kutxabank

Climate Report

July 2024

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1. Introduction to the report

1. Introduction to the report

1.1. The financial sector and climate change

The fight against climate change has become a key objective for our company, since it influences the economic and social impacts of all the stakeholders in the system.

The goals set in 2015 by the Paris Agreement and by the United Nations' Sustainable Development Goals (hereinafter SDGs), together with the roadmap of the European Union, the so-called European Green Deal, define the change process towards a low-emission economy, with the challenge of becoming climate neutral by 2050. This entails transforming the economic, productive and social model, in which risks and opportunities are redefined, and which financial groups should incorporate into their business model.

Thus, in 2018 the European Commission (hereinafter EC) published its Action Plan on financing Sustainable Development, setting as the main targets in this field, to reorient capital flows towards sustainable development, integrate Sustainability in managing the risk of institutions and foster transparency and long-termism in financial and economic activity.

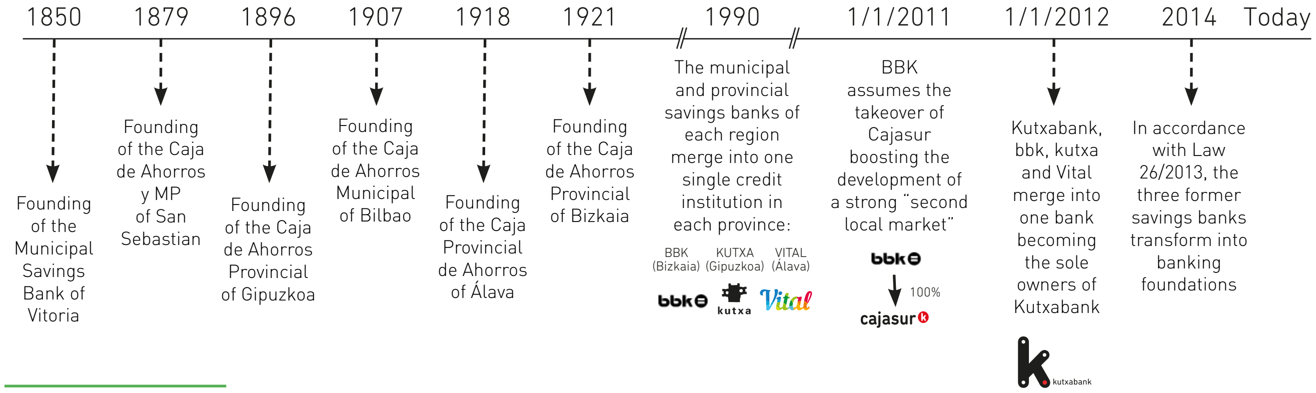
Additionally, in December 2019 the European Banking Authority (hereinafter, EBA) publishes its Action Plan on Sustainable Finance confirming the above targets focussing on financial institutions as one of the key stakeholders to promote the transition towards a more sustainable and low-emission economy.

Kutxabank is firmly committed to this work, and therefore, has consolidated the ESG principles *(Environmental, Social and Governance)* into the core of its organisation and business model in order to support its customers, wholesale as well as retail, in promoting its projects to improve Sustainability and protecting the environment, thereby collaborating to achieve the goals of international agreements such as the Paris Agreement or the SDGs.

1.2. Kutxabank Group's commitment to Sustainability

The ESG principles are deeply rooted in the Entity, forming part of its DNA and its reason for being, and has marked its strategy and business model not only in the last few years since the creation of Kutxabank, but in over the 170 years of the Group's history.

Illustration 1: Timeline of the Group, over 170 years of history



1850: Founding of the Municipal Savings Bank of Vitoria

1879: Founding of the Caja de Ahorros y MP of San Sebastian

1896: Founding of the Caja de Ahorros Provincial of Gipuzkoa

1907: Founding of the Caja de Ahorros Municipal of Bilbao

1918: Founding of the Caja Provincial de Ahorros of Álava

1921: Founding of the Caja de Ahorros Provincial of Bizkaia

1990: The municipal and provincial savings banks of each region merge into one single credit institution in each province:

1/1/2011: BBK assumes the takeover of Cajasur boosting the development of a strong "second local market"

1/1/2012: Kutxabank, bbk, kutxa and Vital merge into one bank becoming the sole owners of Kutxabank

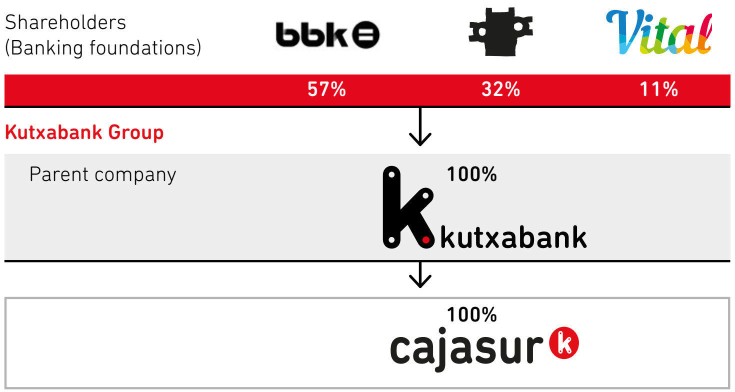
2014: In accordance with Law 26/2013, the three former savings banks transform into banking foundations

Today

Source: Own elaboration

In this respect, Kutxabank Group is a unique financial institution model, in which 100% of its shareholders are banking foundations that revert all their dividends to social work activities, and which are governed by long-term objectives. Thereby encouraging a stable business model which has enabled, in the first 10 years of the Group, to allocate more than 1,200 million euros of dividends to the Banking Foundations, in addition to continuing reinforcing the solvency of the Entity thereby guaranteeing its future sustainability.

Illustration 2: Kutxabank Group shareholding structure



Source: Own elaboration

The Group maintains the vocation of maximising the positive impact of its activity in the economic, social and environmental fields, undertaking the commitment of being an active player in the transition towards a low emission economy. In this respect, the ESG principles are securely represented in the strategic guidelines (mission, vision and values) which define the Entity.

Illustration 3: Mission, Vision and Values

Mission
Kutxtabank favours the sustainable generation of **economic and social value,** with an **advanced, innovative** and **quality** offer. 👥 ☸ 🌍

Vision	
Benchmark Commercial Bank	👥
A solid team	👥 ☸
Socially responsible	👥 ☸ 🌍
Trust	👥 ☸

Values	
Proximity	👥
Easiness	👥
Transparency	☸
Innovation	
Caution and Creditworthy	
Commitment	👥 ☸ 🌍
Sustainability	🌍

👥 Social
☸ Governance
🌍 Environment

Source: Own elaboration

Furthermore, the Group has advanced in its Sustainable Banking model leading the way in different aspects related to sustainability and the ESG factors, among which the following milestones stand out:

- Signatory to the United Nations Global Compact since 2012 and signatory of the agreement to align its activity with the United Nations and Paris Agreement climate Action Goals. In addition, the Entity's business model, works towards meeting the Sustainable Development Goals (SDGs).

Illustration 4: Sustainable Development Goals (SDGs)

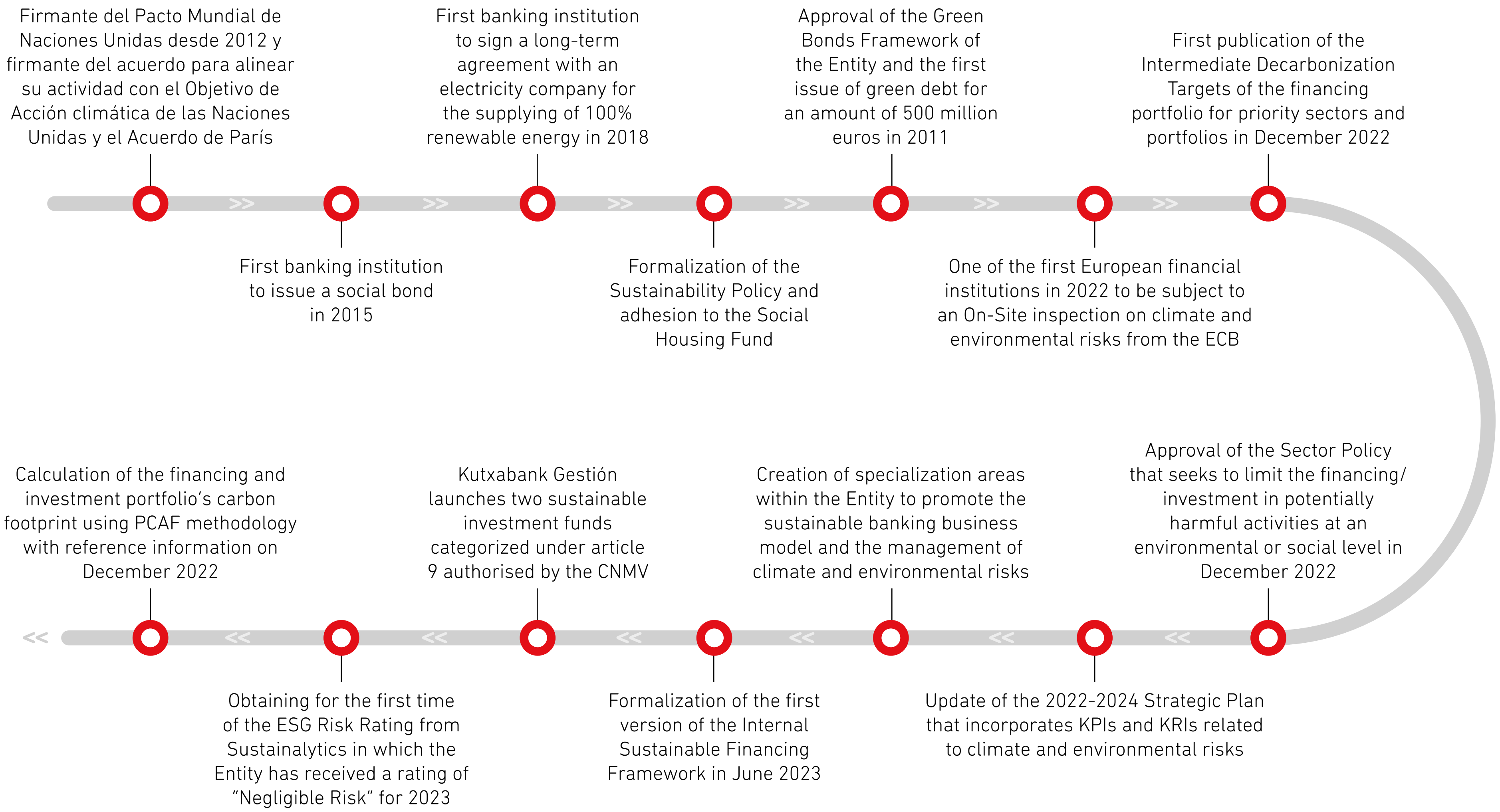
Source: United Nations (UN)

- First financial institution to issue a social bond in 2015
- First financial institution to subscribe a long-term agreement with an electric utility for supplying 100% renewable energy in 2018
- In 2021 Kutxabank Gestión was the first company in the system to have 100% of its active management funds classified under Article 8 authorised by the CNMV
- Formalisation of the Kutxabank Group Sustainability Policy, reflecting its commitment to advance in a sustainable business model, seeking to maximise the positive impact of its activity in economic, social and environmental terms
- Kutxabank is adhered to the Social Housing Fund initiative
- Setting strategic objectives in connection with mobilising sustainable financing from the Entity
- Approving the Green Bond Framework of the Entity and the first green bond issue for EUR 500 million in 2021. In June 2023, the second green senior non-preferred bond was issued for EUR 500 million
- Designing the Roadmap which incorporates the actions the Group is implementing to meet the expectations set by the European Central Bank (hereinafter ECB) in its Guide on Climate-Related and Environmental Risks published in November 2020
- First financial institution to become a member of the Basque Ecodesign Center, the private-public circular economy partnership promoted by Ihobe, Public Environmental Management Company of the Basque Government
- Incorporating a new space to the project, "BBK Kuna, the home of the SDGs" linked to social innovation, in order to co-create solutions and build a more sustainable future
- Incorporating climate-related and environmental risk KPIs (key performance indicators) and KRIs (key risk indicators) into its 2022-2024 Strategic Plan
- In 2022 the Entity was one of the first six financial institutions at a European level in being the object of a specific On-Site Inspection (hereinafter OSI) by the ECB on climate and environmental risks
- First publication of the Intermediate Decarbonization Targets of the financing portfolio for priority sectors and portfolios in December 2022
- Approving the Policy according to Sectors which seeks to limit the financing/investment in potentially damaging activities at an environmental or social level in December 2022
- Creating specialized areas within the Entity to promote the sustainable banking business model and the management of climate and environmental risks, such as the ESG Department or the Technical Climate Office. At the end of June 2023, a new Sustainability Management Department was formed reporting directly to the Chair which brings together the aforementioned functions
- Formalising the first version of the Sustainable Financing Internal Framework in June 2023
- Kutxabank Gestión launches two sustainable investment funds under article 9 authorised by the CNMV
- Obtaining the ESG Risk Rating from Sustainalytics for the first time, in which the Entity has obtained the rating of Negligible Risk for 2023
- Preliminary carbon footprint calculation of the financing and investment portfolio using the PCAF (Partnership for Carbon Accounting Financials) methodology with reference information on December 2022
- Formalising the Internal Climate and Environmental Stress Testing Framework and launching various sensitivity and climate and environmental stress test analyses to incorporate into the ICAAP and the rest of the Entity's financial planning processes

Furthermore, and as a reflection of the growing strategic importance Sustainability has for the Entity, the following landmarks have been achieved over the last few months which will be outlined throughout this document:

- Drafting process of the 2025-2027 Strategic Plan that keeps Sustainability as a key factor of the strategy
- Obtaining the Negligible Risk ESG Risk Rating from Sustainalytics for the second consecutive year. Including the ESG Regional Top Rated and ESG Industry Top Rated seals
- During 2024 Kutxabank Eragin has been launched as a new framework which is Kutxabank's vivid statement towards social and environmental Sustainability
- In May 2024 the first session of the Sustainability Committee was held and an update of the Sustainability Policy has been approved
- The update of the Internal Framework for Sustainable Financing was approved in the first half of 2024, as well as the operating manuals related to it
- Additionally, in July 2024, an extension of the sectors upon which the Intermediate Decarbonization Targets are set has been approved, as well as the monitoring of compliance with the targets set and a procedure for action in case of non-compliance or deviation
- The sustainable financing objectives set are substantially exceeded for the current Strategic Plan
- The analyses of the sensitivity and internal climate and environmental stress tests incorporated into the ICAAP have been extended and Kutxabank participated in the second ECB climate Stress Test during the first half of 2024
- During the first half of 2024, an agreement has been signed with the European Investment Bank (EIB) for the subscription of a EUR 300 million covered bond which will allow Kutxabank to mobilise up to 600 million euros in financing to promote investment in green projects linked to energy-efficient building in Spain
- First disclosure of the Entity's asset alignment percentage with the Taxonomy Regulation within the mandatory reporting framework included in its NFRS (Green Asset Ratio). Additionally, it has continued responding to the growing regulatory reporting and disclosure demands on climate and environmental matters
- In the first half of 2024 AENOR has verified the total Carbon Footprint of the Group, including the Corporate Carbon Footprint and the Financed Carbon Footprint. The result of the verification has been positive, and no "Non-conformities" have been detected
- Progress in the strength and sophistication of the control frameworks of the Entity as regards the identification, measurement and monitoring of climate and environmental risks
- Relevant progress on Roadmap projects on adaptation to the expectations of the Climate and Environmental Risks Guidelines
- Maintaining an active participation in sectoral projects for improving and strengthening the collection of data on climate and environmental aspects
- Strengthening the information infrastructure to progress in meeting the regulatory reporting obligations in climate and environmental matters

