

## NZBA TARGET SETTING: ANNUAL REPORTING OF ESTIMATED EMISSIONS

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### EXECUTIVE SUMMARY

Intesa Sanpaolo is gradually publishing its 2030 net zero aligned targets - taking into consideration the NZBA guidelines - which have the final objective to limit global warming to 1.5°C from preindustrial levels, in line with the Paris Agreement.

Intesa Sanpaolo joined the NZBA in October 2021.

Within its 2022-2025 Business Plan, Intesa Sanpaolo published its net-zero aligned emissions reduction targets for 2030 in the Oil & Gas, Power generation, Automotive and Coal mining sectors. With regard to coal mining in particular, the exposure target is zero by 2025, in line with the phase-out present in the "Rules for lending operations in the coal sector", updated in July 2021.

In 2023 Intesa Sanpaolo worked on the setting of a new 2030 interim net-zero aligned target for the Iron & Steel sector and a target for the Commercial Real Estate sector. As part of the continuous updating process Intesa Sanpaolo has also revised, in line with design choices made for the definition of SBTi targets, the Automotive and Power Generation sectors, finetuning perimeter and targets as described in the relevant paragraphs below.

Additionally, in 2023 Intesa Sanpaolo prepared the documentation to be submitted to SBTi to obtain the validation as per the commitment taken in the 2022-2025 Business Plan. The documentation will be submitted within March 2024.

Including new and revised sectors, in 2023 targets cover over 66% of the non-financial corporates portfolio financed emissions in the high-emitting sectors identified by the NZBA.

Results for 2023 show a decrease in absolute financed emissions by 22.6% compared to 2022 data (referred to the six sectors in scope).

Progress is monitored periodically, and results are analysed in order to also activate, if necessary, the competent steering structures and evaluate potential "consequence management" actions to foster achievement of targets.

The Section "NZBA Target Setting: Annual Reporting of estimated emissions" is subject to limited assurance available in the Independent Auditors' Report attached to this Climate disclosure.



The table below shows, for each sector, the metrics applied, the baseline, the target for 2030 and the benchmark scenario.

Sector	Scope	Value Chain	Metrics	Baseline (baseline date)	Target (2030)	Benchmark Scenario
<b>Oil &amp; Gas</b>	Scope 1,2,3	Upstream operators and integrated players	gCO <sub>2</sub> e/MJ	64 (30/06/2021)	55 <sup>4</sup> (52-58)	IEA Net Zero Scenario Benchmark: IEA Dataset (2023 release) +adjustments for methane and carbon capture
<b>Power generation</b>	Scope 1,2	Generation and integrated players	kgCO <sub>2</sub> e/MWh	214 (30/06/2021)	110	IEA Net Zero Scenario Benchmark: World Energy Outlook 2023 release
<b>Power generation revised</b>	Scope 1,2	Generation and integrated players	kgCO <sub>2</sub> e/MWh	202 (31/12/2022)	110	IEA Net Zero Scenario Benchmark: World Energy Outlook 2023 release
The new target considers drawn amounts on medium-long term loans in line with design choices made for the definition of SBTi targets						
<b>Automotive</b>	Scope 3 TTW	Vehicle production	gCO <sub>2</sub> e/vkm	162 (30/06/2021)	95	IEA Net Zero Scenario Benchmark: IEA Dataset (2023 release) - A conversion factor from pkm to vkm is applied
<b>Automotive revised</b>	Scope 3 WTW	Vehicle production	gCO <sub>2</sub> e/vkm	192 (31/12/2022)	100	IEA Net Zero Scenario Benchmark: IEA Dataset (2023 release) - A conversion factor from pkm to vkm is applied
Perimeter and emissions scope refinements: from "passenger cars" to "light duty vehicles (cars and light trucks)" and from Tank-to-Wheel (TTW) to Well-to-Wheel (WTW). In line with design choices made for the definition of SBTi targets, the new target considers only medium-long term loans.						
<b>Coal mining (exclusion policy)</b>	Exclusion policy	Coal mining	€ bn exposure	0.2 (30/06/2021)	Zero by 2025 Zero emissions	
<b>Iron &amp; Steel</b>	Scope 1,2	Companies producing crude steel that use iron ore (or scrap) as an input	tCO <sub>2</sub> /tsteel	1.05 (31/12/2022)	0.81	ISP specific 1.5°C - pathway calculated through SBTi tool
<b>Commercial Real Estate</b>	Scope 1,2,3	In-use operational emissions of buildings in Italy	kgCO <sub>2</sub> e/m <sup>2</sup>	43.16 (31/12/2022)	27.98	CRREM 1.5°C reduction pathway for Italy adjusted on ISP's portfolio composition

For details see sections: [ANALYSIS BY SECTOR](#) and [METHODOLOGY](#)

<sup>4</sup> Central value of the target range identified

The table below shows **physical intensity** for exposures as at 30/06/2021, 31/12/2021, 31/12/2022 and 31/12/2023, as applicable.

