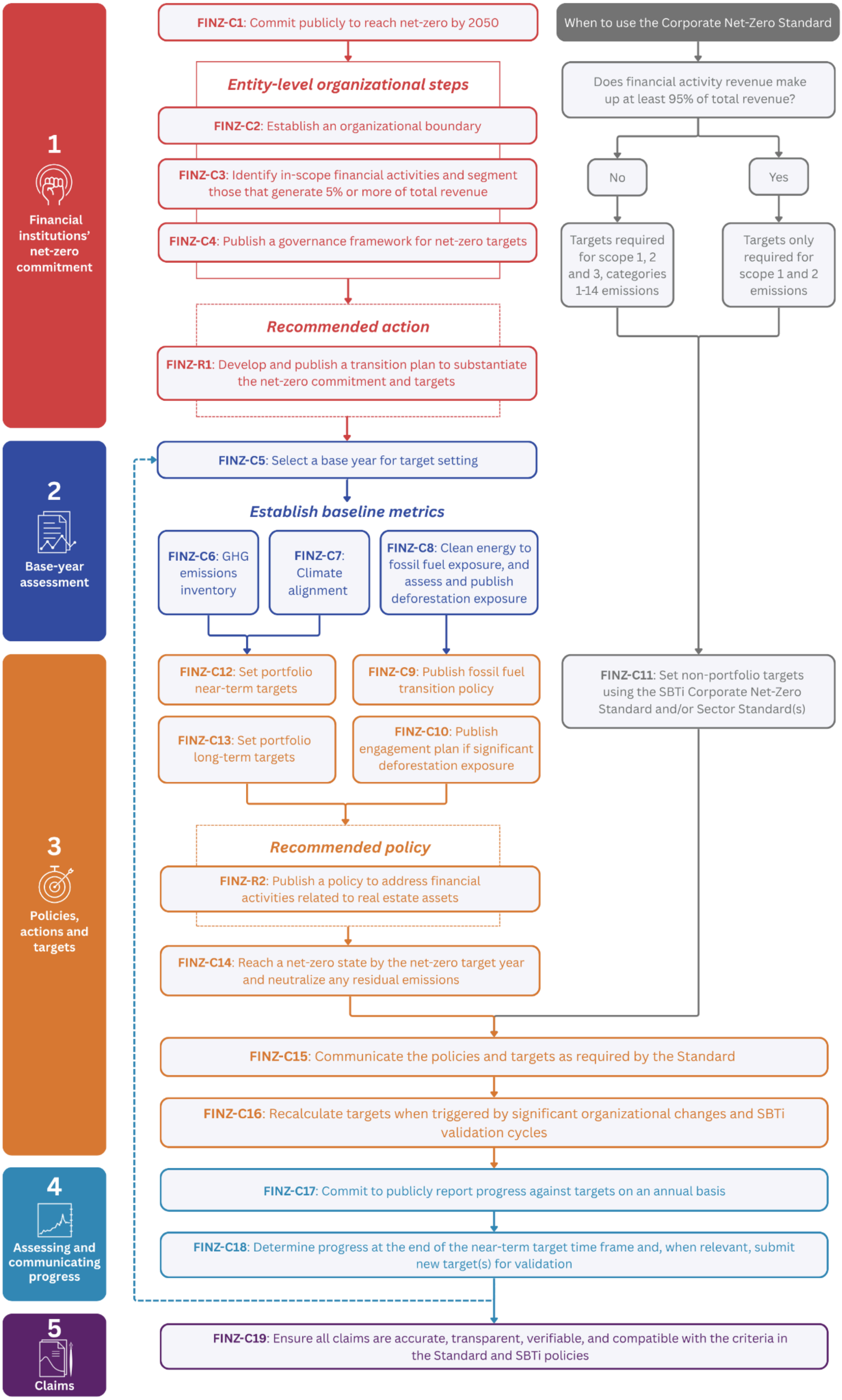
Interoperability of the Standard

To facilitate interoperability with the wider climate action ecosystem, the Standard permits the use of a range of methodologies to measure progress on portfolio alignment, including those from third-party providers. The Financial Institution Net-Zero Standard Implementation List outlines which methodologies meet the SBTi's quality criteria and can be used to track progress against alignment targets.

The Financial Institutions Net-Zero Standard complements the SBTi Corporate Net-Zero Standard: together, they cover all emissions scopes and categories. The Financial Institutions Net-Zero Standard is used for setting targets on financial activities (scope 3, category 15 emissions), while the Corporate Net-Zero Standard covers scopes 1, 2, and 3 categories 1-14 emissions. The Financial Institutions Net-Zero Standard indicates when businesses are required or recommended to use the Corporate Net-Zero Standard or relevant sector-specific guidance and standards.