Illustration 5: Roadmap of the Entity's Sustainability strategy



Firmante del Pacto Mundial de Naciones Unidas desde 2012 y firmante del acuerdo para alinear su actividad con el Objetivo de Acción climática de las Naciones Unidas y el Acuerdo de París

First banking institution to issue a social bond in 2015

First banking institution to sign a long-term agreement with an electricity company for the supplying of 100% renewable energy in 2018

Formalization of the Sustainability Policy and adhesion to the Social Housing Fund

Approval of the Green Bonds Framework of the Entity and the first issue of green debt for an amount of 500 million euros in 2011

One of the first European financial institutions in 2022 to be subject to an On-Site inspection on climate and environmental risks from the ECB

First publication of the Intermediate Decarbonization Targets of the financing portfolio for priority sectors and portfolios in December 2022

Approval of the Sector Policy that seeks to limit the financing/investment in potentially harmful activities at an environmental or social level in December 2022

Update of the 2022-2024 Strategic Plan that incorporates KPIs and KRIs related to climate and environmental risks

Creation of specialization areas within the Entity to promote the sustainable banking business model and the management of climate and environmental risks

Formalization of the first version of the Internal Sustainable Financing Framework in June 2023

Kutxabank Gestión launches two sustainable investment funds categorized under article 9 authorised by the CNMV

Obtaining for the first time of the ESG Risk Rating from Sustainalytics in which the Entity has received a rating of "Negligible Risk" for 2023

Calculation of the financing and investment portfolio's carbon footprint using PCAF methodology with reference information on December 2022

Second issue under the Green Bonds Framework and first drafting of the Proceed Allocation and Environmental Impact Report of green Bonds in 2023

Formalization of the Internal Climate and Environmental Stress Test Framework and the launching of different sensitivity analyses and climate and environmental stress tests

Obtaining the "Negligible Risk" ESG Risk Rating from Sustainalytics for the second consecutive year including the seals of ESG Regional Top Rated and ESG Industry Top Rated

Kutxabank Eragin is launched during 2024 which is a vivid statement by Kutxabank towards social and environmental Sustainability

The first session of the new Sustainability Committee is held in May 2024 and the update of the Sustainability Policy is approved

The Internal Sustainable Financing Framework is approved in the first half of 2024, as well as the operating manuals related to it

The extension of the sectors upon which to set the Intermediate Decarbonization Targets is approved in July 2024

The sustainable financing targets set for the last few years have been exceeded by far

The sensitivity analyses and climate and environmental stress tests incorporated into the ICAAP have been extended

Participation in the second ECB climate Stress Test during the first half of 2024

During the first half of 2024, an agreement has been signed with the European Investment Bank (EIB) for the subscription of a EUR 300 million covered bond which will allow Kutxabank to mobilise up to 600 million euros in financing to promote investment in green projects linked to energy-efficient building in Spain

First disclosure of the alignment percentage of the Entity's assets with the Taxonomy Regulation included in its NFIS (GAR ratio)

In the first half of 2024, AENOR has verified the overall Carbon Footprint of the Group, in which no "Non-conformities" have been detected

Reinforcement of the information infrastructure in order to advance in meeting regulatory reporting obligations in climate and environmental matters

Drafting process of the 2025-2027 Strategic Plan that maintains Sustainability as a key factor of the strategy

Source: Own elaboration

1.3. Regulatory context

In recent years legislation regarding the concept of Sustainability is undergoing great regulatory activity, at a global, European as well as national level, in order to define the regulatory framework to encourage the transformation towards a sustainable economy and in which credit institutions must play a key role in channelling resources towards sustainable investments.

In Europe, as developments set in the Sustainable Finance Action Plan, different regulatory and supervisory initiatives have been implemented in the specific field of the disclosure of climate and environmental risks in which the Entity seeks to respond through different related reports, such as this document.

The most outstanding initiatives to highlight are:

- The **Task Force on Climate-related Financial Disclosures** (hereinafter, **TCFD**) is a Task Force created in 2015 at the request of G20 leaders, by the Financial Stability Board (FSB). The Task Force develops a common disclosure framework on climate issues published for the first time in 2017 and updated in 2021
- The **ECB Guide on climate and environmental related risks,** published in 2020, contains among its 13 expectations a specific one related to disclosure which indicates that "(...) institutions are expected to publish meaningful information and key metrics on climate-related and environmental risks that they deem to be material (...)". The EC Guidelines and the TCFD are expressly mentioned on submitting non-financial reporting. In addition, the supervisor shares improvement recommendations with the institutions as regards their disclosure practices linked to this expectation
- **Law 07/2021 on climate change and energy transition (hereinafter Law 07/2021)** which provides, in Article 32, the obligation for institutions subject to it of drawing up an annual report which assesses the financial impact on the society of the risks associated to the exposure of climate change on its activity
- In July 2021 the **Commission Delegated Regulation (EU) 2021/2178 in keeping with Article 8 of the Taxonomy Regulation** (hereinafter **TR**) is adopted which had been published in 2020. Such regulation specifies the content and presentation of information which must be disclosed by financial as well as non-financial companies on the manner and extent to which the activities of these are associated to economic activities considered to be environmentally sustainable, in accordance with the technical criteria contained in TR and in the complementary Delegated Acts, as well as the methodology to meet said disclosure of information
- In the **prudential area,** regarding Pillar 3, the EBA published the technical requirements for disclosure on ESG risks in January 2022, which contain the quantitative and qualitative information to be disclosed, as from 2023, in the Prudential Relevance Report (hereinafter PRR) in order to comply with **new article 449 bis of Regulation (EU) No. 575/2013** which was introduced in 2019
- Throughout 2022 the **new Corporate Sustainability Reporting Directive (CSRD)** was also published, forthcoming entering into force, which replaces the current Non-Financial Reporting Directive (NFRD) of 2013. The CSRD provides a new standard reporting framework for companies to link their non-financial information consistently, also, with other recent standards or regulations such as TCFD or RT

In this context, Kutxabank Group has been responding to the different disclosure requirements through the contents published in the Non-Financial Reporting Status and in the Prudential Relevance Report.

In addition, it publishes the third edition of this Climate Report in accordance with the new standards and requirements published on this matter, particularly those of the TCFD and those contained in the annual report provided for in Article 32 of Law 07/2021. For further transparency, Annex A provides the correlation tables of this report with the contents provided by the TCFD as well as by Law 7/2021.

Lastly, it should be noted that as the different requirements in terms of disclosure are clarified, the Entity will order and consolidate the different information published in order to carry out an efficient management thereof and homogenise the messages transferred to the different market stakeholders.

1.3.1. TCFD - Task Force on Climate-related Financial Disclosures

From the outset, Kutxabank has been firmly committed to the Sustainability and transparency of its activity, which is why it publishes and subjects the Group's Sustainability Report to the audit of an independent third-party since 2007.

In an exercise of transparency and adaptation to the new disclosure expectations of supervisory bodies, Kutxabank has drawn up this Climate Report which is based on the principles and recommendations of the Task Force on Climate-Related Financial Disclosures.

As indicated above, the TCFD is a Task Force created in 2015 by the FSB, and following the request of G20 leaders, setting the bases upon how to analyse and expose the risk represented by climate factors for the world economy. This Task Force seeks for the carried out climate issues disclosures, arising from the appearance of technological innovations, regulatory changes, changes in consumption behaviour or direct weather impacts, to be true and objective.

In compliance with the requests which it was entrusted with, the TCFD develops a common disclosure framework published for the first time in 2017 and updated in 2021. Its recommendations are structured around four thematic areas which represent the core elements on how organisations operate: governance, strategy, risk management and metrics and targets. These four general recommendations, supported by the complementary reporting and additional guides of a general and sectoral nature, provide an information framework which will help investors and other stakeholders to understand how institutions identify and assess climate-related risks and opportunities.

Illustration 6: Main TCFD pillars for action

Core elements of climate-related financial reporting recommendations

Governance

Governance of the organisation on climate-related risks and opportunities.

Strategy

The real and potential climate-related risks and opportunities for businesses, the strategy and financial planning of the organisation.

Risk management

The processes used by the organisation for identifying, assessing and managing climate-related risks.

Metrics and targets

The metrics and targets used to assess and manage relevant climate-related risks and opportunities.

Source: TCFD

This Climate Report seeks to respond to the most relevant aspects considered in the TCFD recommendations in order to provide the market with an objective and true view on the position of the Entity regarding its strategy and management environmental and climate-related opportunities and risks. In this regard, the chapters in this document are structured based on the four pillars for action identified by the TCFD.
It is worth stressing that the Task Force on Climate-related Financial Disclosures (TCDF) has been disbanded in October 2023 after fulfilling its role[1].

1.3.2. Law 7/2021, of 21 May, on Climate Change and Energy Transition

This Climate Report, in addition to responding to the most relevant TCFD aspects, also seeks to respond to the requirements of the new Spanish Law on climate change and energy transition, in order to disclose the information required therein.
As detailed in point III of the preamble of Law 7/2021 "this responds to the commitment undertaken by Spain at an international and European level and presents an opportunity from an economic viewpoint and for the modernisation of our country, as well as from the social point of view, enabling the equitable distribution of wealth in the decarbonization process". In addition, this "law establishes a framework to provide equity in the transition towards a decarbonized economy, offering compulsory learning and transparency tools which help to detect and assess risks and opportunities and improve investment decisions".
Article 32 of this law establishes the obligation for subject entities to drawing up an annual report assessing the

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[1] The Financial Stability Board (FSB) asked the International Financial Reporting Standards Foundation (IFRS Foundation) to take over in monitoring the progress on the disclosure of the climate information of companies

financial impact on society of the risks associated with climate change generated by the exposure of their activities to climate change.

The Entity has decided, voluntarily, to respond in this report to what is requested in Art. 32 of Law 7/2021, bearing in mind that much of the planned information to be disclosed is in line with the climate-related disclosure requirements of the European Central Bank and other supervisory bodies. Likewise, it is consistent with other reporting standards such as the TFCD.

Illustration 7: Summary of the new Draft Royal Decree for developing the content of the report provided Art. 32 of Law 7/2021

Governanace structure of the organisation regarding the identification, assessement and management of the transition and physical risks as well as climate-related opportunities

Processes of identification, assessment, control and management of transtion risks and climate-related physical risks and how these are integrated into the global business risk analysis

Climate-related transition risks and physical risks as well as opportunities existing at the time the report is drafted and those that may arise in the future

Real and potential impacts, from a quantitative and qualitative viewpoint, of climate-related transition risks, physical risks and opportunities in the activities of the organisation, its strategy and its financial planning

Strategic approach for managing transition risks, physical risks, as well as climate-related opportunities

Metrics, scenarios and targets used for assessing and managing transition risks, physical risks and relevant climate-related opportunities and, if calculated, scope 1, 2 and 3 of the carbon footprint and how to undertake its reduction

Source: Draft of Royal Decree for developing the content of the report provided in Art. 32 of Law 7/2021

1.3.3. Corporate Sustainability Reporting Directive (CSRD)

This Climate Report, also seeks to begin to respond to the most relevant aspects of the CSRD regulation in terms of climate change, in order to disclose the information required thereof.

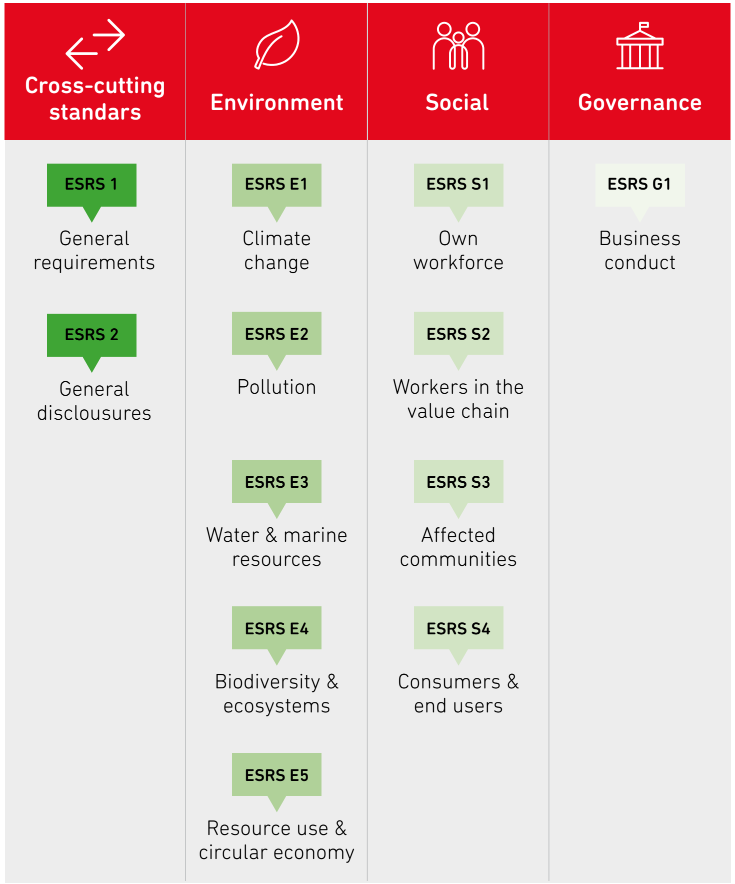
The new CSRD Directive (Directive EU 2022/2464, published in the Official Journal of the European Union on 14 December 2022) amends the non-financial reporting Directive 2014/95 (NFRD). This new regulation is included in order to complete the information on Sustainability to be disclosed in the non-financial reporting.

Moreover, the new CSRD directive aims to meet Agenda 2030 of the UN General Assembly.

The CSRD directive has defined a set of 12 European Sustainability Reporting Standards (ESRS) that define a standardised disclosure framework on environmental, social and governance aspects. A key aspect of the ESRS is the double materiality, which implies that companies subject to reporting under this regulation must analyse materiality based on two dimensions, financial and impact. The double materiality concept seeks to disclose information on how Sustainability aspects affect companies and how the activity of companies affects their environment and stakeholders.

The 12 ESRS are divided into 2 cross-cutting standards that establish the general reporting structure, 5 standards related to the environment, 4 related to social aspects and one standard to Governance information.

Illustration 8: Details of the ESRS defined in the CSRD



Cross-cutting standars	Environment	Social	Governance
ESRS 1 General requirements	**ESRS E1** Climate change	**ESRS S1** Own workforce	**ESRS G1** Business conduct
ESRS 2 General disclousures	**ESRS E2** Pollution	**ESRS S2** Workers in the value chain	
	ESRS E3 Water & marine resources	**ESRS S3** Affected communities	
	ESRS E4 Biodiversity & ecosystems	**ESRS S4** Consumers & end users	
	ESRS E5 Resource use & circular economy		

Source: Kindlink

In this regard, this report also seeks to respond, as far as possible, to the requirements on climate change of this directive. However, the Entity will have to publish in accordance with CSRD for the first time in 2025 (based on the data of year 2024).