Sector	Scope	Metrics	Baseline (baseline date)	31/12/2021	31/12/2022	31/12/2023
Oil & Gas	Scope 1,2,3	gCO <sub>2</sub> e/MJ	64 (30/06/2021)	64	65	64
Power generation	Scope 1,2	kgCO <sub>2</sub> e/MWh	214 (30/06/2021)	154	253	188
Power generation revised	Scope 1,2	kgCO <sub>2</sub> e/MWh	202 (31/12/2022)	n.a	202	180
Automotive	Scope 3 TTW	gCO <sub>2</sub> e/vkm	162 (30/06/2021)	162	155	141 <sup>5</sup>
Automotive revised	Scope 3 WTW	gCO <sub>2</sub> e/vkm	192 (31/12/2022)	n.a	192	185
Coal mining (exclusion policy)	Exclusion policy	€ bn exposure	0.2 (30/06/2021)	0.1	0.1	0.03
Iron & Steel	Scope 1,2	tCO <sub>2</sub> /tsteel	1.05 (31/12/2022)	n.a	1.05	1.00
Commercial Real Estate	Scope 1,2,3	kgCO <sub>2</sub> e/m <sup>2</sup>	43.16 (31/12/2022)	n.a	43.16	44.25

For details see sections: [ANALYSIS BY SECTOR and METHODOLOGY](#)

The tables below show the details of the **absolute financed emissions** for exposures as at 30/06/2021, 31/12/2021, 31/12/2022 and 31/12/2023 for each sector both in terms of update of the targets set in 2022-2025 Business Plan and in terms of the revised and new targets set in 2023.

### 2022-2025 Business Plan targets

Sector	Scope	Absolute financed emissions Mt CO <sub>2</sub> e			
		30/06/2021	31/12/2021	31/12/2022	31/12/2023
Oil & Gas	Scope 1,2,3	44.8	43.5	19.0	15.1
Power generation	Scope 1,2	2.7	6.2	4.1	3.0
Automotive	Scope 3 TTW	13.3	13.5	0.9	1.3 <sup>6</sup>
Coal mining (exclusion policy)	Scope 1,2	0.5	0.2	0.2	0.1
Total		61.3	63.4	24.2	19.5

For details see sections: [ANALYSIS BY SECTOR and METHODOLOGY](#)

### Total absolute financed emissions including revised and new targets

Sector	Scope	Absolute financed emissions Mt CO <sub>2</sub> e	
		31/12/2022	31/12/2023
Oil & Gas	Scope 1,2,3	19.0	15.1
Power generation revised	Scope 1,2	2.7	2.0
Automotive revised	Scope 3 WTW	1.2	1.0
Coal mining (exclusion policy)	Scope 1,2	0.2	0.1
Iron & Steel <sup>7</sup>	Scope 1,2	2.0	1.2
Commercial Real Estate	Scope 1,2,3	1.0	0.8
Total		26.1	20.2

For details see sections: [ANALYSIS BY SECTOR and METHODOLOGY](#)

The portfolio coverage (as at 31/12/2023) for each sector in scope for Target Setting methodology with respect to the total drawn amount (€429.5bn) of consolidated balance sheet of the ISP Group is: Commercial Real Estate: 2.1% (€9.0bn); Power Generation revised: 1.3% (€5.8bn); Oil & Gas: 1.0% (€4.1bn); Automotive revised: 0.3% (€1.3bn); Iron & Steel: 0.2% (€1.0bn); Coal mining: 0.01% (€0.03bn).

<sup>5</sup> Production data refinement performed during 2023. Comparable data for 2022: 171 gCO<sub>2</sub>e/vkm

<sup>6</sup> Production data refinement performed during 2023. Comparable data for 2022: 1.5 Mt CO<sub>2</sub>e

<sup>7</sup> Iron & Steel considers only CO<sub>2</sub> ghg emissions

The tables below show the details of the **Portfolio-wide emissions intensity** for exposures as at 30/06/2021, 31/12/2021, 31/12/2022 and 31/12/2023 for each sector both in terms of update of the target set in 2022-2025 Business Plan and in terms of the revised and new targets set in 2023.

### 2022-2025 Business Plan targets

Portfolio-wide emissions intensity (MtCO <sub>2</sub> e/ €bn lent)	30/06/2021	31/12/2021	31/12/2022	31/12/2023
1 Oil & Gas (Scope 1,2,3)	4.8	5.2	3.4	3.7
2 Power generation (Scope 1,2)	0.4	0.8	0.4	0.4
3 Automotive (Scope 3 TTW)	1.6	1.6	0.4	0.5 <sup>8</sup>
4 Coal mining (Scope 1,2)	2.7	2.7	2.7	3.8
<b>Total Portfolio-wide emissions intensity</b>	2.5	2.5	1.4	1.4

### Total Portfolio-wide emissions intensity including revised and new targets

Portfolio-wide emissions intensity (MtCO <sub>2</sub> e/ €bn lent)	31/12/2022	31/12/2023
1 Oil & Gas (Scope 1,2,3)	3.4	3.7
2 Power generation revised (Scope 1,2)	0.4	0.3
3 Automotive revised (Scope 3 WTW)	0.8	0.8
4 Coal mining (Scope 1,2)	2.7	3.8
5 Iron & Steel <sup>9</sup> (Scope 1,2)	1.6	1.2
6 Commercial Real Estate (Scope 1,2,3)	0.1	0.1
<b>Total Portfolio-wide emissions intensity</b>	1.0	1.0

Note: each value is calculated as the ratio between financed (lent) emissions in scope (numerator) and total of lent exposure (denominator) in scope (see [METHODOLOGY](#))<sup>10</sup>.

