SCIENCE BASED TARGETS

DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

SBTi FINANCIAL INSTITUTIONS' NEAR-TERM (FINT) CRITERIA IN BRIEF

May 2025

The importance of decarbonizing the finance sector

Since the Paris Climate Agreement, the world has witnessed dangerously high ocean temperatures, record-breaking wildfires, deadly rains and flooding – all with significant human, ecological and economic costs. Financial institutions play a critical role in addressing the climate crisis. By setting science-based targets to reduce the financed emissions associated with their portfolios, financial institutions not only reduce climate-related risks, but also strengthen long-term viability and competitiveness, redirecting capital and financial services to support climate stabilization.

The SBTi published the Financial Institutions' Near-Term (FINT) Criteria in 2020, with an updated Version 2 in May 2024. The criteria show financial institutions how much and how quickly they need to decarbonize their portfolios and operations to align their near-term emissions reductions with what is needed to keep global heating below catastrophic levels. The criteria detail how to set targets on investment and lending activities and provide guidance on how to track and communicate progress.

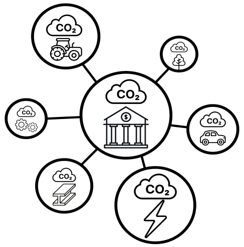
Who can use the FINT Criteria

The SBTi defines a financial institution as an entity that generates 5% or more of its revenue from investment, lending or insurance activities. This includes banks, asset managers, private equity firms, asset owners, insurance companies and mortgage real estate investment trusts. While target-setting guidance on insurance underwriting will be included in the future Financial Institutions Net-Zero Standard, institutions, including insurance companies, can already use the FINT Criteria to set near-term targets for in-scope investment and lending financial activities.

Companies in other sectors that have more than 5% of their revenue from financial activities are encouraged to use the FINT Criteria to set targets for those activities, in addition to corporate targets under the Corporate Near-term Criteria. Private equity firms can refer to question five at the end of this document for more information on how to set targets.

How to use the FINT Criteria

Step 1: Calculate emissions



Measuring and reporting emissions are the foundation of target setting. Chapter 1 includes criteria for emissions coverage (the greenhouse gas (GHG) emissions that must be included in a target). Chapter 2 includes criteria for emissions accounting (how to measure and report those emissions, following guidance from the GHG Protocol and other relevant sources).

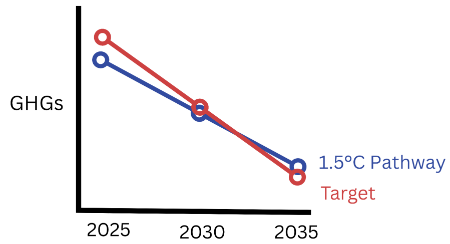
The FINT Explanatory Document includes further guidance on defining organizational boundaries and measuring financed emissions. Emissions estimates may be used, with the expectation that data quality is improved over time.

Step 2: Set scope 1 and 2 targets

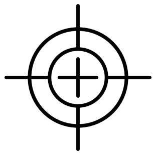
Chapter 3 sets out requirements for scope 1 and 2 targets, including:

- A target timeframe of no less than 5 years and no more than 10 years (FI-C10).
- Alignment with the level of decarbonization needed to limit global warming to 1.5°C (FI-C12).

Chapter 4 contains criteria for scope 2 targets, specifically allowing renewable energy procurement targets that are consistent with 1.5°C scenarios as a target option (FI-C13).



Step 3: Decide whether to set scope 3, categories 1-14 targets



Financial institutions are recommended (but not required*) to set targets on scope 3, categories 1-14 emissions using the SBTi Corporate Near-Term Criteria (FI-R2).

**Financial institutions with more than 20% of emissions from buildings in their total scopes 1, 2 and 3 category 1 to 14 emissions are required to follow the Buildings Criteria for those emissions.*

Step 4: Set scope 3 portfolio (category 15) targets

Chapter 5 outlines the criteria for setting mandatory scope 3 portfolio targets (FI-C14). It also details the requirements for financial institutions to cover at least 67% of the Portfolio Target Boundary, which consists of required and optional activities (FI-C15).

The criteria use an asset class-specific approach to provide financial institutions with four different ambitious target-setting methods that link investment and lending portfolios with climate stabilization pathways. The criteria outlines required, optional and out-of-scope activities, as well as the minimum coverage requirements and which of the following target-setting methods can be used for each asset class.