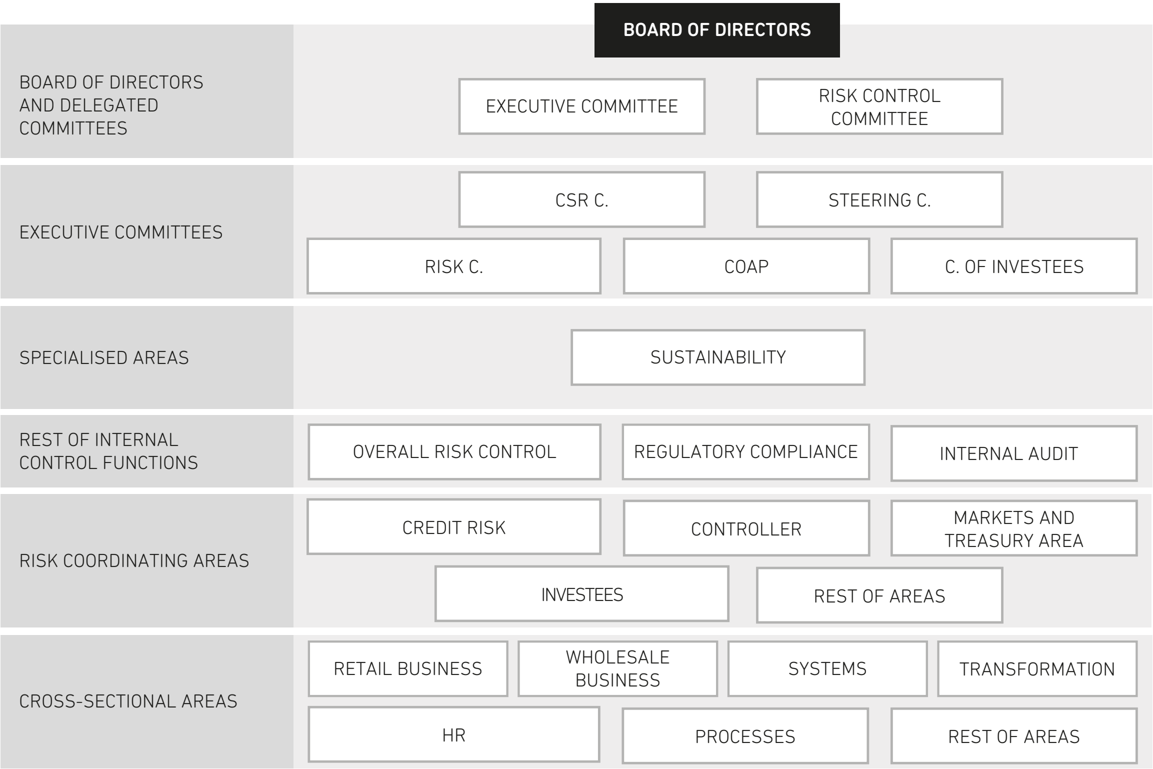
2. Governance and organisational structure model

2. Governance and organisational structure model

Kutxabank Group has a robust internal governance and decision-making model in the risk strategy and management areas and in line with the best sectoral practices.

In this respect, over the last few years the Entity has strengthened its governance and organisational structure model related to the strategy and management of climate-related and environmental opportunities and risks. Below there is a brief overview of the main bodies and departments involved in this field:

Illustration 9: Governance and organisational structure model for defining the strategy and management of climate and environmental opportunities and risks



	BOARD OF DIRECTORS
BOARD OF DIRECTORS AND DELEGATED COMMITTEES	EXECUTIVE COMMITTEE RISK CONTROL COMMITTEE
EXECUTIVE COMMITTEES	CSR C. STEERING C. RISK C. COAP C. OF INVESTEES
SPECIALISED AREAS	SUSTAINABILITY
REST OF INTERNAL CONTROL FUNCTIONS	OVERALL RISK CONTROL REGULATORY COMPLIANCE INTERNAL AUDIT
RISK COORDINATING AREAS	CREDIT RISK CONTROLLER MARKETS AND TREASURY AREA INVESTEES REST OF AREAS
CROSS-SECTIONAL AREAS	RETAIL BUSINESS WHOLESALE BUSINESS SYSTEMS TRANSFORMATION HR PROCESSES REST OF AREAS

Source: Own elaboration

It is important to highlight the mainstreaming and global vision with which the Entity manages climate-related risks and opportunities, represented in practically all of its governance and executive areas and bodies.

In addition, it should be noted that during 2022 the climate and environmental supervisory functions have been formally entrusted to the Risk Control Committee and the Board of Directors.

Finally, in May 2024 the Sustainability Committee of the Group is formed, which replaces the disbanded Corporate Social Responsibility Committee. This new executive Committee has the main objective of providing the drive, control and monitoring of all the Sustainability in the Group, as well as ensuring the correct coordination with the rest of the areas for the development of the function of the Sustainability Area.

2.1. Internal Governance Framework

The governing bodies of Kutxabank, with its Board of Directors as the maximum authority, has prompted the Group to have a corporate strategy which incorporates Sustainability and policy development to promote the transition towards a low-emission economy as one of its fundamental pillars for action.

In this respect, and as a key milestone in terms of ESG, the Board of Directors of the entity approved the Group's Sustainability Policy in May 2021 which defines the corporate objectives and the main general lines of action in this field. This document, along with the rest of the policies, regulations and manuals, represent the Entity's ESG governance framework, which is developed and structured in line with the strategic size and profile thereof.

Illustration 10: ESG internal Governance Framework in Kutxabank Group

- Sustainability Policy
- Sustainability Plan
- CSR Code
- Environmental Policy
- Sustainability Risk Policy in providing services to customers
- Policy by sectors
- Risk Appetite Framework
- Risk Management Internal Governance Framework
- Green Bond Framework
- Internal Climate Stress Test Framework
- Sustainable Financing Framework
- Remuneration Policy Corporate Framework of Kutxabank Group
- Occupational risk prevention plan
- Training Plan
- Equality Plan
- Policy on the objective of representation for the less represented gender in the Board of Directors
- Competitive evaluation process
- Data Protection Policies
- Channel for ethical reporting
- Policy of Adverse Incidents in investment decisions
- Code of conduct
- Linguistic policy
- General Conflicts of Interest Policy
- Policy of outsourcing services and functions
- Governance and product supervision policy
- Internal rules of conduct in the securities market
- Policy for the provision of banking services
- Framework for the prevention of money laundering and terrorist financing
- Tax strategy

Source: Own elaboration

As relevant aspects to highlight, what stands out is that the Governing Bodies of the Entity have recently approved the Sustainable Financing Framework which seeks to clarify the internal criteria employed when identifying transactions with a positive contribution in environmental and/or social issues, the Policy by Sectors where the activities with a potentially harmful impact at an environmental and/or social level in which the Entity would like to reduce its exposure or the Intermediate Decarbonization Targets of the financing and investment portfolio.

The 2022-2024 Strategic Plan, in which design and approval process the Board of Directors of the Entity took part actively, has incorporated specific targets in terms of Sustainability and compliance with the Roadmap for Adapting to the ECB Guide on Climate and Environmental Risks. In addition, during 2023, the said Strategic Plan review process, has included KPIs and KRIs in climate matters, deployed at a portfolio level, in order to include climate and environmental risks in its strategy and management model more specifically.

Currently, the Entity is engaged in the process of preparing the new 2025-2027 Strategic Plan, in which Sustainability will continue being a key aspect of the strategy.

Among the functions of the Board is, precisely, the regular monitoring and supervision of the degree of compliance of the Strategic Plan and its different initiatives, and this framework also includes the monitoring of the degree of progress of all the initiatives defined on Sustainability and climate and environmental risks.

2.1.1. Governing Bodies

With regard to climate and environmental risks, it is important to note that the functions and responsibilities of the Board of Directors and the Risk Control Committee on these have been explicitly and formally assigned, within the already established design and in force in Kutxabank for organising functions and responsibilities in terms of risk.

- **Board of Directors:** thas the overall responsibility over the Bank, including the approval and supervision of implementing the strategic objectives, the risk strategy, corporate governance and the corporate values. The Rules governing the Board of Directors establish that, the principles and policies marked by the general lines of action of the Company and the Group in terms of risk control and management, "will be established in general terms, aimed at the management of the overall risk profile of the Group, as well as specific, in relation to the most relevant types of risks, and will take the underlying climate and environmental risk factors into account in each case". In the monitoring and supervision work, the Board is assisted by the Delegated Committees of the Entity, preferentially, in terms of risks, by the Risk Control Committee

- **Risk Control Committee:** among the functions assigned to this Committee included, among others, are to *"systematically revise exposures with the main types of risks including the underlying climate and environmental risk factors in each case, as well as analysing and evaluating the proposals on strategy and control policies for risk management and advise the Board of Directors on the overall propensity to risk, current and future, and its strategy on this matter".* As regards the issues handled by the Risk Control Committee during the last year, it should be noted in relation to environmental risks, the monitoring of the degree of progress of the Climate Stress Test and the Roadmap for adapting to the ECB Guide on Climate-Related and Environmental Risks as well as a management report on climate and environmental risks that compiles the main actions carried out in the different areas of the Entity on this matter.

- **Executive Committee:** is in charge of performing or carrying out all those faculties the Board of Directors delegates it. In 2024 the new intermediate Decarbonization Targets of the Entity have been approved, these entail a methodological review and an extension of the sectors of the targets previously set in 2022. Likewise, the compliance monitoring of the targets set, and the procedure to follow has been determined in case of deviation or non-compliance thereof.

- **Audit and Compliance Committee:** among its functions is to inform the Board of Directors, beforehand, about the non-financial information the Company should make public regularly, as well as supervising the effectiveness of the internal control of the Entity, the internal audit and the risk management systems.

Complementary to this, and to better perform its functions in the Sustainability field, new versions of the suitability assessment Policy and the evaluation Systems derived from it have been approved, as well as new versions of the Policy for selecting candidates for their appointment as members of the Kutxabank Board of Directors and the welcome and training Programme for the members of the Board of Directors. Furthermore, since 2022, the Member Training Plan, is incorporating knowledge, skills and experiences in terms of climate-related and environmental risks.

2.1.2. Executive bodies

In regard to the executive bodies, the following are to be pointed out:

- **Sustainability Committee:** tits main objective is the control and supervision of all the Group's Sustainability issues, its main function being the promotion, control and monitoring of the Sustainability activity in the Group, as well as ensuring the correct coordination of the rest of the areas of the Entity for the development of the function of the Sustainability Area. This Committee is composed of the President of the Entity, the Chief Executive Officer, the Chief Strategy Officer and the Director of the Sustainability Area and its first session was held in May 2024.
  For these purposes, and within its attributions, the Sustainability Committee will have the following functions:
  - Validation of the Sustainability Plans, for submission to the approval by the Steering Committee
  - Validation of new proposals and initiatives in terms of Sustainability
  - Monitoring the Sustainability activity of the Bank and the compliance of the Sustainability Plans
  - Support, promote and extend the knowledge and development of Sustainability throughout the organisation, cross-sectionally
  - Promote the incorporation of Sustainability in the major risk processes of the Entity
  - Promote the incorporation of Sustainability in the major Business processes of the Entity
  - Propose new initiatives and new lines of action related to Sustainability
  - Review the Sustainability communication plans

  Since the Sustainability Committee was formed, it has been informed of the update of the Sustainability Policy, the update of the Internal Sustainable Financing Framework, the new decarbonization targets set and their monitoring, the total carbon footprint of the Entity and the verification by AENOR, among others.

- **Management Committee:** in recent years, this Committee has approved or submitted for approval various procedures related to Sustainability. In 2022 approved the Internal Climate Stress Testing Framework of the Entity and participated in the scaling of proposals for approving the Policy by Sectors, the intermediate Decarbonization Targets of the financing portfolio of the Entity and of the Reputational Risk Management Policies Manual. In 2023 it participated in the approval of the Internal Sustainable Financing Framework. During 2024, it has participated in the review and approval process for updating the Decarbonization Targets, the Internal Sustainable Financing Framework and the Total Carbon Footprint of the Entity, among others. Additionally, this Committee receives regular information of the degree of progress of the Roadmap for adapting to the ECB Guide on Climate-related and Environmental risks.

In addition, progressively and gradually, the rest of the executive bodies of the Entity are adopting the criteria on Sustainability and management of climate and environmental risks in their decision-making processes in the matters for which they are responsible. By way of example:

- **Investee Committee:** presentation in 2023 of the Manual of Risk Management Policies in Investee Companies and the Procedure Manual of Valuations of the Equity Portfolio of Kutxabank Group. The climate-related and environmental Risk Management Procedure in Investee Companies has been presented in 2024 and, in application thereof, the analysis of the investee companies' portfolio related to climate and environment.
- **ALCO:** presentation in 2023 of the Market Risk Management Policies Manual, the Manual of Procedures of the Market Areas and the Liquidity Risk Management Policies Manual
- **Operational Risk Committee:** presentation in 2023 of the Operational Risk Management Policies Manual

2.1.3. Internal reporting in terms of ESG

The governing and executive bodies of the Entity, in their monitoring and supervisory work, (the Board of Directors, the Risk Control Committee and the Steering Committee among others) receive detailed information on the progress of the integration process of climate and environmental risks into the strategy of the Group, as well as in its risk control framework. In particular:

- They receive timely detailed information about all the extraordinary supervisory actions implemented on the management of climate and environmental risks in which Kutxabank has participated (EBA stress test, thematic review, on-site inspection...)
- Also submitted on an annual basis, for approval by the Board of Directors, is the Group's Corporate Risk Map, which includes several specific sections on climate and environmental risks, with detailed information on the identification of subfactors of climate and environmental risks, the potential correlations between such subfactors and the main risk categories, the materialization pathways or most feasible transmission channels, as well as an assessment of its potential materiality for different time horizons
- On an annual basis, the Board of Directors approves the Risk Appetite Framework that includes specific references to climate and environmental risks. Additionally, on a quarterly basis on this occasion, the indicator monitoring reports are submitted to the Board of Directors, including those in terms of Sustainability.

- Quarterly, the receive information on the degree of progress of the Roadmap for adapting to the ECB Guide on Climate-related and Environmental Risks.
- On a monthly basis, the Sustainability Committee is informed about the advances of the Entity in terms of Sustainability.
- Every six months, a management report on climate and environmental risks is submitted that compiles the main actions implemented by the different areas of the Entity on this matter.
- On an annual basis the Sustainability Committee, the Steering Committee and the Executive Committee are informed about the updating and monitoring of the Intermediate Decarbonization Targets set.
- Promptly, they receive information about the results of the internal climate and environmental stress testing tests.
- On an annual basis the Sustainability Committee and the Steering Committee are informed about the Entity's Carbon Footprint, as well as its evolution from previous years
- They have the opportunity to learn in detail about the content of this Climate Report, prior to its publication
- On an ad-hoc basis, the Risk Control Committee is informed about the new regulatory and/or supervisory changes regarding climate and environmental risks

As the Entity strengthens its management practice of climate and environmental risks it will also strengthen the periodicity and reporting dynamics to its different governing and executive bodies.