<sup>8</sup> Production data refinement performed during 2023. Comparable data for 2022: 0.7 MtCO<sub>2</sub>e/ €bn

<sup>9</sup> Iron & Steel considers only CO<sub>2</sub> ghg emissions

<sup>10</sup> Invested amount not material



## ANALYSIS BY SECTOR

- OIL & GAS
- POWER GENERATION
- AUTOMOTIVE
- COAL MINING
- IRON & STEEL
- COMMERCIAL REAL ESTATE

## OIL & GAS

### Key perimeter and baselining design choices and considerations

Value chain in scope	Upstream operators and integrated players
Emissions coverage	Scope 1, 2 and 3
Asset classes	Short, medium and long term loans; bonds HTC
Target type	Intensity Sector Decarbonization Approach (SDA)
Metric	gCO <sub>2</sub> e/MJ
Portfolio weighting	Financed production weighted approach
Approach	Convergence

### Target setting

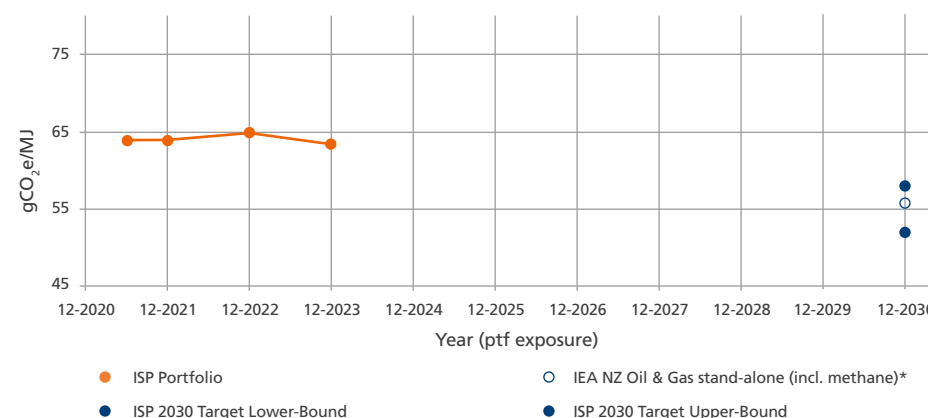
#### Baseline

Date	30/06/2021
In scope portfolio, on balance lending (drawn exposure)	€9.4bn
Estimated Physical intensity	64 gCO <sub>2</sub> e/MJ
Estimated Absolute financed emissions	44.8 Mt CO <sub>2</sub> e

### Target and results

Target date	2030
Benchmark Scenario	IEA Net Zero Scenario Benchmark: IEA Dataset (2023 release) + adjustments for methane and carbon capture
Estimated Physical intensity	55 <sup>11</sup> (52-58) gCO <sub>2</sub> e/MJ
Decrease vs baseline	-14% (-18.7% - 9.4%)
Target ambition	1.5°C aligned
2023 estimated Physical intensity	64 gCO <sub>2</sub> e/MJ
2023 estimated Absolute financed emissions	15.1 Mt CO <sub>2</sub> e
2023 in scope portfolio on balance lending (drawn exposure)	€4.1bn

Oil & Gas (scope 1, 2, 3) - Sector level physical intensity



\* The benchmark was built on top of the IEA Net Zero Oil & Gas stand-alone benchmark without renewables (51 gCO<sub>2</sub>e/MJ in 2030) adding the contribution of methane emissions (2 gCO<sub>2</sub>e/MJ) and adding back the carbon captured outside of the Oil & Gas (3 gCO<sub>2</sub>e/MJ) as it is not under direct control/influence of the Oil & Gas players, driving the benchmark to 56 gCO<sub>2</sub>e/MJ in 2030.

### Trends

The Oil & Gas portfolio exposure decreased compared to 2022 mainly due to the reduction of working capital needs and the implementation of the Bank's Oil & Gas policy.

## POWER GENERATION REVISED

### Key perimeter and baselining design choices and considerations

Value chain in scope	Generation and integrated players <sup>12</sup>
Emissions coverage	Scope 1 and 2
Asset classes	Medium and long term loans
Target type	Intensity Sector Decarbonization Approach (SDA)
Metric	KgCO <sub>2</sub> e/MWh
Portfolio weighting	Financed production weighted approach
Approach	Convergence

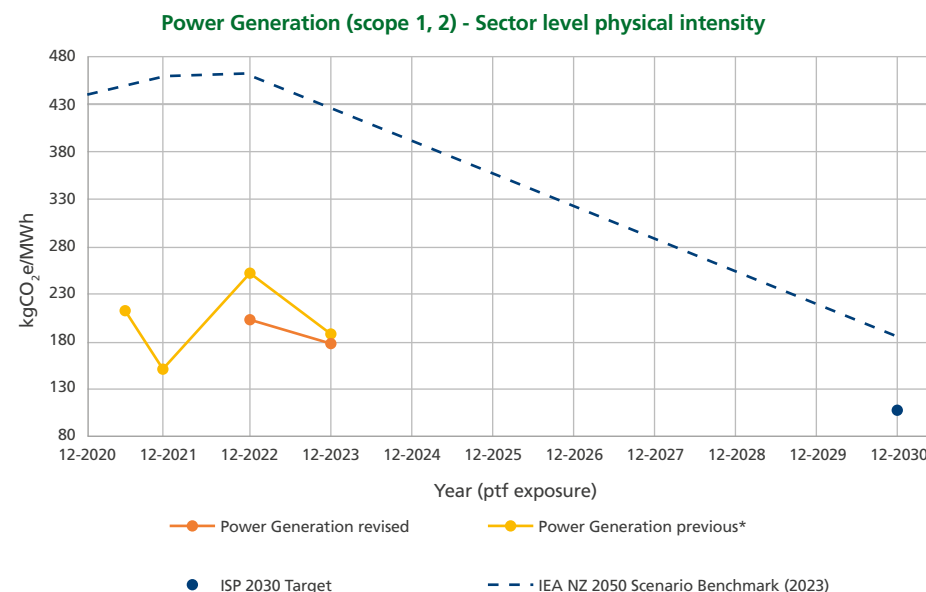
### Target setting

#### Baseline

Date	31/12/2022
In scope portfolio, on balance lending (drawn exposure)	€7.0bn
Estimated Physical intensity	202 KgCO <sub>2</sub> e/MWh
Estimated Absolute financed emissions	2.7 Mt CO <sub>2</sub> e