Target-Setting Method	Definition	Time Frame	Minimum Ambition	Criteria #
Sectoral Decarbonization Approach (SDA)	Financial institutions can use this approach to set physical intensity targets for sectors with well-defined activity (e.g., aviation, buildings, cement, forest, land and agriculture, land transport, maritime, power generation and steel) and intensity data. They express emissions reductions relative to a specific business activity metric, such as CO_2 per tonne of steel.	5-10 years	1.5°C pathway (where available).	FI-C17.1
Portfolio Coverage	Financial institutions setting engagement targets commit to engage with a portion of their borrowers and/or investees to encourage them to set their own science-based targets, so that the financial institution is on a linear path to 100% portfolio coverage by 2040.	Maximum 5 years	Linear path to 100% of portfolio with SBTi-validated targets by 2040.	FI-C17.2
Temperature Rating	Financial institutions can use this approach to determine the current temperature alignment of their portfolios and take actions to align them to ambitious temperature goals by engaging with portfolio companies to set public targets.	Maximum 5 years (including up to 2030)	Linear path to the below portfolio temperature scores by 2040: ● 1.5°C for scope 1 and 2. ● 1.75°C for scope 1, 2 and 3.	FI-C17.3
Fossil Fuel Finance Targets	Financial institutions can use this approach to set targets to disclose, halt, transition and phase out their financial exposure to the fossil fuel sector.	See Table 2 in the criteria for disclose, halt, transition and phaseout requirements.		FI-C17.4

Step 5: Develop public target language

Table 3 of the FINT Criteria provides a target language template for financial institutions to use when developing their targets. This template incorporates key requirements including:

- Disclosing the percentage of activities (required, optional and out-of-scope) that are covered by scope 3 portfolio targets (FI-C18).
- Providing a brief action plan to achieve the scope 3 portfolio targets (FI-C19).

The SBTi must agree to the target language with the financial institution before the publication of their validated target (FI-C22).

Step 6: Submit targets for validation

Once all the above steps have been taken, financial institutions must submit their targets for validation by SBTi Services. Financial institutions can find out more by visiting the Target Validation Services webpage.

Step 7: Publish targets, track and report progress, and recalculate targets when required

Chapters 6 and 7 include requirements for the period after setting science-based targets, including:

- Publishing targets within 6 months of validation (FI-C22).
- Tracking and reporting target progress (FI-C20).
- Reviewing targets every 5 years, and recalculating if necessary (FI-C21).

Frequently asked questions

1. How does the minimum 67% coverage floor work?

The first step is to decide whether to use a financed emissions or a financial activity metric to calculate the percentage of your portfolio that is covered by your targets. Once decided, the next step is to calculate the entirety of your Portfolio Target Boundary (PTB). This includes all financed emissions or financial activity metrics related to both "optional" and "required" activities in Table 1 of the FINT Criteria (subject to some potential exclusions for the asset/investment/wealth management and consumer loan asset classes[1]). This will serve as the denominator.

Next, calculate the financed emissions or financial activity metric from the "required" and "optional" activities that are covered by your targets. This will serve as your numerator. Using these two figures, the percentage must be at least 67%. Refer to Figure A-1 in the Appendix for further details.

The corporate loans asset class has its own minimum coverage requirement that is also 67%—however, this is a separate figure that details the minimum coverage of the corporate loans asset class.

2. What is the Fossil Fuel Finance (FFF) target-setting method?

The FFF target-setting method enables financial institutions to commit to publicly disclose, arrest, transition and phase out its financial services to fossil fuel projects and companies. It provides companies with criteria to:

- Develop target boundaries that specifically include coal, oil and gas companies, projects and value chains;
- Annually disclose portfolio-level information about fossil fuel financing activities;
- Commit to immediately halting new applicable financing activities related to fossil fuel expansion;
- Set near-term absolute emissions reduction targets that initiate the transition away from fossil fuels; and
- Commit to phase out applicable financing activities related to coal projects and companies.

The FFF method is one of multiple target-setting methods that can be used across the asset classes described in Table 1 of the criteria. If used, the FFF method criteria supersede the coverage requirements in Table 1 (i.e., FFF targets must cover a bank's discretionary mandates even if the bank does not set other targets on its asset management activities).

[1] Any optional activities within the AIWM and the consumer loan asset classes that make up less than 40% of all required and optional activities may be excluded.

3. What is the Asset/Investment/Wealth Management (AIWM) asset class?

The AIWM asset class applies to situations where financial institutions are managing investment funds on the behalf of third parties. Assets that are owned by a financial institution but managed by third-party asset managers are considered the financial institution's own investments and not AIWM. For the purposes of target validation, financial institutions shall define and disclose the types of asset management businesses they are involved with, which must align with either discretionary, advisory or execution-only mandates (further defined on page 15 of the criteria).

4. How should financial institutions set targets for emissions or financed emissions associated with their real estate activities?

Commercial real estate is generally covered while residential mortgages are optional. Refer to questions 26 and 27 in the SBTi Buildings Criteria FAQs for guidance.

5. How is the target setting process different for private equity firms?

Private equity firms can refer to Table 1 in the FINT Criteria to see which parts of the criteria apply to them in addition to the SBTi's Private Equity Sector Guidance, which provides tailored support to set science-based targets on private equity investments. In practice, this means setting targets for portfolio companies where there is 25%+ shareholding and Board-level representation.

Table 1 of the FINT Criteria outlines three sub-asset classes related to equity investments, along with their respective requirements:

1. Common and preferred stock of corporates and SMEs, including private equity
2. Investments via funds
3. Investments via fund of funds

While private equity funds may technically hold the investments in portfolio companies rather than the private equity firm itself (i.e., the general partner), any investments managed directly by the firm—including co-investments—fall under the first sub-asset class. If a private equity firm invests in funds or fund-of-funds managed by another financial institution, those investments are categorized under the second and third sub-asset classes, respectively.