2.2. Specialized areas

The Sustainability Management, created in June 2023 reporting directly to the Presidency, compiles the main functions carried out by the different specialist units of the Entity in this field:

- **ESG Department**

  The ESG Department works on the development, promotion and coordination in the Entity of initiatives linked to the Sustainability strategy and targets, as well as to the integral management of the aspects related to sustainable finance. In addition, it is dedicated to the implementation and expansion of the criterion and concept of Sustainability in the business areas of the Entity, providing support and technical expertise.

- **Technical Sustainability Office**

  This unit focusses, particularly, in the part relative to taxonomy development, the measurement of the exposure and impact level of the climate and environmental risks, development and monitoring of the Decarbonization Targets, climate stress testing, compliance of the regulatory reporting obligations and the supervisory and disclosure requirements within this area.

- **Projects**

  During the first half of 2024, the Entity has created the Projects unit within the Sustainability department. This unit is in charge of managing and promoting the main Sustainability projects prepared in the Entity, as well as promoting them cross-sectionally across all the areas

It should be noted a provision of increased resources and means in the area in order to address the different challenges identified in each field.

2.3. Internal control functions

Described below are the areas in charge of the internal control functions of the Entity, where in addition to the Overall Risk Control described above, the following stand out:

- Global Risk Control: This is the department in charge of implementing the Risk Management Function of the Group, and reports directly to the Risk Control Committee of the Entity. Among other things, it coordinates the management of the climate and environmental risks of the Entity, and its integration with the control frameworks of the different types of existing risk. In this sense, it has coordinated the design, formalization and commissioning process of the Roadmap for adapting to the ECB Guide on Climate-related and Environmental Risks, and is in charge of the identification and assessment phases of the materiality of the climate and environmental risks for different time horizons (short, medium and long term)

- Group Regulatory Compliance and Control: this is the department in charge of performing the Compliance Function of the Group, and reports directly to the Audit and Compliance Committee of the Entity. In this respect, this area integrates the climate and environmental risk factors in its activities, outlining the following specific fields:
  - Monitoring the production of regulations and regulatory radar: the Regulatory Compliance Unit is in charge of the ongoing monitoring of the production of regulations and is responsible for ensuring the implementation of new obligations in the Entity (Corporate Regulatory Office), it has these topics incorporated into its scope conducting ongoing monitoring through the regulatory radar
  - Supervising the risk of compliance ex ante and ex post: extending the scope of its ongoing supervision, having incorporated the following competencies into its Statute:
    - Second line supervision of the compliance of the EBA guides on climate-related and environmental risks
    - Supervision of all the Sustainability obligations incorporated into regulatory areas under its direct responsibility: providing investment services, remuneration policy, governance of products and services
    - Evolution of the reputational risk measurement model from the incorporation of ESG attributes in the measurement model of stakeholder perception

- Internal Audit: el the primary purpose of the Internal Audit Function of the Group (hereinafter IAF) is to provide independent and objective assurance and consulting services helping the Group to meet its objectives, providing a systematic and disciplined approach to assess and improve the effectiveness of its risk management, control and governance. From the organisational viewpoint, it reports administratively to the President and functionally to the Audit and Compliance Committee, body to which it directly reports.
  The IAF regularly assesses its audit universe to ensure that emerging trends and best practices are being considered in its field of action. In this respect, in the last few years different lines of work related to the climate-related and environmental risk matters have been incorporated into the Annual as well as the Multiannual Audit Plan which are

mainly handled from the Sustainability, Governance and Coordination Audit unit. Additionally, since the climate and environmental factors are cross-sectional and are being integrated into a significant proportion of the organisation's processes, these factors are also considered in the work carried out by the rest of the IAF units

2.4. Transversally throughout the entire organisation

As already stated above in this report, Sustainability and the management of climate-related and environmental risks constitute one of the key pillars of the Entity's strategy, and although there are specific work units in this field, the development and performance extends transversally throughout the entire Organisation.

In this respect, all the Committees of the Entity participate, to a greater or lesser extent, in the decision making of Sustainability and climate-related and environmental risks, based on the competencies of their areas of action.

Additionally, there is a significant involvement of all the coordinating areas of the different types of risk, since climate and environmental risks are risk factors that are underlying in already existing risk categories, and therefore, must be taken into account in decision-making processes. In this respect, ESG controllers have been appointed in the different risk areas.

Conversely, the business areas are also amply integrated into the management of the opportunities and risks arising from ESG areas, having also appointed specialists in the Wholesale as well as in the Retail Business.

The Sustainability Department team, as part of its core work, actively supports the risk as well as the business areas in order to continue integrating the ESG criteria into the management model of the Entity.

Going further, this mainstreaming is also materialised in a way that all the areas and departments of the Entity include in their vision and develop within their work the principles of sustainable banking that form part of the global strategic vision of the Group, as reflected in the different action plans that make up the Sustainability Programme of the forthcoming 2025-2027 Strategic Plan, which will be formally approved at the beginning of 2024.

In this context, Sustainability is also present in the Annual Training Plans intended for the staff, including subjects related to the development of skills in this field. The Kutxabank and Cajasur Banco teams of humans, including the members of their Boards of Directors, received more than 28,000 hours of training on Sustainability and on the management of climate-related and environmental risks during 2023.

Moreover, 89% of the Personal Banking team is certified in Sustainable Investment by the Barcelona School of Management.

Additionally, during 2024, the initial phase of the new mandatory training has been launched for all employees: "Introduction to sustainable finance: main trends". Among its objectives is emphasizing the financial impact of Sustainability, together with the duty of progressively considering and integrating environmental, social and governance factors into the opportunities, risks and management, so that all the employees internalise them and consider them in their day-to-day decision making.

Furthermore, during the month of June 2024, 5 class-room based sessions on Sustainability have been given to the Areas of corporate Banking, business Banking, real estate development and institutions; Marketing, Risks and Sustainability. The purpose of these has been to delve deeper, from the knowledge acquired in the initial phase and with an eminently practical approach, into how the strategic environment continues evolving as a result of Sustainability. In addition, focus has been placed on the reasoning that to make the most of the opportunities, it is necessary to consider the ESG risks cautiously, that is to say, understand, measure, manage and sequentially integrate the ESG factors into the risks in order to make the most of the opportunities helping the customers in the transition.

The Entity will continue investing and furthering training in terms of Sustainability in the coming years, considering the three pillars of the regulation and prudential supervision: market discipline (disclosure); risk management and supervision, risk and capital coverage. Thus, the Training and Sustainability Areas continue developing in a coordinated manner the (training) programme which will continue over time and with the aim of incorporating Sustainability (the ESG factors) into the daily management of all the staff in the Group.

In this respect, the increased training in Sustainability is allowing the commercial team of the Entity to act as advisors of the customers in matters related to energy efficiency, the transition and sustainable financing.

2.5. Alignment of the remuneration policy with ESG and climate and environmental risk targets

The Corporate Framework of the Remuneration Policy of Kutxabank Group currently in force, applicable to the Group's companies subject to remuneration regulations, that include credit institutions, investment firms and insurance companies, was approved by the Board of Directors of Kutxabank S.A. in its session of 29 June 2023, prior favourable report from the Remuneration Committee, and subsequently approved by the General Meeting of shareholders, in its session of 30 June 2023, concerning the remuneration policy applicable to the members of the Board of Directors.

The remuneration policy is closely linked to other corporate policies and corporate procedures in force in the Entity, that have been expressly progressively incorporating the ESG, environmental, social and governance factors into its general principles and main objectives, consistent with the long-term strategy of the Entity and the Group. Such is the case of the Risk Appetite Framework and the Internal Governance Risk Management Framework, the internal capital and internal liquidity suitability assessment processes, the Equality, Sustainability, Environmental policies, or the Code of Corporate Social Responsibility.

In accordance with paragraph 16 of the EBA guidelines on sound remuneration policies under Directive 2013/36/EU (EBA/GL/2021/04), these policies must meet the following:

> *"The institution's remuneration policy for all staff should be consistent with the objectives of the institution's business and risk strategy, including environmental, social and governance (ESG) risk-related objectives,*

> *corporate culture and values, risk culture, including with regard to long-term interests of the institution, and the measures used to avoid conflicts of interest, and should not encourage excessive risk taking. Changes of such objectives and measures should be taken into account when updating the remuneration policy. Institutions should ensure that remuneration practices are aligned with their overall risk appetite, taking into account all risks, including reputational risks and risks resulting from the mis-selling of products. Institutions should also take into account the long-term interests of shareholders or owners, depending on the legal form of the institution."*

Long-term Sustainability, constitutes one of the general principles that inspire the Remuneration Policy Framework of the Entity. In this respect, Kutxabank S.A., generally speaking, understands remuneration as an inspiring element of the spirit of overcoming and as an element of creating long-term value, that enables:

1. Contributing to achieving the Entity's short, medium and long-term objectives, in accordance with a Sustainability strategy and with a forward-looking approach.
2. No to introduce elements that may alter the reasonable risk profile of the Entity, additionally consolidating the consistency with the values associated to ESG aspects, environmental, social and governance, in managing risks.
3. Reasonably balance the fixed and variable components of remuneration, in accordance with the characteristics of the function, the level of responsibility and commitment.
4. Bring equity to the remuneration policy, consistent with the evolution of the Entity and the market situation.
5. Ensure the implementation of a gender-neutral remuneration policy for all the staff.

The prudential regulatory framework applicable to financial institutions, establishes the bases and principles that must be met by the remuneration policies of the financial institutions and groups subject to it. Such principles are related to the linkage of remuneration with risk, the existence of general restrictions, and a series of rules applicable to liquidation and payment of variable remuneration, as the main trigger of the behaviours that set the difference between good and bad practices in the financial sector.

In accordance with the above, the alignment process of variable remuneration with risk includes two aspects in Kutxabank, the evaluation of results and risks, and the adjustment or alignment of remuneration according to such evaluation. In turn, there are two key moments, according to the influence in the calculation and/or liquidation of variable remuneration (in the prudential or ample sense). On the one hand, there will be an ex ante evaluation of risk, that will have an effect in determining the amount of variable remuneration (at the time granted), and on the other hand, according to the proportionality principle provided in the regulatory framework, for the members of the collective identified, will also include an ex post evaluation of risk, within a multiannual framework that will have an effect on the final liquidation and consolidation of the variable remuneration initially granted.

Additionally, as part of the alignment process of the variable remuneration with risk, the Remuneration Policy Framework of the Entity includes an express reference to the integration of climate-related and environmental risks in the evaluation of the results with an effect on the variable remuneration frameworks applicable, primarily, to the collective identified, given the special relevance of their linkage to the long-term strategy and the impact their decisions have on the Group's risk profile.

In terms of remuneration, particular note is the **introduction of the Sustainability indicators** into the **annual variable remuneration** schemes, with a joint weighting of up to 5% on the total of indicators, that are applicable to the collective identified, to other area managers and middle management of central services, among which also included are the specific systems applicable to control functions. Particularly, the metrics entered are ***"sustainable financing",*** present in the variable remuneration since 2021, and another specific ESG risk metric, introduced into the variable remuneration schemes as of 2023.

This second metric is the rating the Entity obtains in the ***SUSTAINALYTICS "ESG Risk Rating"***. The selection of this indicator is due to (i) its consideration as a global indicator on this type of risks, including the climate-related and environmental ones, (ii) its objective nature, in the sense that it measures all the entities based on the same parameters, and it is an index calculated by an external and independent entity, and (iii) for being, ultimately, stringent indicator in terms of collecting variable remuneration.

Moreover, coinciding with the approval of the three-year Strategic Plan, for the 2022-2024 period, the remuneration policy currently in force, that recognises how one of the remuneration components of the **long-term variable remuneration schemes,** includes, as an integral part thereof, the Long-Term Incentive linked to the 2022-2024 Strategic Plan, approved by the Board of Directors on 31 March 2022, and is applicable to the collective identified and to other key staff within the management team. This scheme incorporates, among the indicators linked to the strategy across the Entity, the same Sustainability indicator present in the annual variable remuneration systems.

On their part, the governing bodies of Cajasur Banco, Kutxabank Gestión, Kutxabank Seguros and Norbolsa approved the adhesion of their respective entities to the multi-annual plan implemented by the parent company of the Group in 2022, additionally incorporating, in certain cases, specific indicators from their companies, as well as from the beneficiary collective of their respective entities. ESG-related and climate risk factors provided in the 2022-2024 Strategic Plan are present in all the systems. Additionally, Kutxabank Gestión and Norbolsa have incorporated indicators associate to ESG factors or with socially responsible investing into their annual variable remuneration.

3. Strategy

3. Strategy

Kutxabank Group has a mission, a vision and highly committed values to Sustainability and the ESG factors, which are implemented through specific policies. In order to strengthen this environmental and social commitment, the Entity has updated its Sustainability Policy during 2024, which has been approved by the Board of Directors in May of said year.

In this respect, the corporate objectives included in said Policy regarding the Group's ESG vocation, are divided into 4 groups:

Cross-cutting objectives:

- Advance in a sustainable business model, trying to maximise the positive economic, social and environmental impact of the activity
- Promote financial inclusion as a lever of development and growth
- Establish and develop long-term commercial relations with customers and suppliers, based on proximity, transparency and good practices
- Adapt the offer of products and services that include sustainable characteristics in order to respond to the growing demand
- Advance in the incorporation of Sustainability in the strategic decisions of the Group and in the day-to-day management, in particular in the risks and opportunities arising from climate change and environmental protection
- Propose risk mitigation strategies that enable to monitor and contain the exposure level of the Group, promoting the transition of customers through financing or investment instruments at the same time
- Ensure equal opportunities of all the employees and offer working conditions that place them at the head of the sector in which the Group operates
- Promote transparency and ensure access to the information of all stakeholders
- Promote Sustainability awareness internally and externally
- Participate and collaborate with national and international organisations, in line with the objective of rekindling the Global Alliance for Sustainable Development (Goal 17 of the Sustainable Development Goals)

Environmental perspective:

- Accompany the stakeholders in general, and customers in particular, in their transition process towards an economy not intensive in GHG emissions
- Minimise environmental impact of the Entity
- Redirect private capital flows towards sustainable investments, in line with Article 2c of the Paris Agreement and the European Commission Sustainable Finance Action Plan (see Regulatory Context and references section)
- Integrate climate and environmental factors in the management of the opportunities and risks

Social perspective:

- Promote social action, that is in the Group's DNA, and economic development
- Ensure and promote equal opportunities for all the stakeholders
- Encourage the support of functional diversity, financial education and linguistic inclusion
- Establish compliance requirements for suppliers on human and working rights

Governance perspective:

- Define an own Group strategy in terms of social action
- Promote an ethical conduct and behaviour base on respect and trust
- Have a robust governance framework that ensured the compliance of the ESG targets at a corporate level and as regards the stakeholders of the Group
- Ensure the compliance of regulations and adhere to the best market practices
- Persist in incorporating the ESG risk factors into the Group's risk management Policies and frameworks
- Ensure maximum security in the transactions made by customers in all the channels with which they are linked to the Group

Therefore, the main outlines defined by the Entity in its Sustainability Policy set out clear guidelines on its strategic vocation and vision in terms of the ESG principles and, in particular, in climate and environmental terms.