### Target and results

Target date	2030
Benchmark Scenario	IEA Net Zero Scenario Benchmark: World Energy Outlook 2023 release
Estimated Physical intensity	110 KgCO <sub>2</sub> e/MWh
Decrease vs baseline	-45.5%
Target ambition	1.5°C aligned
2023 estimated Physical intensity	180 kgCO <sub>2</sub> e/MWh
2023 estimated Absolute financed emissions	2.0 Mt CO <sub>2</sub> e
2023 in scope portfolio on balance lending (drawn exposure)	€5.8bn



\* 2022 was an extraordinary year for price dynamics (the price of European gas in 2022 saw an increase of about three times compared to 2021) and investment volumes, attributable to the growth in capital and financial needs from power generation companies, drawing also on existing lines. During 2023 lower tensions on the energy markets followed by a normalization of energy prices led the Utilities to a reduction of their financial needs, with a consequent decrease of Banking system exposure towards them.

### Trends

ISP portfolio emission intensity, which is being reduced gradually thanks to the investments in renewables, continues to be below the sector average. Green exposures as a proportion of the total power generation revised portfolio increased at the end of 2023 vs 2022 (53% vs 49%) as a result of the important commercial effort in pursuing Intesa Sanpaolo support to the energy transition and the focus on renewable project finance operations.

<sup>12</sup> Power generation from Coal included

## AUTOMOTIVE REVISED

### Key perimeter and baselining design choices and considerations

Value chain in scope	Production of light duty vehicles (cars and light trucks)
Emissions coverage	Scope 3 Well To Wheel
Asset classes	Medium and long term loans
Target type	Intensity Sector Decarbonization Approach (SDA)
Metric	gCO <sub>2</sub> e/vkm
Portfolio weighting	Financed production weighted approach
Approach	Reduction

### Target setting

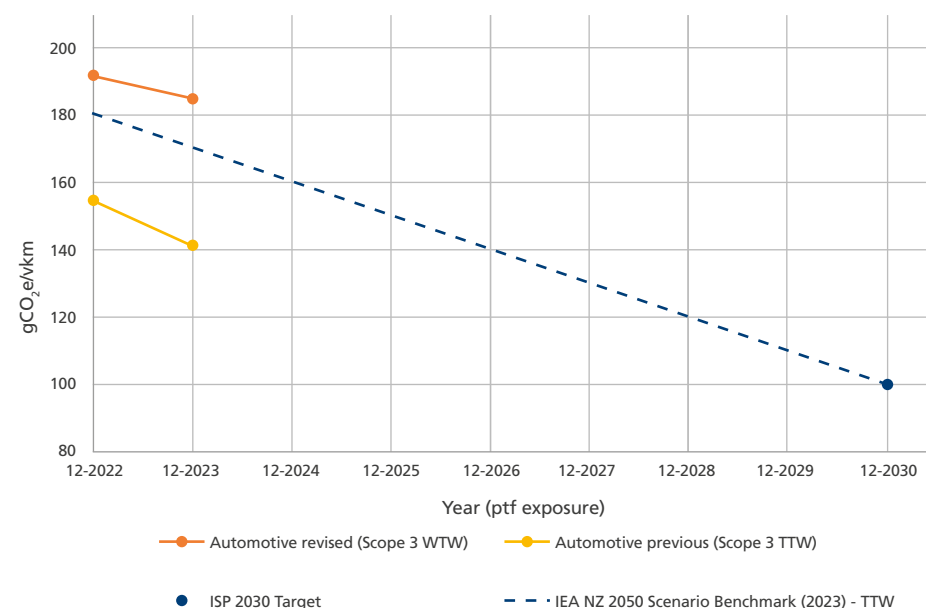
#### Baseline

Date	31/12/2022
In scope portfolio, on balance lending (drawn exposure)	€1.5bn
Estimated Physical intensity	192 gCO <sub>2</sub> e/vkm
Estimated Absolute financed emissions	1.2 Mt CO <sub>2</sub> e

### Target and results

Target date	2030
Benchmark Scenario	IEA Net Zero Scenario Benchmark: IEA Dataset (2023 release)- A conversion factor from pkm to vkm is applied
Estimated Physical intensity	100 gCO <sub>2</sub> e/vkm
Decrease vs baseline	-48%
Target ambition	1.5°C aligned
2023 estimated Physical intensity	185 gCO <sub>2</sub> e/vkm
2023 estimated Absolute financed emissions	1.0 Mt CO <sub>2</sub> e
2023 in scope portfolio on balance lending (drawn exposure)	€1.3bn

Automotive (scope 3) - Sector level physical intensity



Note: The IEA Scenario refers to the Tank-To-Wheel component and is not comparable with the revised Automotive target which also includes the Well-To-Tank component

### Trends

In 2023 Intesa Sanpaolo revised the perimeter and the scope of the Automotive sector, adding light trucks (previously only passenger cars), excluding short term loans, extending the scope of emissions to Well To Wheel (previously Tank To Wheel) and setting a new Net Zero interim target<sup>13</sup>. No IEA Net Zero benchmark curve is available for Scope 3 WTW.

Intesa Sanpaolo's Automotive Sector physical intensity trends following the revision, which therefore include the fuel production phases (Well To Tank) in addition to the use of fuel (Tank To Wheel), confirm a decrease in physical intensity compared to 2022.

As concerns Intesa Sanpaolo's Automotive sector trends before the revision, the performance for 2023 confirms Intesa Sanpaolo's positioning well below the reference scenario (IEA Net Zero 2050 scenario benchmark 2023 – TTW) and a further decrease compared to 2022.