The figure below illustrates the steps for setting a financial institution net-zero target, as well as links to the Corporate Net-Zero Standard.

How to use the Financial Institutions Net-Zero Standard



1. Financial institutions' net-zero commitment

Financial institutions' first step is to publicly commit at the entity-level to achieve net-zero by 2050 or earlier. After establishing an organizational boundary that covers relevant subsidiaries and publishing their governance framework, financial institutions identify their in-scope financial activities (selecting from lending, asset owner investing, asset manager investing, insurance underwriting, and capital markets activities). A financial activity is considered in-scope if it represents 5% or more of total revenue.

In-scope financial activities are classified across four segments (see tables 1.1-1.5 in the Standard for further details). The segments are used to link sectors with sub-asset classes and business lines to establish a prioritization in relevant criteria of the Standard.

Segment A	Segment B	Segment C	Segment D
Sub-asset classes and business lines defined per financial activity in tables 1.1-1.5			
Fossil fuels (coal, oil and gas)	Transport (air, maritime, and land); Industrial (steel, cement), energy (power generation), real estate (residential and commercial buildings), forest, land and agriculture (FLAG)	Other sectors (not listed in A or B)	Subset of activities in emissions-intensive sectors and other sectors

2. Base-year assessment

After selecting a base year representative of their business activities, financial institutions are required to perform multiple base-year assessments (the most recent year is recommended):

Greenhouse gas (GHG) emissions inventory: Calculate the inventory across operations, value chain, and in-scope financial activities.

Climate-alignment assessment: Assess the share of climate-alignment for each in-scope financial activity.

Clean energy to fossil fuel exposure: Determine the clean energy and fossil fuel exposures in absolute terms and calculate the ratio for all in-scope financial activities.

Deforestation exposure: Commit to assess and publish the amount of deforestation exposure within two years after validation or by 2030 at the latest for all in-scope financial activities.

3. Policies and target setting

Recognizing that financial institutions can address emissions from their financial activities through a range of actions, the Standard requires them to develop both policies and targets for their in-scope financial activities.

Policies

Financial institutions are essential for providing capital and engaging fossil fuel companies to transition to net-zero. Both the immediate cessation of financial support to expand unabated fossil fuel production capacity and the use of financial institutions' influence to align companies with a net-zero transition are needed:

Fossil fuel transition policy: Financial institutions must publish a policy to address new fossil fuel expansion-related financial activities. This policy requires:

- Immediate cessation of project finance explicitly linked to fossil fuel expansion activities
- No further general purpose finance of companies involved in coal expansion
- Ideally immediate cessation of general purpose finance to oil and gas companies involved in expansion, with an absolute cut off of 2030, designed to allow financial institutions to engage with oil and gas companies
- Net-zero transition for portfolio energy activities by 2050

The background section in Chapter 3 of the Standard provides more context and rationale behind this policy and outlines how the Standard addresses fossil fuel exposure more generally.

No-deforestation assessment: Financial institutions must commit to assess and publish their deforestation exposure by no later than 2030. Should exposure be significant, financial institutions must publish an engagement plan to address deforestation in their portfolios by their next target cycle (usually five years after target validation) at the latest.

Real estate policy: Financial institutions are recommended to publish a policy that commits to cease new financial activities for buildings that are not zero-carbon ready, and increase financial activities dedicated to retrofitting existing buildings.

Targets

For non-portfolio targets, scope 1 and 2 emissions are always required under the Standard. Targets for scope 3, categories 1-14 emissions are only required if a financial institution derives less than 95% of its revenue from financial activities. Scope 1, 2, and 3 (categories 1-14) targets must be set in accordance with the most recently applicable criteria in the SBTi Corporate Net-Zero Standard and/or sector standards.

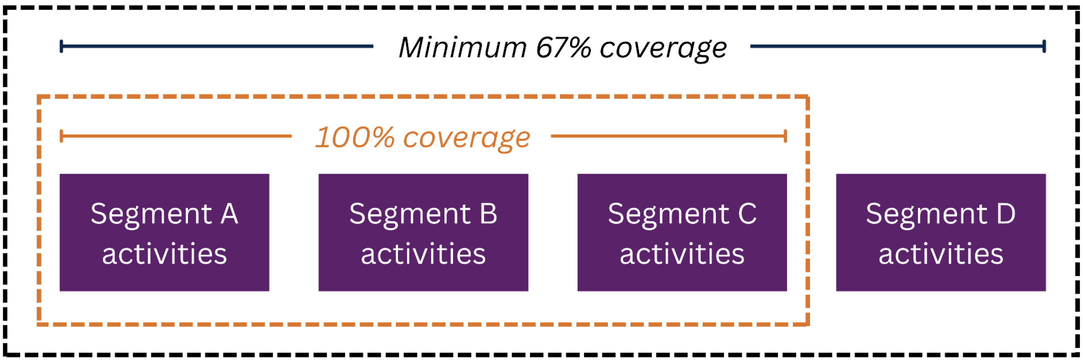
For portfolio targets, financial institutions must set both near- and long-term targets covering in-scope financial activities:

Near-term portfolio targets (up to five years): Financial institutions are given a choice of the following approaches to set near-term portfolio targets:

- *Portfolio climate-alignment targets* require financial institutions to increase the share of climate-aligned financial activities across their portfolio.
- *Sector targets* are usually intensity based and incentivize financial institutions to focus on specific emissions-intensive sectors, ensuring alignment with sectoral benchmarks.