As a reflection of this corporate vocation, and as regards the climate and environmental component, focus of this Climate Report, this section of the document seeks to identify the major climate change-related opportunities and risks and their potential impacts on the strategy of the Entity. Additionally, the response and lines of action developed by the Group to strengthen and adapt its business model are also incorporated, taking advantage of the new opportunities and designing mitigation strategies of the risks identified.

3.1. Opportunities related to the fight against climate change

The fight against climate change is becoming one of the priority focal points of action of different stakeholders in the market in all sectors of the economy. In this respect, the efforts undertaken to mitigate and adapt to climate change are also helping to create many opportunities for organisations. In the framework of its strategy, the Group is working in the detection and analysis of these opportunities in order to support the different sectors and stakeholders in their transition towards a low-emission economy.

With that in mind, current regulations understand the climate-related opportunities as those potential positive effects as a result of the efforts of mitigating or adapting to climate change that society in general and each one of the organisations in particular carries out.

Some of the most relevant opportunities being taken advantage of by entities in the fight against climate change, are identified below:

- Support and back-up to the main counterparts of the Group in their decarbonization processes, as a key linking agent in the evolution towards a more sustainable productive model
- Channelling sustainable financing (sustainable construction, clean transport, improved energy efficiency, social housing, promote employment, among others)
- Channelling sustainable investment and savings that promote the fight against climate change or in activities with firm Sustainability commitments

- Increase and diversification of the investor base for a greater appetite in the market towards sustainable emissions
- Positive reputational impact arising from a proper management of climate and environmental risks and a firm development and impulse of the ESG factors
- Strengthening the management frameworks through increased knowledge about climate and environmental risks and other potential ESG risks
- Public commitment and transparency in disclosing market information
- Increase of the own efficiency thanks to implementing measures that support Sustainability in the company (i.e.: remote, effective and automated management of the climate systems, lighting control systems and making the best possible use of natural light, improving thermal envelopes and the refurbishing or air-conditioning units)

In particular, and within the framework of its collaboration as member of the Basque Ecodesign Center, the Entity has worked together with Ihobe (Public Company for Environmental Management of the Basque Government) in identifying the most relevant opportunities that the mitigation and adaptation of climate change will have in the different sectors of the economy. In addition, a first approach has been made to the time horizon estimated to generate said opportunities. A summary table of the most relevant aspects in this regard is shown below:

Table 1 Opportunities derived from adapting to climate change at a sectoral level

Sector	Potential opportunities	Time horizon
Production and distribution of electricity	a) Improve the efficiency of renewable energy equipment	ST
	b) Possible increase of solar power associated to climate change (temperature changes, overcast days, etc.)	ST
	c) Production of carbon neutral generation equipment (wind turbines, solar panels...)	ST
	d) Energy storage systems	MT
	e) Smart distribution grids and improving the interconnection between countries	MT
	f) Electrification of thermal energy production equipment in buildings and transport	MT

Sector	Potential opportunities	Time horizon
Construction and urban development	a) Increase of regulatory requirements for energy efficiency and renewable energies of new buildings and renovations	ST
	b) Raise the awareness of homebuyers as regards energy consumption	ST
	c) Increase the application of eco-labels in buildings (such as LEED / BREEAM)	ST
	d) Availability of the most efficient equipment in the market (boilers, home appliances, etc.)	ST
	e) Availability of funds and public grants for the energy renovation of buildings	ST
	f) Promote self-consumption by means of grants, mainly through obtaining photovoltaic energy	ST
	g) Public administration "zero emissions" in 2050	ST
	h) Community heating and cooling equipment and systems	ST
	i) Obligation of including green public procurement in certain sectors, such as in construction	ST
Sustainable mobility and transport	a) Electric vehicles and, on the long-term, hydrogen vehicles, as well as associated infrastructures (hydrogen fuelling stations, electric recharging stations)	ST – LT
	b) Impulse of leading value chain companies towards low-carbon transport	MT
	c) Reduction of vehicle emission limit regulations, which lead to an increase in efficiency	ST
	d) Compulsory implementation of low-emission areas for vehicles in cities	ST
	e) Application of green public procurement for contracting municipal transport services	ST
	f) Autonomous vehicle with environmental criteria	LT
	g) Smart infrastructure development of land transport	LT
	h) Intermodality (preference of railway and maritime transport) high- capacity vehicles	ST
	i) Circular business models for land mobility, for example, leasing and renting	ST
	j) New green propulsion systems for aviation, such as synthetic fuels, hydrogen or electrification	MT
	k) New green propulsion systems for ships, such as LNG, methanol, bio-fuels, ammonia, hydrogen...	MT
	l) Electrification of ports (Green Ports)	MT

Sector	Potential opportunities	Time horizon
Agriculture, primary sector and food distribution	a) Evolution towards an agriculture with less environmental impact, applying the best techniques available, generation of by-products such as biogas or compost and promoting practices such as conservation agriculture and the use of eco-labels	MT
	b) Agricultural sector contained in the Industrial Emissions Directive, which will establish emission limits and the obligation of using the best available techniques	MT
	c) Development of environmental assessment systems and information to consumers by food distributors	MT
	d) Efficiency in using resources with the support of digitalisation such as efficient irrigation systems and efficiency systems in the use of fertilisers, pesticides, etc.	ST
	e) Electrification of agricultural equipment	MT
	f) Promote drainage (soils and forests)	ST
	g) Production of more sustainable containers (from secondary and recyclable raw materials) and equipment and channels for recovering containers for reusage and packaging waste for recycling (reverse vending machines, washing plants, sorting facilities...)	ST
Oil and gas	a) Evolution towards new fuels: generation of green hydrogen and production of liquid fuels from plastic waste	LT
	b) Possibility of reusing oil and gas transport assets for biofuels and hydrogen	LT
	c) Electrification of the oil and gas industry with green electricity	ST
	d) Production of equipment for local generation and use of green hydrogen (electrolysers, boilers and dual furnaces)	LT
Chemical sector	a) Investment in green electricity and fuels	ST
	b) Investment in better available techniques associated to the new requirements of the Industrial Emissions Directive	MT
	c) Chemical processes and products which minimise the presence of hazardous substances (modifications of the REACH Regulation)	ST
Metal sector	a) Use of green energies, mainly green hydrogen for manufacturing steel, including the production of equipment for generating and managing these new green energies	MT
	b) Search for reducer components alternatives to graphite or carbon	LT
	c) Increase in the use of secondary raw materials (scrap) and transforming waste into by-products	ST

Sector	Potential opportunities	Time horizon
Cement and glass	a) Use of alternative energies in glass and cement furnaces	ST
	b) Increase of the contribution of secondary raw materials in the production of glass and cement	CP
	c) Business models for glass packaging based on reusage (washing plants and logistics for collection)	MT
Automotive sector	a) Use of alternative energies: green electricity, biogas or hydrogen	MT
	b) Use of secondary raw materials (plastics, steel and secondary aluminium)	MT
	c) Circular businesses such as reconditioning of vehicles or remanufacturing parts	MT

Note: short term: 0-3 years; medium term: 3-10 years; long term: more than 10 years

Source: Ihobe (Public Company for Environmental Management of the Basque Government) and own elaboration

In line with what is contained further on in this document, the Entity analyses these opportunities and designs the most suitable business strategies in order to provide support to its different customers and stakeholders in the transition towards a low-emission economy which attempts to mitigate the effects of climate change.

In addition, and in order to take advantage of these opportunities, the Group has recently approved its Internal Sustainable Financing Framework which establishes the general criteria for classifying its operations according to their level of contribution to the environmental and social sustainability of the environment/surroundings.

3.2. Main climate and environmental risks

In recent years, a significant increase in the relevance of climate and environmental risks has become evident, their capacity to impact the economic value of financial institutions, whether directly or through counterparties with which exposures to risk are maintained open, is increasing in accordance with the deterioration being experienced by climate and environmental conditions in which the main economic agents are carrying out their activities. This reality is forcing financial institutions to give visibility to this type of risks, for which it is necessary to provide the corresponding corporate definitions.

These risks come from climate change, which due to its characteristics are considered different to other sources of structural change, which make it necessary to consider and administer them differently. These characteristics consider:

Illustration 11: Differentiating characteristics of risks associated with Climate Change

Far-reaching impact in amplitude and magnitude	Predictable nature	Irreversibility	Dependency of short-term actions
It will affect all the stakeholders in the economy, in all sectors and geographies	The exact results and future trajectory are uncertain, but there is a high degree of certainty that it will occur in the future	It will have irreversible consequences on our planet, although there is uncertainty on the seriousness of the time horizon	The magnitude and nature of future impacts will be determined by the actions taken today

Source: Own elaboration

In particular, climate and environmental risks are aligned around two axes: physical and transitional.

Physical Climate and Environmental Risks refer to the potential impacts derived from an increasingly changing climate, with increasingly extreme weather events, gradual climate changes, environmental degradation and increasing air, water and land pollution, as well as water stresses, the loss of biodiversity and deforestation. These may be classified into the following subcategories:

- **Acute risks:** arise from extreme weather events and their consequences, such as for example heat waves, droughts, floods, storms, hail, forest fires and avalanches
- **Chronic risks:** arise from progressive changes in the climate and environmental conditions, such as for example, the frequency of precipitations, volatile weather conditions, rising sea levels, changes in sea currents, ocean acidification, water stresses, the loss of biodiversity, changes in the uses of land, habitat destruction, lack of resources or global warming

In the financial sector, these risks may occur in many ways, including damage to own or customer physical assets, losses in the productive chain of customers and/or suppliers, the increase of claims in insurance activity, etc.

For their part, **Transition Climate and Environmental Risks** arise from regulatory, economic and/or social changes associated to the transit of the company towards a lower-carbon emission economy and more sustainable from the environmental perspective, in compliance with the commitments acquired at an international level (Paris Agreement on climate change, Agenda 2030 for sustainable development…). These can be classified into the following sub-categories:

Table 2 Details of the transition risk subcategories

Regulatory and legal risks	Possible impacts in the Group, directly or through companies with which it maintains risk exposure, as a result of the **need to adapt to new regulations** linked to climate change, as well as the potential **legal responsibilities** derived from its contribution to climate change and/or environmental degradation, from its negligence to the need of **mitigating and adapting** to its effects, or the **lack of transparency** on any of the above aspects By way of example, it is worth noting the appearance of **carbon price setting mechanisms** to reduce greenhouse gas emissions, the need to use cleaner energy, adopting energy efficiency solutions, promoting more measures for water efficiency and promoting more sustainable land use practices This also includes regulatory risks which particularly affect financial institutions due to **modifications to financial regulations** to cope with climate-related and environmental risks
Technological risks	Possible impacts in the Group, directly or through companies with which it maintains risk exposure, as a result of **technological innovations** which support the **transition to an energy efficient economic system** and with low carbon emissions. The ways these arise may have to do with the loss in viability of the business model of the companies, with the eventual **obsolescence of the current technological infrastructures,** or with the need to make heavy **technological investments,** either through **R+D+I** or from the acquisition of third-party technologies. By way of example, its worth noting how the **development and use of emerging technologies** such as renewable energies, battery storage, energy efficiency and carbon storage could affect the competitiveness of certain organisations, their production and distribution costs and, ultimately, the demand of their products and services by end users
Market risk	Possible impacts in the Group, directly or through companies with which it maintains risk exposure, as a result of **changes in the conditions of financial markets,** as well as of the **markets** of certain **raw materials, products** and **services,** with regards to climate-related and environmental risks By way of example, declines in stock prices, tightening of financing conditions, or increase in prices of raw materials used in the production and/or distribution processes
Reputational risk	Possible impacts in the Group, directly or through companies with which it maintains risk exposure, as a result of **changes in the perceptions of its main stakeholders** as regards to climate-related and environmental risk factors By way of example, **impairment of the reputation of a company or an economic activity** owing to its role in the transition process to a more sustainable economy, or **changes in consumer preferences** due to the stigmatization of certain products and/or services

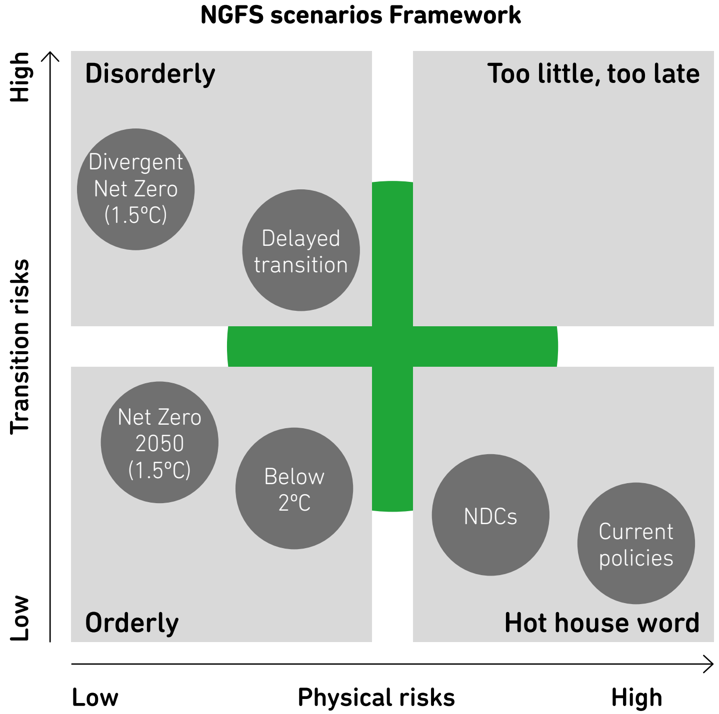
Source: Own elaboration

In the financial sector, these risks may arise through the introduction of restrictions or tax changes applicable to certain economic activities, changes in the preferences of different market agents, technological advances, etc.

Physical and transition risks are usually assessed separately, given the complexity involved in each one. However, they are clearly interrelated. For example, an orderly climate transition scenario is likely to present greater transition risks in a first stage, in exchange for providing more moderate medium and long-term physical risks. On the contrary, a disorderly climate transition scenario, or unambitious, would present less intense transition risks on the short term, but would have a high probability of presenting more relevant medium and long-term risks.

By way of illustration, the graph below shows six different hypothetical scenarios designed by the Network for Greening the Financial System (NGFS) to assess transition and physical risks in order to understand how climate change (physical risk) and climate policies and technological trends (transition risk) might evolve in different futures.

Illustration 12: Climate scenarios climáticos proposed by the NGFS



Positioning of scenarios is approximate, based on an assessment of physical and transition risks out to 2100

Source: NGFS

It is likely that the emissions reduction process will have a significant impact on all sectors of the economy affecting the values of financial assets. Although urgent action is advisable, an abrupt transition may also have an impact on financial stability and on the economy in general.

With a view to the internal governance of risk management in Kutxabank Group, these physical and transition risks, are considered as underlying risk factors to already existing risk categories (credit risk, operational risk, market risk, insurance activity risk, reputational risk, risk of investee companies...).

Chapter 4 of this document provides additional information regarding the identification, analysis and measurement of this type of risks, which enable the Entity to define suitable management processes to limit and mitigate their hypothetical impacts, thereby ensuring the future Sustainability of its business model in the face of a future scenario marked by uncertainty.