<sup>13</sup> The target of 100 gCO<sub>2</sub>e/vkm to 2030 was calculated with the reduction approach and meets the expected reduction of the net-zero aligned IEA curves for the two components: IEA NZ 2050 Automotive pathway (TTW) and IEA NZ 2050 Power pathway (WTT)

## COAL MINING

### Key perimeter and baselining design choices and considerations

Value chain in scope	Coal mining
Emissions coverage	Scope 1 and 2
Asset classes	Short-medium-long term loans
Target type	Exposure Phase-out 2025 policy
Metric	Euro
Perimeter	The perimeter has been selected at counterparty level based on the "Coal Mining" sector available in the Bank's IT systems and without any exclusion of SME counterparties.

### Target setting

#### Baseline

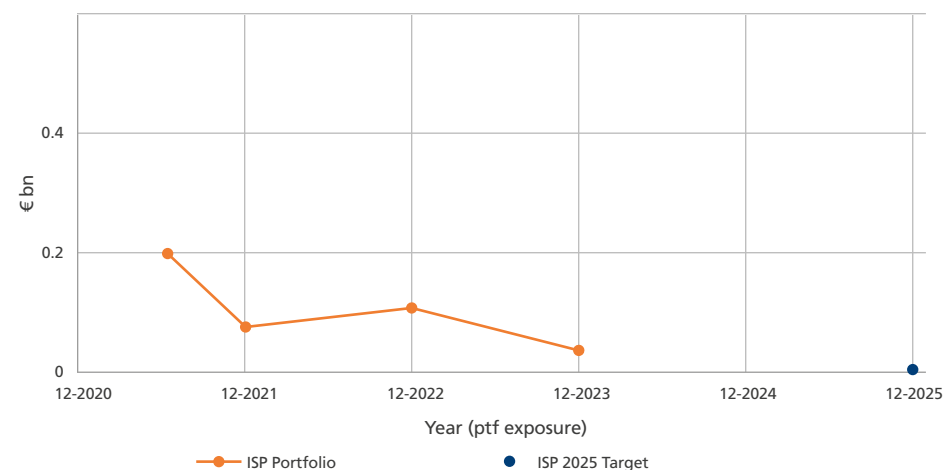
Date	30/06/2021
In scope portfolio, on balance lending (drawn exposure)	€0.2bn
Estimated Absolute financed emissions*	0.5 Mt CO <sub>2</sub> e

\* Until 2022, for the financed emissions reported, a conversion factor (average of fossil fuel emission in Europe) on the Coal Mining exposure has been applied. As from 2023 the methodology for the determination of financed emissions changed and is aligned to that applied to the other sectors, based on the definition of financed emissions at counterparty level, calculated as attribution factor per emissions for each counterpart.

### Target and results

Target date	2025
Estimated exposure	0 Euro, 0 emissions
Decrease vs baseline	-100%
Target ambition	1.5°C aligned
2023 estimated Absolute financed emissions	0.1 Mt CO <sub>2</sub> e
2023 in scope portfolio on balance lending (drawn exposure)	€0.03bn

Coal Mining - ISP Portfolio





## IRON & STEEL

### Key perimeter and baselining design choices and considerations

Value chain in scope	Companies producing crude steel that use iron ore (or scrap) as an input
Emissions coverage	Scope 1 and 2 <sup>14</sup>
Asset classes	Medium and long term loans
Target type	Intensity Sector Decarbonization Approach (SDA)
Metric	tCO <sub>2</sub> /tSteel
Portfolio weighting	Financed production weighted approach
Approach	SBTi target setting tool

### Target setting

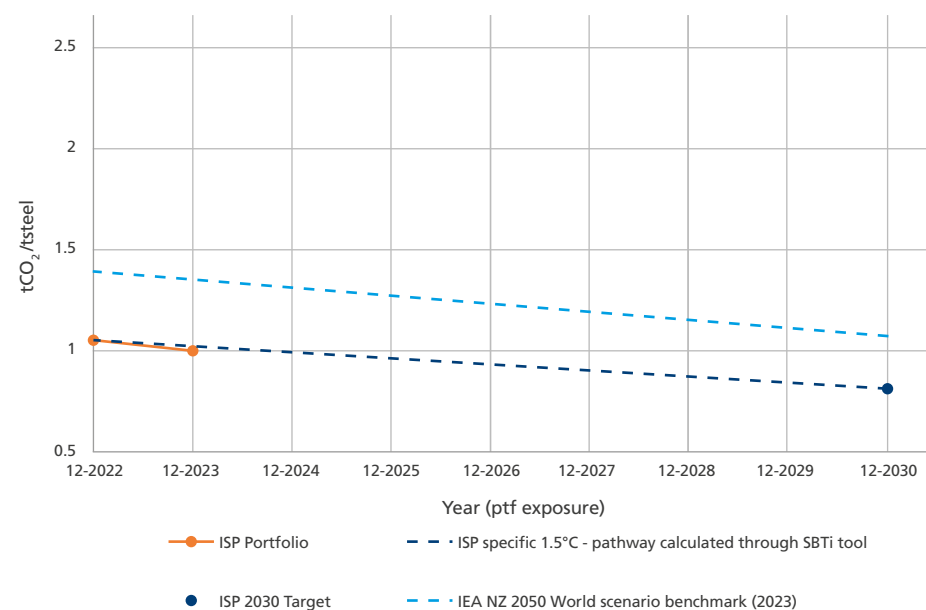
#### Baseline

Date	31/12/2022
In scope portfolio, on balance lending (drawn exposure)	€1.2bn
Estimated Physical intensity	1.05 tCO <sub>2</sub> /tSteel
Estimated Absolute financed emissions	2.0 Mt CO <sub>2</sub>