Financial institutions must set at least one near-term target for each in-scope financial activity using climate alignment as a target metric, which can be informed by any of the eligible climate-alignment methods or sector metrics**.** Selected metrics and methods must be used consistently throughout the target period. This choice of approaches accommodates the diversity among financial institutions, while maintaining a clear trajectory toward long-term, net-zero goals. Financial institutions may choose to adopt both approaches, and are recommended to do so for emissions-intensive sectors where feasible.

Near-term targets must cover 100% of activities in segments A, B, and C in terms of financial or GHG emissions exposure. Those same targets must also cover a minimum of 67% of activities across all four segments (A, B, C, and D). If they do not cover 67% of activities across all four segments, then portions of activities in segment D must be added until 67% coverage is reached.
.



Long-term portfolio targets (by 2050 or sooner): Financial institutions must set one long-term net-zero alignment target for each in-scope financial activity. These targets must cover 100% of activities in all segments (A, B, C, and D).

Neutralization and achieving a net-zero state

The Standard describes when a financial institution has achieved a 'net-zero state'. This is when counterparties in the financial institution's portfolio have achieved net-zero emissions by the net-zero target year, and any residual emissions have been neutralized in accordance with the most recently applicable criteria in the SBTi Corporate Net-Zero Standard.

4. Assessing and communicating progress

The Standard promotes transparency by requiring financial institutions to clearly communicate their climate policies, GHG emissions, and progress toward targets. This helps build credibility and ensures stakeholders have access to relevant information.

Financial institutions are required to publicly report annually on the following information:

- ✔ *Gross GHG emissions* for segments A, B, and C, as well as methodology, assumptions, data sources and data quality. Separate reporting is required for:
    - Scopes 1 and 2, and scopes 1, 2 and 3 portfolio-level emissions
    - Carbon removals, carbon credits and avoided emissions (if relevant)
    - Fossil fuel-related emissions, and as data quality allows, methane emissions
- ✔ *Climate-alignment and sector metric assessment,* including a breakdown of climate-alignment methodologies used
- ✔ *Clean energy to fossil fuel financial exposure ratio*
- ✔ *Deforestation exposure*

By 2030, financial institutions must have achieved a full annual gross GHG emissions inventory and a comprehensive climate-alignment assessment for all in-scope financial activities (i.e., segments A, B, C, and D).

At the end of each target cycle, financial institutions must assess and communicate their progress against targets, evaluate their performance against net-zero benchmarks, and set new targets if they have not yet reached a net-zero state.

5. Claims

This element of the Standard provides guidelines for financial institutions to substantiate claims related to their climate targets and progress in a clear and credible way.

All claims related to implementation of this Standard must be accurate, verifiable, and adhere to high-integrity standards and applicable regulations.

Supporting resources

The Financial Institutions Net-Zero Standard includes a series of tables and annexes to complement the criteria:

- The *Criteria Reference Tables* include:
    - Detailed information on how to segment financial activities (Tables 1.1-1.5).
    - Lists of emissions-intensive sectors and corresponding value chain activities (Table 2).
    - Target specifications for near- and long-term portfolio targets (Table 3).

    - Portfolio-level metrics, definitions of climate-alignment and sector specifications (Tables 4.1-4.3).
- *Annex A: Key terms* includes the most relevant new and updated terms and definitions.
- *Annex B: Target language template* contains permitted target claims and language.

The SBTi has also published a series of supporting documents for financial institutions to use during the target-setting process:

- *Implementation List*: Identifies which third-party methods may be used for near- and long-term climate alignment target setting.
- *Protocol for Usage of Third-Party Alignment Methodologies:* Sets out the process for how the SBTi evaluates third-party methodologies and explains how methods are added or removed.
- *Criteria Assessment Indicators*: Provides verifiable control points which will be evaluated during the target validation process to assess conformity with the Standard.
- *Target Submission Form*: Provides a standardized method to compile and submit necessary information for the target validation process.
- *Target-Setting Tool* and *Target-Setting Methods and Tool Documentation*: Provides calculation support and detailed algorithms to formulate targets in line with the Standard.