In this regard during the last few years the Entity has implemented different actions in order to mitigate the potential impact of climate and environmental risks in its business model and future Sustainability. In particular, several of these aspects are advanced and will be addressed in further detail throughout this document:

- The Entity has recently approved an update of its intermediate decarbonization targets for the financed portfolio in order to reduce the intensity of GHG emissions in certain priority sectors and portfolios
- The Governing Bodies have approved the Sector Policy in environmental and social terms, where a series of potentially harmful activities and sub-activities are identified and in which the Entity wants to limit its exposure
- Extensive advances have been made on the different lines of action of the Roadmap on Climate and Environmental Risks which is enabling the strengthening of the Entity's management framework on climate and environmental risks
- The methodologies and tests for measuring exposure and conducting stress testing exercises on climate and environmental risks have been sophisticated and extended
- Work is being done with the main counterparties for incorporating social and environmental performance indicators into contracts, which link the cost of financing to compliance
- The indicators on climate and environmental risk which are going to be monitored in the Strategic Plan of the Entity have been extended

By doing so, the Entity is setting in motion various lines of action which will allow it to anticipate the potential impact of this type of risks, limit their potential adverse effects and support the

3.3. Strategic lines of action developed by the Entity and main advances in their implementation

In order to maximise emerging opportunities and mitigate the potential risks derived from climate change and the transition towards a low-emission economy, the Group has been incorporating specific lines of action in this respect into its latest Strategic Plans.

From the 2019-2021 Strategic Plan, Sustainability was one of the main strategic keys, having achieved the following milestones during said period of action:

Illustration 13: Main milestones achieved during the 2019-2021 Strategic Plan

Sustainability (CSR)

1. Focus on **sustainable products**, having promoted almost M€2,800 during 2021
2. **1st Management company** with all its funds ESG
3. Creation of the **ESG Department and OTC**
4. Approval of the **Sustainability Policy**
5. Approval of the first **internal taxonomy**
6. **Climate and Environmental Risk** Roadmap
7. **100% consumption of renewable energy**
8. **Reduction of the carbon footprint by more than 85%**

Source: Own elaboration

By so doing, Kutxabank had a solid foundation to face future challenges and address the implementation of the new 2022-2024 Strategic Plan, approved by the Board of Directors of the Entity at the beginning of 2022.

This Plan was done with a specific cross-disciplinary Work Group which has designed the various action plans for the different ESG axes: environmental, social and governance. In addition, the rest of the Work Groups have also included ESG principles and environmental aspects in the design of their individual action plans.

Illustration 14: Summary of the main lines of ESG actions for the 2022-2024 Strategic Plan

Environmental

- **Reducing corporate environmental impact**, of the credit and investment portfolio
- Measuring the impact and **setting transition targets**
- Roadmap **of Climate Risks and Stress Testing**
- Deploying climate **taxonomy and reporting**

Social

- Equality and reconciliation
- **Financial** inclusion and education
- **Corporate** volunteering
- Entrepreneurship
- **Selecting** suppliers with ESG **criteria** and Km 0 **localization**
- Linguistic **management**

Governance

- Presence of **less represented gender**
- Reinforce **ESG Governance framework**

Source: Own elaboration

In addition, the Entity has set a series of high-level aspirations in this field for the 2022-2024 period:

Illustration 15: Aspirations and targets of the 2022-2024 Strategic Plan

Aspirations 2024

Acu. Sustainability Financing (2022-2024)	M€ 5,000
Investment Funds under SRI*criteria	100%
Net Zero 2050 Commitment	Setting transitory targets

Maintaining carbon footprint "neutrality" ✓

Development of Sustainable Action Framework ✓

Maintaining balance of economic and environmental impact ✓

* Only Kutxabank Gestión is considered including the scope of its Active Management Funds

Source: Own elaboration

It should be noted that during the first few months of 2023, the Entity has undertaken a review of several key elements of the Strategic Plan. In said update strategic decisions have been made regarding the risks and opportunities in the climate and environmental field (such as the approval of the Sector Policy or the Intermediate Decarbonization Targets). In addition, specific KPIs and KRIs have also been incorporated related to this type of risks

To date, the main aspirations set in the 2022-2024 Strategic Plan have been adequately met.

All the advances and achievements of the 2022-2024 Strategic Plan in terms of ESG set a solid platform to continue promoting Sustainability as a key axis of the Group's strategy in the Strategic Plan currently being prepared, the time horizon of which is 2025-2027.

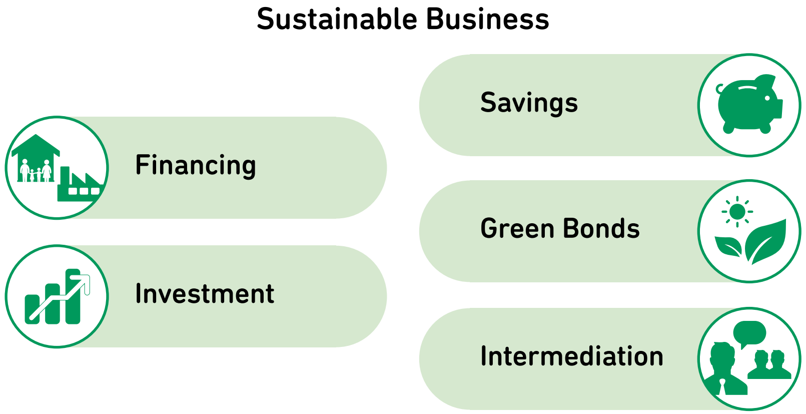
In this respect, described below are different initiatives the Entity is deploying to continue developing its responsible banking model and support the company in the transition towards a decarbonized economy.

3.3.1. Development and promotion of a sustainable business model

Kutxabank Group has identified the main key lines of action in terms of ESG, that are a core focus in the way the Entity understands the business. One of the strategic focusses set revolves around channelling liquidity towards assets and projects with a positive environmental and social impact, thereby supporting the transition towards a low-carbon economy and actively contributing to the development of a more sustainable business model.

In terms of this sustainable business included, among others, are financing solutions in different areas, savings and investment products with a positive environmental impact, the issue of own green bonds, social or sustainable according to market standards, or intermediation in transactions as the overall coordinator and entity for placing the issue of green, social or sustainable bonds into the capital market.

Illustration 16: High level view of the components of the sustainable business model



Source: Own elaboration

It should be taken into account that in these fields, mobilisation is considered as all flows towards activities or customers considered sustainable in accordance with but not limited to current regulations, but also according to internal criteria inspired on the latter or in accordance with market standards and practices. Accordingly, measuring mobilisation considered as such may differ from other metrics of a regulatory nature such as those provided, for example, in the EU Taxonomy (as regards GAR, Green Asset Ratio), although this regulation has fundamentally inspired the standards employed internally.

3.3.1.1. Sustainable Financing

Internal Sustainable Financing Framework

The Entity has continued working intensely over the last few months on its sustainable financing offer with innovations and market standards, having, in addition, as a horizon reference the demanding regulatory guidelines being published on this matter.

In so doing, and aspiring to meet these, after the approval of a first version in June 2023, the Kutxabank Board of Directors has approved a new version of the Internal Sustainable Financing Framework in May 2024 that has included the lessons learnt and the regulatory updates for the period.

One first very important aspect is the cross-cutting definition of sustainable financing, including the specific categories and criteria to classify financing operations as sustainable, based on 4 typologies, green finalist, social finalist, linked to Sustainability performance and pure social customers. This definition is applied to commercial products with sustainable-related characteristics as well as to commercial products without sustainable related characteristics, in which the Sustainability of the financing operation is based on the specific characteristics thereof.

By so doing, all the teams will manage the same criteria for identifying the sustainable financing operations, and this Framework serves in addition as a reference for other Sustainability-related fields of application. This Framework will be used to strengthen the common internal categorization applicable to all the areas of the Entity in determining the strategy, product design, business generation, risk analysis, communication and reporting in terms of Sustainability.

The Internal Sustainable Financing Framework which establishes the internal criteria for classifying and operation as sustainable in the Entity, is based on the foremost international standards, and includes, in any case, the financing operations aligned with European Union Taxonomy. For its development reference market standards have been used such as those developed by the International Capital Market Association (ICMA) and the Loan Market Association (LMA).

In addition, the proposal of KPIs included in the Internal Sustainable Financing Framework have been reviewed and updated, in order to adapt them to regulatory developments and international recommendations and the best practices observed.

This Internal Sustainable Financing Framework has been operationalised in a procedure manual for the management of financing operation classified as sustainable. This manual established the first reference to a control framework on the marking of operations, and their proper monitoring.

The screening criteria established are aligned with the Sustainable Development Goals (SDG) defined in Agenda 2030 and with the Paris Agreement. This Framework will allow the offer of sustainable products and services to develop in order to respond to the growing demand of increasingly more sustainable business models and lifestyles.

Illustration 17: High level outline of the Internal Sustainable Financing Framework

SUSTAINABLE FINANCING FRAMEWORK

Finalist financing of activities and/or projects with positive environmental and/ or social impact

Non-finalist financing linked to KPIs or sustainability ratings

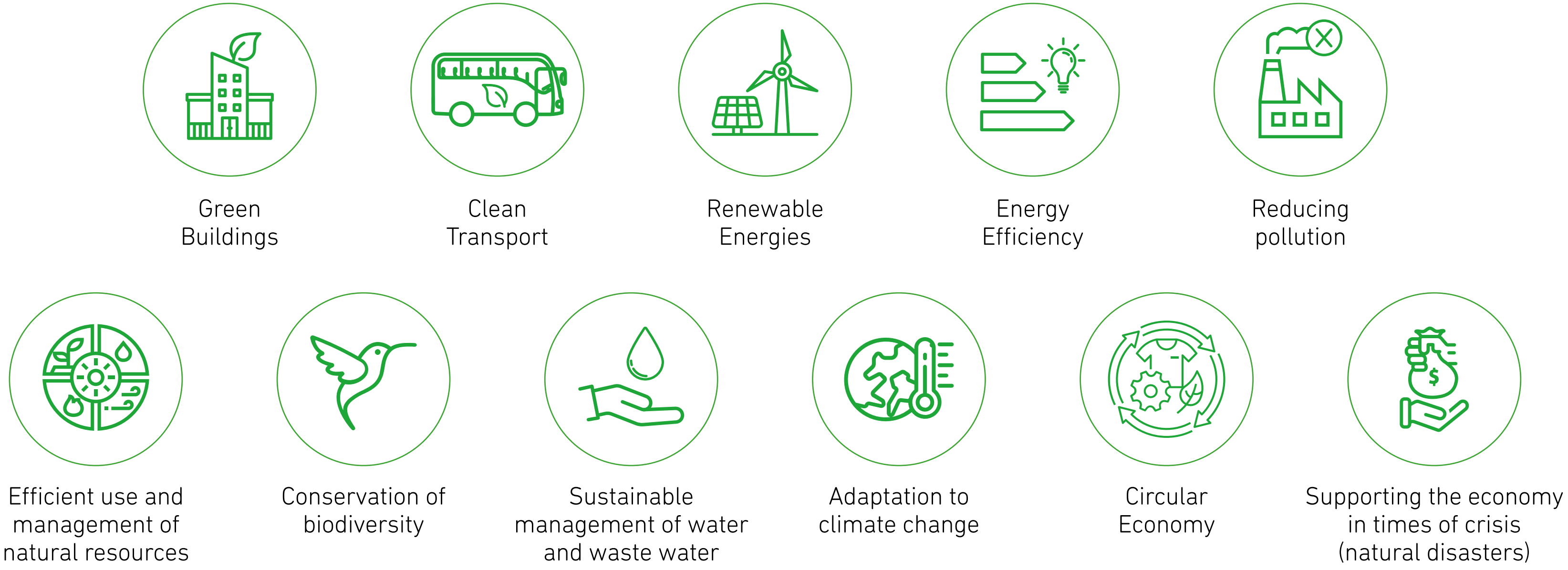
CATALOGUE OF SUSTAINABLE PRODUCTS

Source: Own elaboration

In this regard, Kutxabank's approach to the origination of sustainable financing essentially follows the formats below:

- Finalist financing: provides capital for the development of technologies, activities and/or projects considered to have a positive environmental or social impact according to the categories pointed out and meeting the internal technical criteria defined in accordance with the standards mentioned above. As an example, the following categories have been identified in the environmental field:

Illustration 18: Examples of finalist financing



Source: Own elaboration

Similarly, if customers have their own sustainable financing framework these may be used to articulate sustainable financing transactions provided the lines defined are in accordance with the internal framework of the Entity.

- Non-finalist financing: transactions connected with a series of indicators, ratings or commitments related to ESG matters attempting to encourage positive behaviour in borrowers in terms of Sustainability in accordance with market standards. The availability of funds is not linked to specific purposes and, therefore, it has a generalist nature

This model is complemented with the marketing of specific products with characteristics allocated to a positive environmental contribution as "green" mortgages, loans for financing electric or hybrid vehicles or aimed at improving energy efficiency. Always applying criteria and standards defined internally in said Framework.

All with the goal of maximising the positive economic, social and environmental impact of the financing granted.

Sustainable financing solutions in the different businesses

Along the lines already set out by the recently approved Internal Sustainable Financing Framework, the Entity has continued in 2023 with the aim of strengthening its offer of ESG products and solutions to accompany and support its customers, retail as well as wholesale, on its path towards more sustainable models.

Intensive work has been done in identifying new business opportunities and managing to channel 2,116 million euros to sustainable financing during the year, exceeding the expectations set for the year. The financial offer has evolved, classified as sustainable in accordance with the internal criteria defined above, including different lines of business and products which positively contribute to the environment or the social environment.

In 2023, in the retail segment[2] Kutxabank has allocated a total of 721 million euros to finance energy efficient housing on behalf of the Bank's private customers, through the so-called "Green" Mortgage, which is 22% of the new mortgage production. This type of loan offers special financing conditions for buildings with the highest energy certifications (EPC with energy consumption letter A or B).

Of note is the strong growth of consumer financing in the form of loans particularly aimed at the purchase of low emission and hybrid[3] vehicles. A figure of 25.3 million euros closed 2023 in this field, more than twice 2022.

In addition, during 2023 and with the aim of favouring the energy rehabilitation of housing, a new product has also been developed specifically adapted to global intervention processes to improve the energy efficiency of buildings. The new 'Energy Efficiency Loan' enables financing the advance payment of the grant to the entire budget of the renovations carried out, supporting in turn the channelling of the Next Generation Funds.

Additionally in this regard, in 2023, Kutxabank has concluded several agreements with rehabilitation agents such as EFFIC, Mugabi *Servicios Integrales de Rehabilitación* or Agentia R+ who will provide advice and access to financing for homeowners' associations and private owners who wish to refurbish with this objective, particularly if they fit into the framework of the Next Generation European funds.

Conversely, the specialized divisions in Kutxabank Group's companies and institutions have approved operations for a value of more than 1,369 million euros in encompassed investments, according to the Entity's own criteria, within the green, social and sustainable[4] economy.