### Target and results

Target date	2030
Benchmark Scenario	ISP specific 1.5°C - pathway calculated through SBTi tool
Estimated Physical intensity	0.81 tCO <sub>2</sub> /tSteel
Decrease vs baseline	-23%
Target ambition	1.5°C aligned
2023 estimated Physical intensity	1.00 tCO <sub>2</sub> /tSteel
2023 estimated Absolute financed emissions	1.2 Mt CO <sub>2</sub>
2023 in scope portfolio on balance lending (drawn exposure)	€1.0bn

Iron & Steel (scope 1, 2) - Sector level physical intensity



Note: Please note that the IEA NZ 2050 World scenario only covers direct emissions from steelmaking and not emissions from purchased or self-generated electricity/heat and is not directly comparable with the SBTi target-setting tool pathway and ISP target

<sup>14</sup> Reported scope 1 and 2 emissions sourced from company reports applied for top material financed producers. For remaining counterparties or where reported data are not available, emission factors covering scope 1 and 2 emissions from pig iron, Direct Reduced Iron and steel production through BF-BOF (Blast Furnace-Basic Oxygen Furnace) and EAF (Electric Arc Furnace) methods are applied

## COMMERCIAL REAL ESTATE (CRE)

### Key perimeter and baselining design choices and considerations

Value chain in scope	In-use operational emissions of buildings in Italy
Emissions coverage	Scope 1, 2, 3 <sup>15</sup>
Asset classes	Medium-long term loans, including SMEs <sup>16</sup>
Target type	Intensity Sector Decarbonization Approach (SDA)
Metric	kgCO <sub>2</sub> e/m <sup>2</sup>
Portfolio weighting	Financed floor area weighted approach
Approach	Reduction

### Target setting

#### Baseline

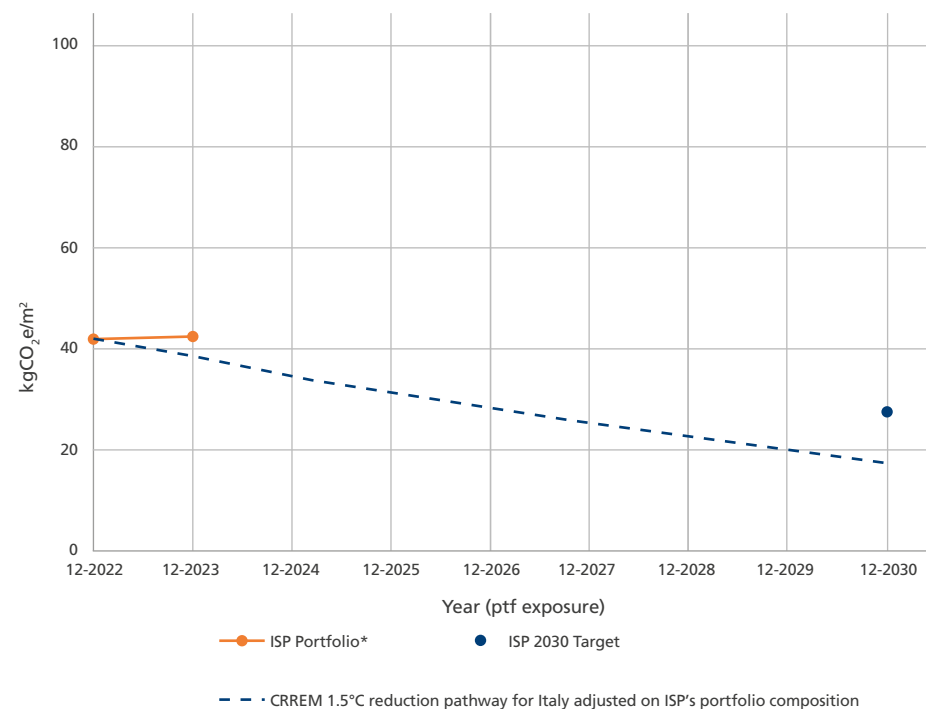
Date	31/12/2022
In scope portfolio, on balance lending (drawn exposure)	€10.8bn
Estimated Physical intensity	43.16 kgCO <sub>2</sub> e/m <sup>2</sup>
Estimated Absolute financed emissions	1.0 Mt CO <sub>2</sub>

### Target and results

Target date	2030
Benchmark Scenario	CRREM 1.5°C reduction pathway for Italy adjusted on ISP's portfolio composition
Estimated Physical intensity	27.98 kgCO <sub>2</sub> e/m <sup>2</sup>
Decrease vs baseline	-35%
2023 estimated Physical intensity	44.25 kgCO <sub>2</sub> e/m <sup>2</sup>
2023 estimated Absolute financed emissions	0.8 Mt CO <sub>2</sub>
2023 in scope portfolio on balance lending (drawn exposure)	€9.0bn

<sup>15</sup> Scope 3 emissions for CRE captured for building owner's (lessor) reporting emissions from the energy use of a tenant (lessee)  
<sup>16</sup> Includes SME corporates but not SME retail clients

### Commercial Real Estate (scope 1, 2, 3) - Sector level physical intensity



\*The difference between 2022 and 2023 physical intensity is mainly due to a greater weight of service buildings also following data quality refinements

### Trends

During 2023 Intesa Sanpaolo elaborated a target for Commercial Real Estate based on challenging assumptions:

- the turnover ambition aims at achieving new flows in line with the actual EPC label distribution from the past three years, which includes a much higher percentage of A and B labels compared to the much lower estimated current EPC label distribution of the stock;
- engaging with customers to provide the necessary financial services to support the transition;
- change in carbon factor for energy consumption in line with the CRREM 1.5°C scenario for Italy.