Among the operations with a known objective, in climate and environmental terms have favoured, inter alia, projects for the generation and incorporation of renewable energy, for activities that support sustainable mobility, or that promote social, sheltered and energy efficient housing. In particular, and concerning this last sector, in 2023 more than 512 million were authorised for the promotion of the highest energy efficiency housing (EED with letter A or B, in line with the internal criteria defined by the Entity) or green buildings. Conversely, 255 million (100 million with an exclusively social purpose) have been channelled through loans with customer commitment of allocating the funds to eligible projects in accordance with its own Internal Sustainable Financing Framework audited by a third party.

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[2] In the calculation of the volume of mortgages and "green" consumption for 2023, methodological improvements have been implemented at the close of December in order to adapt to supervisor demands and the requirements set out in the new Internal Sustainable Financing Framework. In so doing, the volumes calculated have been readjusted according to the new criteria, and the homogeneous proforma data corresponding to 2022 have also been estimated.

[3] For further details on this product check the following link: https://portal.kutxabank.es/cs/Satellite/kb/es/particulares/productos/prestamos-consumo/prestamo-coche-verde/pys.

[4] Considering as "green", the financing which generated a positive environmental impact, "social" which generates impact of a social nature, and "sustainable" which achieves a double impact, in accordance with the internal criteria defined. The 1,369 million euros in 2023 are distributed into 1,023 million, 113 and 233, respectively.

On another note, the amount of the transactions should be noted, in which the sustainability clauses have been included, connecting certain financing conditions to achieving the environmental or social indicators or to the evolution of ESG ratings. The total volume of these transactions has reached 522 million euros in the year of which 331 million are linked to exclusively environmental indicators and the remaining 191 million include, in addition to environmental, indicators of a social nature.

By doing so, Kutxabank, in addition to contributing to the strengthening of the financial structure of large business groups, has supported its transition to a low-carbon economy and towards a sustainable business model by incorporating ESG criteria in the financing.

On the other hand, in the business environment, the collaboration agreement subscribed by the Entity at the end of the year with GreenKw, is worth noting. It is one of the leading companies specialized in photovoltaic solar energy, that designs and installs solar panels for industrial self-consumption. Thanks to this agreement the installation of photovoltaic panels in companies will be facilitated in order to improve their energy efficiency.

Cajasur Banco continues to encourage projects which are encompassed in the green and sustainable economy through the Agricultural Service of the Entity, having formalised in 2023 a total amount of more than 6.8 million aimed at supporting companies and families in this sector in starting up initiatives which contribute to social and environmental development in their influence areas.

3.3.1.2. Responsible Investment and Savings

Investing under sustainability criteria has always been present in Kutxabank, even before the successive regulations which have come into effect during recent years. Proof of this is that it has had a "Solidarity Fund" for over 18 years.

The approximately 30,000 million euros of customer investments, at the end of 2023, are managed with Socially Responsible Investing (SRI) criteria. Fineco, Kutxabank's private bank, and Kutxabank Gestión, the main asset manager of the Group, are signatories to the UN Principles for Responsible Investment (UNPRI)

In addition, Kutxabank Gestión is the leading managing company in the offer of products qualified under Article 8 of Regulation (EU) 2019/2088 on Sustainability-related disclosures in the financial services sector (SFDR) and was considered in 2021 as the first management company to have all its active management investment funds rated as sustainable, namely in funds that promote environmental and/or social characteristics in the investment processes. Fineco has, on its part, has more than 40% of its assets managed in investment funds classified in accordance with Article 8 of Regulation SFDR for promoting ESG characteristics (4 funds and 4 sub-funds).

In March 2023 Kutxabank Gestión has taken a further step in its commitment to favour sustainable investments at the highest level, by launching two new investment funds included in Article 9 of Regulation SFDR: funds which not only promote but which explicitly pursue sustainability targets with a direct impact on one or several of the SDGs.

Regarding pension funds, with effect from 1 January 2023, Kutxabank Pensiones individual pension plans (with the exception of those with a target return, guaranteed or not), whose investment management mandate is entrusted to Kutxabank Gestión, have formalised their adaptation to the requirements of Article 8.

Furthermore, with effect from 1 July 2023, the formal adaptation to Article 8 was implemented to the provision schemes assigned to Baskepensiones, VSSE of the individual modality (with the exception of those with a target return, guaranteed or not), the promotor of which is Kutxabank and the investment manager of which is Kutxabank Gestión.

Additionally, in the Delegated Portfolios, Sustainability risks will be taken into account when making investment decisions. For this purpose, the information published by the funds in which the company invests will be used as a reference. Moreover, the management of the investments will take into account the information on the analysis of the principle adverse incidents (PAIs) made by the selected funds on the Sustainability factors.

The Entity, on the other hand, has adapted to the Green Mifid requirements, consequently incorporating sustainability in its relationship with its customers. In so doing, the suitability assessment procedures include questions which enable to identify the environmental, social and good governance (ESG) preferences.

Another business line in which Kutxabank is working to promote the improvement of energy efficiency has been savings. The Entity has placed a new housing savings account into the market aimed at encouraging savings with the purpose of acquiring a primary residence with the highest energy efficiency (CEE A or B). As well as the traditional tax benefits of the product and its special remuneration throughout its term, the customer who takes out a loan for acquiring a home in Kutxabank, if the latter has a CEE A or B, the customer will receive an extra in a single payment.

3.3.1.3. Green Bond Framework and Issuance

In 2021 Kutxabank developed its Green Bond Framework in order to channel the issues it makes towards assets and projects with a positive environmental impact. This framework reflects Kutxabank's strategic sustainable development priorities, and contributes to its commitments and targets in terms of mitigating climate change and the sustainable development.

The framework has been verified by Vigeo Eiris, the international sustainable rating agency a subsidiary of Moody's. In its project assessment, the agency has rated it solidly and strongly aligned with the best most recent practices and standards in the market. In addition, the agency has valued the high potential of the green projects Kutxabank expects to finance with the funds obtained from these issues.

The amount of the bonds will be allocated to new or existing green projects, reflected in loans, investments or projects within the balance sheet of Kutxabank. The initiatives must meet the technical selection criteria defined by EU green taxonomy, and will contribute to one or more of the six European environmental objectives.

In this context, Kuxtabank will select projects related to renewable energies, sustainable transport or investments in energy efficient buildings.

Within this framework, in 2021 Kutxabank successfully launched its first issuance of senior non-preferred green debt for an amount of 500 million euros, with an amortization tenor of 6 years (redeemable in the fifth year). In June 2023, again confirming its commitment with these objectives, Kutxabank launched its second issuance of green bonds in senior non-preferred format for an amount of 500 million euros, and an amortisation tenor of 4 years with an early redemption option on the third year.

Meeting the commitment assumed in the Framework of publishing a monitoring report of the allocation of funds every year, as well as the environmental impacts achieved through this initiative, Kutxabank publicly discloses an annual Green Bond Report in compliance with the commitment undertaken in the Framework to publish every year a report monitoring the allocation of proceeds and the environmental impacts achieved through this initiative.

The report includes a brief general overview of Kutxabank's Green Bond Framework, an explanation of the use of the green bond funds, the project selection criteria and the allocation of the financing, and also an estimation of the environmental impacts connected to the green bonds, including the methodology used for calculating it in a final appendix.

In addition, all the allocation and impact reports have been subject to a limited verification conducted by an independent third party.

The main environmental impacts associated to the latest reference date have been calculated in terms of GHG emissions savings, in CO2eq units, and the savings of primary energy consumption, in millions of KWh.

The environmental impacts derived from the projects financed under the Green Bond Framework enable Kutxabank to contribute to objectives related mainly to three SDGs and their targets: Affordable and Clean Energy (SDG 7), Sustainable Cities and Communities (SDG 11) and Climate Action (SDG 13).

3.3.1.4. EIB Covered Bond Agreement

During the first quarter of 2024, the Bank signed an agreement with the European Investment Bank (EIB) to subscribe a covered bond for 300 million euros, which involves Kutxabank's commitment to mobilise resources of 600 million euros to finance new projects linked to energy efficiency in housing.

The agreement connects with one of the strategic objectives of the Entity, consisting of redirecting capital flows towards sustainable investments, accompanying customers in their transition towards lower CO2 emission business models. To do this, the Group offers sustainable financing products that incorporate environmental, social and governance criteria.

The investments will be dedicated to new construction of energy efficient buildings and renovation of real estate with sustainable criteria. These investments will be made possible thanks to the financing in the form of green mortgage loans, consumer lending or property developer loans that the Entity commits to put into the market.

The project stands out for contributing to the mitigation of climate change. The energy efficiency actions help to decrease carbon emissions and air pollution, in addition to increasing comfort and the air quality in buildings and reducing electricity and heating bills.

3.3.1.5. Responsible intermediation

With regard to the Kutxabank Group's participation in the capital markets, through its specialised subsidiary Kutxabank Investment Norbolsa, work continued on the coordination of social, green and sustainable issuances of different counterparties.

Thus, in 2023 Kutxabank Investment Norbolsa was the global coordinator of the Basque Government's VII transaction of sustainable bonds (600 million euros) and participated as Joint Lead Manager in the 500 million euros green bond of a large corporate and also in a 500 million euros transaction of Kutxabank.

It has also participated as a Joint Lead Manager of Green and Sustainable commercial paper programmes of large corporates (2 issuers, 1,200 million euros maximum volumen and 6 issuers, 2,250 million euros maximum volumen, respectively).

During the first half of 2024, Kutxabank Investment Norbolsa has continued its intensive activity in terms of Sustainability and has again acted as global coordinator of the VIII sustainable bond of the Basque Government which was launched in February for an amount of 600 million euros.

3.3.1.6. Circular economy

Kutxabank has taken a further step in its strategic commitment to reducing the carbon footprint of the activity it generates. The Entity, since 2022, is gradually replacing all the credit and debit cards that are currently manufactured entirely of recycled plastic materials from construction, plastic bags and from expired cards. It should be noted that Kutxabank cards already have a neutral carbon footprint, being produced in processes the carbon emissions of which are balanced or compensated with CO2 capture projects.

3.3.2. Advances in the classification of activities according to taxonomy

Sustainable financing as a priority strategic line is one of Kutxabank Group's key tools for contributing to one of the EU's main objectives in climate and environmental matters: redirecting private capital towards sustainable investments. In this regard, in June 2020 the Official Journal of the EU published the Regulation on Taxonomy (RT) that defines and identifies sustainable economic activities from an environmental viewpoint ("taxonomy adjusted activities"), in accordance with the technical selection criteria established in the delegated acts drawn up according for such regulation. This taxonomy is configured as a common reference for sustainable economic activities.

In line with the provisions of the Regulation, the Entity is working on incorporating its internal processes into a classification system according to sustainability criteria, proof of this being the definition of the Internal Sustainable Financing Framework mentioned above.

These developments are enabling Kutxabank Group to gradually achieve compliance of the requirements set in the Regulation on Taxonomy and will, also, place the Entity in a position to meet the reporting and transparency obligations derived from the environmental regulations, increasingly more intensive, and which revolve around the green asset ratio (GAR) as one of its key axes.

So, at the beginning of 2024, Kutxabank published its Statement of Non-Financial Information (SNFI) for 2023; its third reporting in compliance with the disclosure requirements linked to EU Taxonomy and provided in Regulation EU 2021/2178. It is from this year when the finance companies and, in particular, credit institutions are already subject to the obligation of disclosing the complete GAR ratio.

It should be noted, pursuant to current regulations, at this moment there are assets excluded from the GAR ratio (non-local Public Administration, trading portfolio and exposure to Central Banks). On the other hand, there are other assets which, even though from part of the denominator, for which there is no regulation on their eligibility and alignment as of yet, therefore, cannot be considered in the numerator. As a consequence, the potentially eligible portfolio in no case reaches 100% neither on the total assets nor on the assets covered by the GAR.

Point 5.2 of this Report includes detailed information on the main ratios for eligibility and alignment to the Taxonomy Regulation that the Entity has reported in its NFIS, document in which, as stated above, the complete reporting can be found according to the official tables. As shown, on the total of assets covered by the ratio and in its version on Turnover, the Entity has 60% of eligible assets and 5.7% of aligned assets. In relation to the Capex version of the counterparties, the Kutxabank Group's alignment ratio rises to 7.6%, starting from an eligibility of 62%.

It should be noted, however, that, bearing in mind that the environmental regulations are still being developed, and with extensive content still to be regulated and specified, and that, as a result, the information of the Entity is also being developed in this field and with limitations, the content disclosed may undergo variations in the following years, in parallel to the declarations of the regulator and supervisors in this respect and consistent with the developments carried out internally in order to advance in the implementation of the taxonomy and the rest of the environmental projects in the Entity.

This lack of maturity of the regulations and the information available, together with the high technical complexity of the regulation, in particular regarding components such as the "do no significant harm principle (DNSH)", may result in the GAR ratio currently not exclusively reflecting the effort being carried out by the financial institutions to support the transition towards a lower-emission economy. Kutxabank Group, as stated in this Report, is committed to the fight against climate change and sustainability, integrated axes in its strategic vision, and is gradually increasing its environmental and social positive impact financing in accordance with the internal requirements provided in its Internal Sustainable Financing Framework, the current perimeter of which is more extensive than the demanding EU Taxonomy standard. This Taxonomy acts, however, as an inspiring backbone of this Framework that will progressively converge in its requirements with the former.

3.3.3. Sector policy

At the end of 2022, the Governing Bodies of the Entity approved the Sector Policy in terms of environmental and social matters, as an instrument for identifying productive activities and processes in which the Entity wants to limit its participation due to its potential detrimental impact.

In this respect, specific activities have been identified within this Policy in the following sectors:

Illustration 19: Areas analysed in the Sector Policy

Mining and metals

Energy

Infrastructures

Agriculture, fishing, livestock and forestry

Defence

Other activities

Source: Own elaboration

The Policy has been formulated in the context set forth by the main target of the Group in this matter, which is to accompany its customers in their green transition, and support those companies that require it by means of financial instruments in order to adapt their productive processes to achieve greenhouse gas (GHG) emission neutrality.

In addition, this Policy should serve to establish the Group's intermediate objectives on its path towards achieving the Net Zero 2050 target, as well as meeting the decarbonization targets set. Furthermore, they help the Entity to place its focus on financing projects and companies that collaborate in developing a sustainable and low-emission economy. Mutually, it attempts to respond to part of the supervisory expectations included in the ECB Guide on Climate-Related and Environmental Risks published in November 2020, as well as meeting the actions approved by the Entity in the Roadmap to that effect.

In doing so, sectors whose activities may incorporate negative consequences from the environmental or social viewpoint have been identified and which, therefore, should be treated differentially by the Group when allocating investments.

In addition, regarding the management of the Group risks, the activities identified in this Policy will require a specific decision-making process if financing or investing is decided in these for strategic, cyclical or economic reasons.

3.3.4. Sector Heat Map

At the end of 2022, the Governing Bodies of the Entity approved the Sector Heat Map, a report that describes the main implications for each one of the 64 sectors of the input/output tables regarding their climate and environmental transition risk, in particular, in terms of greenhouse gases, other gases, hazardous and non-hazardous waste, water consumption, as well as their impact relative to the economy, and the degree of sensitivity of each sector with the need of transitioning to a low-carbon economy.

This analysis serves as reference information for the different business and risk management areas of the Entity in its decision-making processed in climate and environmental terms and defines its frameworks for action in this respect. Conversely, the Entity is promoting collaborative projects at a sectoral level in order to continue complementing and delving deeper into its Sector Heat Map.