Moreover, Intesa Sanpaolo will continue to analyse the sector and to improve data availability and quality, also trying to define ways to further decrease emissions towards NZ. However, it is to be noted that the benchmark CRREM 1.5°C scenario for Italy is extremely challenging. It indicates required actions to reach 1.5°C alignment, with ambitious assumptions referencing sources including Italy's building renovation plan and EU 'Fit for 55' scenario implying strong policy action:

- grid emissions factor expected to decrease by 59% between 2022 and 2030<sup>17</sup>;
- buildings energy mix expected to significantly increase electricity share, requiring massive retrofiting;
- extensive renovation measures also needed to improve building energy efficiency (e.g. thermal insulation).

The alignment to the CRREM scenario would therefore imply the achievement of the mentioned assumptions, mainly dependent on government/external policies.

## METHODOLOGY

Interim targets are approved by the Board of Directors.

The methodology adopted by Intesa Sanpaolo, regarding baseline, metrics and target setting and progress against those targets, has been prepared taking into account the "Guidelines for Climate Target Setting for Banks" issued by UNEP-FI in its April 2021 version and also the "Financial Sector Science-Based Targets Guidance – version 1.1" issued by SBTi (August 2022). Therefore, climate targets set by the Group aim at aligning with the temperature goals of the Paris Agreement and support the transition towards a net-zero economy by 2050.

The design choices, regarding the value chain, the perimeter of the emissions considered and any proxies, are in line with PCAF (Partnership for Carbon Accounting Financials) methodologies and preliminary to SBTi validation. The Bank applies the reference science-based scenarios such as IEA Net-Zero 2050 whose curves are aligned with the temperature goals of the Paris Agreement.

### 1. SELECTION OF THE PERIMETER IN SCOPE

The Intesa Sanpaolo net-zero emissions reduction targets are related to the accounting of the significant majority of the bank's portfolio emissions among the carbon-intensive sectors identified by NZBA<sup>18</sup>. The Bank analyzed its non-financial corporates portfolio in order to prioritize the sectors that account for the largest share of absolute financed emissions. This assessment led to identify, in the first round of target setting, four sectors, namely the Oil & Gas, Power generation, Automotive and Coal mining sectors. In 2023 Intesa Sanpaolo worked on the setting of new 2030 interim net-zero aligned target for the Iron & Steel sector and a target for the Commercial Real Estate sector. As part of the continuous updating process Intesa Sanpaolo has also revised, in line with design choices made for the definition of SBTi targets, the Automotive and Power Generation sectors, finetuning perimeter and targets.

#### 1.1 Exposure in scope

Exposure in scope for the target setting exercise includes the Bank's lending and investment activities (Scope 3 Financed Emission – Category 15 emissions as defined in the "The Global GHG Accounting and Reporting. Standard Part A: Financed Emissions. Second Edition, Chapter 4") and, in detail the following asset classes<sup>19</sup>:

<sup>17</sup> Please note that this figure is computed from CRREM 1.5°C scenario 2022 and 2030 figures for Italy grid emissions factor

<sup>18</sup> Agriculture; Aluminium; Cement; Coal; Commercial and Residential Real Estate; Iron and Steel; Oil & Gas; Power generation and Transport

<sup>19</sup> For revised and new sectors the exposure perimeter does not include HTC, Equity Banking Book and short term loans, in line with the choices made for the definition of SBTi targets

- Drawn amount<sup>20</sup> on short-term and medium-long term loans
- Hold-to-collect (HTC) bonds
- Equity banking book<sup>21</sup>

## 1.2 Exclusion of SMEs

For the scope of the exercise small or medium-sized enterprises (SMEs) defined as specified by Article 501(2)(b) CRR which refers to Commission Recommendation 2003/361/EC and identified through the "Regulatory segment" (flag in Bank's IT systems) are excluded only if they are a non-subsidiary, individual company. Rationale for potential exclusion of SMEs depends on the limited data availability on smaller, non-listed counterparties, that implies an extensive leverage on sectorial proxies to estimate their emissions and production data and might lead to a strong convergence of the portfolio average target to sectorial average<sup>22</sup>.

## 1.3 Value chain coverage

In line with industry standards, to avoid double counting only selected segments of the value chain of each sector are considered for the scope of the Target Setting exercise. Sectors and related segments considered are defined according to internal classification based on NACE codes (Italian classification ATECO – ATtività ECONomiche) at counterparty Group level. For each sector, a definition of the value chain is performed in accordance with the main portfolio alignment methodologies and with the following principles: 1) incentivizing positive climate impact, 2) pragmatic and actionable, 3) transparent, 4) simple to implement, 5) easy to communicate, 6) minimize double counting.

The subset of activities covered and the rationales for each sector are set out in the following bullets:

- **Oil & Gas:** focus on upstream operators and integrated players to encourage operational efficiency in extraction and foster companies' transition from high emitting fossil fuels to lower emitting fuels (e.g., natural gas) and renewables. Exclusion of refineries, pipelines and downstream to avoid double counting;
- **Power Generation:** focus on generation and integrated players to encourage generation of electricity from low emission energy sources. Exclusion of transportation and distribution to avoid double counting;

- **Automotive:** focus on passenger cars production to encourage the manufacturing of vehicles with low emission technologies. Exclusion of manufacturing components (e.g., tires, brakes) because these products are independent of final vehicle emissions. Exclusion of automotive distribution to avoid double counting;
- **Automotive revised:** focus on production of light duty vehicles (light trucks in addition to passenger cars) in line with the design choices made for the definition of SBTi targets;
- **Iron & Steel:** focus on companies producing crude steel that use iron ore (or scrap) as an input. Mining of raw materials and steel finishing and downstream use are excluded given reduced emission materiality and low data availability;
- **Commercial Real Estate:** focus on the in-use operational emissions of buildings in Italy.

## 2. DEFINITION OF THE METHODS AND METRICS

### 2.1 Scope of emissions covered

For each sector, the scope of emissions was selected to maximize the share of emissions captured.

- Oil & Gas: Scope 1, 2 and 3
- Power Generation: Scope 1 and 2
- Automotive: Scope 3 TTW
- Automotive Revised: Scope 3 WTW
- Iron & Steel: Scope 1 and 2<sup>23</sup>
- Commercial Real Estate: Scope 1, 2 and 3<sup>24</sup>

Scope selections are aligned with market practices, cover the bulk of industry's emissions and are the data typically disclosed by industry players.

<sup>20</sup> Financial and commercial guarantees excluded

<sup>21</sup> In scope if material

<sup>22</sup> The only exception concerns the CRE perimeter, where SME corporates are included in line with the SBTi guidelines (SME retail clients are excluded)

<sup>23</sup> Reported scope 1 and 2 emissions sourced from company reports applied for top material financed producers. For remaining counterparties or where reported data are not available, emission factors covering scope 1 and 2 emissions from pig iron, Direct Reduced Iron and steel production through BF-BOF (Blast Furnace-Basic Oxygen Furnace) and EAF (Electric Arc Furnace) methods are applied

<sup>24</sup> Scope 3 emissions for CRE captured for building owner's (lessor) reporting emissions from the energy use of a tenant (lessee)

## 2.2 Metrics

For Oil & Gas, Power Generation and Automotive, Iron & Steel and Commercial Real Estate, the Bank has decided to use a sectoral decarbonization approach (SDA) aimed at measuring and reducing a physical intensity metric defined as the ratio between financed emissions and financed production for each sector. Specifically, the unit measures used for the metric of each sector are the following (sector-specific emissions intensity metrics):

- Oil & Gas: gCO<sub>2</sub>e/MJ
- Power Generation: kgCO<sub>2</sub>e/MWh
- Automotive: gCO<sub>2</sub>e/vkm
- Iron & Steel: tCO<sub>2</sub>/tSteel
- Commercial Real Estate: kgCO<sub>2</sub>e/m<sup>2</sup>

Note, that for Coal Mining Intesa Sanpaolo did not define a target based on emission intensity but adopted a policy to completely phase-out within 2025.

Counterparties' emissions data are collected in accordance with PCAF<sup>25</sup> guidelines:

- reported emissions, verified or unverified emissions collected directly from the borrower or investee company (e.g., company sustainability report) or indirectly via verified third-party data providers;
- physical activity-based emissions, for the "core" scope (Scope 3 for Oil & Gas, Scope 1 for Power Generation, Scope 3 -TTW for Automotive, Scope 3 -WTW for Automotive revised, Scope 1 and 2 for Iron & Steel, Scope 1 and 2 for Commercial Real Estate), estimated based on production data collected from data provider (e.g., bottom-up approach);
- economic activity-based emissions, for the "other-no core" scope, estimated based on region and sector specific average emission factors computed by the specific climate analytics platform and expressed per revenue (peers' group).

Intesa Sanpaolo's approach to estimate future portfolio emissions considers companies' commitments first. If not available, a reference scenario reduction rate is applied.

## Aggregation at portfolio level

For Oil & Gas, Power Generation, Automotive, Iron & Steel and Commercial Real Estate sectors, to aggregate emission intensity of each counterparty at portfolio level, a production weighted approach is applied. This means that the relative weight of each counterparty in the portfolio emission intensity is directly proportional to the Intesa Sanpaolo's financed production (financed floor area for Commercial Real Estate). Financed production calculation is based on an attribution factor computed as:  $\text{Exposure}/(\text{Total equity} + \text{debt})^{26}$ . This approach is aligned to PCAF recommendations.

Counterparties fully dedicated to renewable activities and project finance dedicated to "green" activities receive an emission intensity equal to zero in the computation of the overall portfolio emission curves.

## Data lag<sup>27</sup>

Due to greater availability of data from various data providers and relevant company reports to calculate physical intensity, the lag observed between the bank's exposure data and emissions/production data has been reduced.

Regarding the reference period of data used, for all sector exposures at end 2023, emission data updated to 2022 are considered, with a lag reduced to 1 year.

For the Iron & Steel sector, the baseline exposure at December 2022 considers 2021 emissions; for Automotive revised (WTW) the baseline exposure at December 2022 considers 2022 emissions; for Power Generation revised the baseline exposure at December 2022 considers 2020 emissions.

For the Commercial Real Estate sector, physical intensity at December 2022 and December 2023 is calculated using a 2020 carbon factor for emissions intensity of final energy consumption; 2023 and 2024 primary energy intensities for property EPC labels have been converted to final energy intensity based on 2020 conversion factors and December 2022 and December 2023 exposures respectively.

**Disclaimer:** Metrics and data may be updated over time following evolution of the emission calculation methodology, the updates to the NZBA and SBTi Guidelines, updated data sources and accepted market practices.

Metrics and data are based on projections and estimates which rely on underlying sectoral assumptions and strategic plans of underlying entities. Such assumptions may be largely dependent on external factors that are not under Intesa Sanpaolo's control, such as, but not only, technological improvements and/or government-led policies. In addition, metrics calculation relies on data inputs, with quality and availability subject to change and may be enhanced overtime.

Please note that progress towards targets may be non-linear in the short term in view of the fact that financing of the transition to a low carbon economy is required or in view of external factors.

<sup>25</sup> Partnership for Carbon Accounting Financials

<sup>26</sup> Please note that "Exposure / (property market value)" is the attribution factor formula for the case of Commercial Real Estate

<sup>27</sup> For data lag concerning previous data please refer to the Metrics and Targets section of the 2022 TCFD Report