3.3.5. Reducing the Carbon Footprint of the corporate activity of the Entity

Kutxabank Group upholds its commitment of developing a proactive attitude in protecting the environment, preventing environmental pollution and degradation, beyond compliance with prevailing legislation. It seeks to minimize energy consumption and the materials necessary for exercising its activity, in addition to responsibly managing the waste generated in its performance, contributing to a circular economy.

All the areas are involved in environmental management and therefore in achieving said challenge, but what particularly stand out are the works and general services areas that analyse and value the measures implemented, once their environmental impact has also been considered. From the Kutxabank Sustainability Area, for these purposes, a fluid contact is maintained with all the areas of the organisation, the functions of which may have a greater incidence in environmental matters, directly or indirectly.

Thus, the Sustainability Plan includes the main strategic lines in terms of environmental management, among which the following stand out:

- Promote the implementation of energy efficiency measures
- Promote the reduction of waste generated
- Implement Sustainability criteria in purchasing products and subcontracting services

Additionally, in the 2019-2021 Strategic Plan, environmental management-related objectives were established, underscoring the reduction of the Carbon Footprint and sustainable energy consumption, among other things. On the one hand, the financial Group has managed to reduce more than 85% of CO2 emissions (since 2018), and on the other, all the electricity consumption of Kutxabank Group comes from a solar plant, thanks to the 10-year contract signed with an electricity company.

Conversely, the Entity has continued to manage the forests it owns. More than 100 years have gone by since the purchase of mountain land started for reforestation. During 2023, 57 hectares have been restocked, in which more than 65,000 trees were planted with the new species selection criteria according to their CO2 based absorption capture capacity.

Kutxabank has recalculated the estimations of all the tree holdings and forests it has managed throughout its history in order for such calculations to be consistent with the new Basque Government methodology published in March 2022.

Thus, according to the new estimation, the carbon absorbed in the existing forests and holdings is 243,772.18 tons of CO2eq (in the next 50 years).

This methodology is based on the *ex ante CO2 absorption Calculator of the Autonomous Community of the Basque*

Country, drawn up for Ihobe by NEIKER-Tecnalia, that allows estimating carbon dioxide absorption associated to biomass and soils, of different uses in ACBC (forestry, arable and perennial crops and pastures) therefore allowing for a more adequate management of carbon resources, in particular carbon sinks.

Additionally, during the last year the energy auditing project has continued in all the offices and building of the Central Services that have confirmed the significant reduction work in energy consumption regarding the previous evaluation, performed in 2016.

Actions have continued to reduce energy consumption by defining an optimized timetable system of the central services buildings, the technological renovation process of the DPCs (Data Processing Centres), and the renovation of the climate equipment of the central services buildings.

In summary, the Entity continues with the strategy of reducing its own environmental impact, maintaining a neutral Carbon Footprint, optimising energy consumptions and the materials necessary for exercising its activity, and the responsible management of the waste generated in performing it, contributing to the circular economy.

In this respect, more information is provided on the Corporate Carbon Footprint in section 5. Objectives and Metrics of this document, in which details are incorporated about methodological aspects.

3.3.6. Assessing the Carbon Footprint of financing and investment activity

Complementing the above, the Entity also calculates the Carbon Footprint of the financing and investment portfolio, which due to its nature, is the reference to consider when measuring the environmental impact of its activity, being the most relevant item.

In line with the introduction of the section above, the Corporate Carbon Footprint consists of Scopes 1, 2 and 3:

- Scope 1: direct emissions generated by fuel burning
- Scope 2: indirect emissions caused by electricity purchased and consumed
- Scope 3: emissions arising from the value chain and upon which the Entity has no control

Within the 15 categories into which scope 3 is divided, the "Investments" category, is the one which considers the Carbon Footprint of the financing and investment activity, and although calculated and broken down independently, it would ultimately form part of the Entity's Corporate Footprint.

The Entity has based this assessment on the methodology developed in the framework of a sectoral project together with an external collaborator. The methodology allows obtaining the calculation of Scope 1, Scope 2 and Scope 3 emissions of the Entity's counterparties, and is based on the information and methodology of major international institutions and bodies and on the most relevant reports on calculating Carbon Footprints and emissions, highlighting the PCAF methodology (initiative of which the Entity has recently become a member).

In this respect, the methodology developed combines the calculation of emissions on the basis of the real data of the counterparties, if they have been published, or based on the estimates provided by the PCAF database. These estimates are performed at a sectoral level, through CNAE-NACE-Exiobase equivalence provided by the methodology, and according to the activity data such as revenues or size of the customer.

Additionally, the Entity has also formed part of another sectoral project for collecting the data of emissions published by its main counterparties that form part of the

Carbon Footprint calculation.

Furthermore, for estimating the emissions related to the financing and investment portfolio, the Entity has weighted the value of its gross exposure in relation to the total funding structure of each counterparty.

The Entity is working hard to calculate these emissions, since, it is a necessary source of information for determining the decarbonization targets, the measurement of climate-related risk aspects and the development of due diligence of the companies or compliance of the regulatory reporting obligations.

Given the growing importance of this information, the Entity has verified the total Carbon Footprint of the Group with an independent third party, AENOR, that also included the Financed Carbon Footprint. The verification has been satisfactory and has concluded without any "Non-conformities".

Finally, in section 5. Targets and metrics in this document, discloses information on the volume of emissions of the Entity's financing for businesses portfolio, the equities portfolio, the private fixed income portfolio and the mortgage portfolio.

3.3.7. Portfolio alignment and definition of Intermediate Decarbonization Targets

The Group is fully committed to supporting and promoting decarbonization in the environment in which it operates, and has thus, decided to apply measures, in its corporate activity as well as in its relations with its customers, in order to be a key agent in the transition process towards a low-emission economy based on sustainable growth.

By signing the COP25 in December 2019, the Entity commits to establishing and publishing the intermediate decarbonization targets at a sectoral level based on scenarios for aligning its portfolio.

In this context, in December 2022, the Group's Governing Bodies approved the first preliminary intermediate decarbonization targets for its financing portfolio. Additionally, during the first half of 2024, such targets have been updated and extended and an initial monitoring has been undertaken to analyse its degree of progress.

Illustration 20: In force Decarbonization Targets

SECTOR PORTFOLIO	REFERENCE SCENARIO	SCOPE OF EMISSIONS	METRICS	BASE YEAR	% REDUCTION TARGET (2021-2030)
Energy	NZE 2050 (IEA) 1.5°C	1	kgCO2eq/MWh	138	**-30%**
Oil and Gas (*)	NZE 2050 (IEA) 1.5°C	1, 2 and 3	kgCO2eq/GJ	75	**-20%**
Cement	NZE 2050 (IEA) 1.5°C	1 and 2	kgCO2eq/t-cement	794	**-10%**
Steel	NZE 2050 (IEA) 1.5°C	1 and 2	kgCO2eq/t-steel	1,022	**-10%**
Coal (**)	N/A	N/A	Exposure in euros	0	**~0**
Mortgage Portfolio(***)	NZE 2050 (IEA) and CRREM 1.5°C	1 and 2	kgCO2eq/m^2	49.3	**-10%**

* A methodological change has been made in the Oil and Gas intensity unit. The target set in 2022 used the ktnCO2eq/MM€ unit because the Entity's main counterparties did not publish their intensity in the basic production unit of the sector. The current information published by the Group's counterparties allows the calculation performed previously to be sophisticated

** Companies that obtain more than 20% of their revenue from the exploitation, mining, extraction distribution of coal (from December 2023)

*** The base year refers to the data of June 2022. It is a target set voluntarily by the Entity, since international standards make reference to activity sectors

Source: Own elaboration

In this respect, the intermediate decarbonization targets set by the Entity focus on sectors with a high impact in emissions and that represent a considerable exposure level for the Group. Additionally, portfolios have been expanded under the analysis considering the credit as well as the equities and private fixed income portfolios. By way of summary:

- **Energy:** 30% reduction of emission intensity by 2030
- **Oil and Gas:** 20% reduction of emission intensity by 2030. The target has been changed as regards the one set in 2022, since the methodology implemented has evolved with the aim of strengthening the measurement in this sector
- **Cement:** 10% reduction of emission intensity by 2030
- **Steel:** 10% reduction of emission intensity by 2030
- **Coal:** remain without exposure to companies with a considerable percentage of their revenues (at least 20%) come from the exploitation, mining, extraction, distribution or refining of coal

- **Mortgage Portfolio:** 10% reduction of the emission intensity of its residential guarantee portfolio by 2030

The calculation and measurement approach implemented by the Entity is still incipient but allows continuing with the exploration and familiarisation of the alignment methodologies of its portfolios. The Entity has based itself on the Sectoral Decarbonization Approach (SDA) methodology of the Science Based Target Initiative and (SBTi) and on the NZE 2050 (IEA) reference scenarios for setting its targets. The methodology developed has also been defined based on a sectoral project with the support of an external supplier.

In this respect, the process of drawing up the intermediate decarbonization targets has commenced by defining the starting point and the scope of the exercise. In this stage, the following aspects have been determined:

- The assets portfolios upon which to calculate emissions intensity and the targets. In addition to the mortgage portfolio, core business of the Entity, priority sectors have been defined in the corporate portfolio due to their weight as regards the total and emissions intensity (Energy, Oil and Gas, Cement, Steel and Coal)
- The most recently possible available emissions intensity data of the counterparties have been used
- Selection of the NZE 1.5°C Global scenario of the International Energy Agency (IEA) for defining and setting the decarbonization targets
- Future projections have been analysed provided by the areas responsible for portfolios upon which the targets are set. In so doing, reasonable and consistent targets are obtained with the current portfolio of the Entity, but also with the one foreseen in the years to come

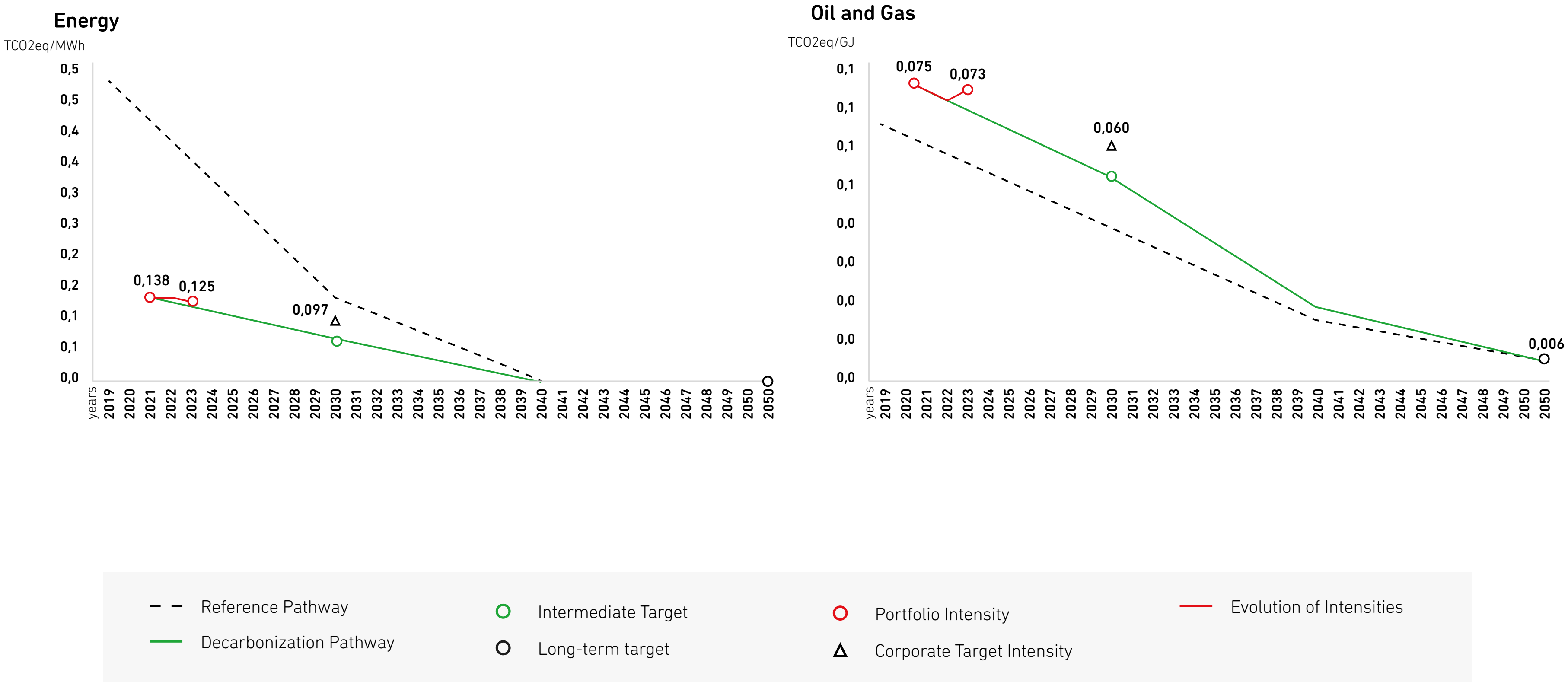
Once the starting point has been determined an analysis has been conducted which combines generating a decarbonization pathway for each of the sectors aligned with the Paris Agreement targets together with the reduction targets set by the Entity's main counterparties in each one of the sectors analysed. In this respect, the Entity has given more weight to the reduction targets set by its main counterparties in defining the targets on its financed portfolio and will conduct a regular monitoring of the evolution thereof.

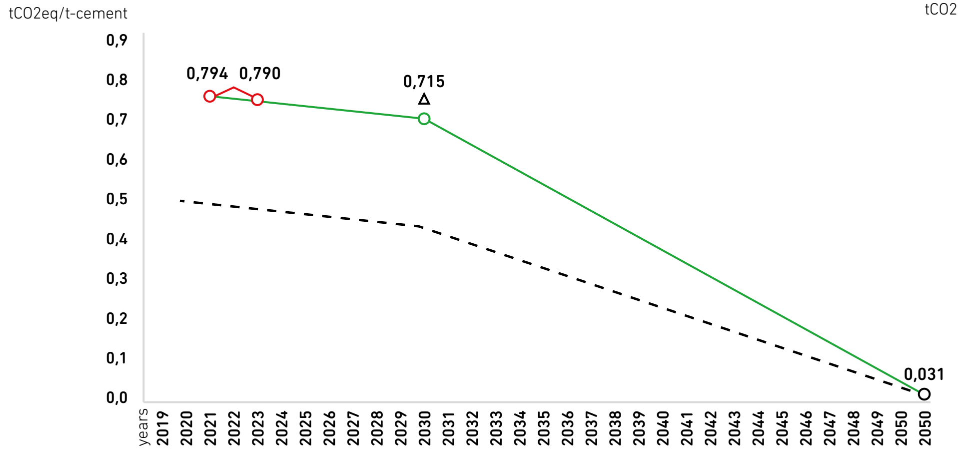
Additionally, it should be noted that for calculating the decarbonization targets, the Entity has included into each sector/portfolio the NACEs and counterparties which best adjust to each one of the activities defined as priority.

The Entity will revise these targets annually, in order to update and validate their compliance based on, primarily, the progress of the main counterparties in achieving them and the changes that take place in the financing portfolio.

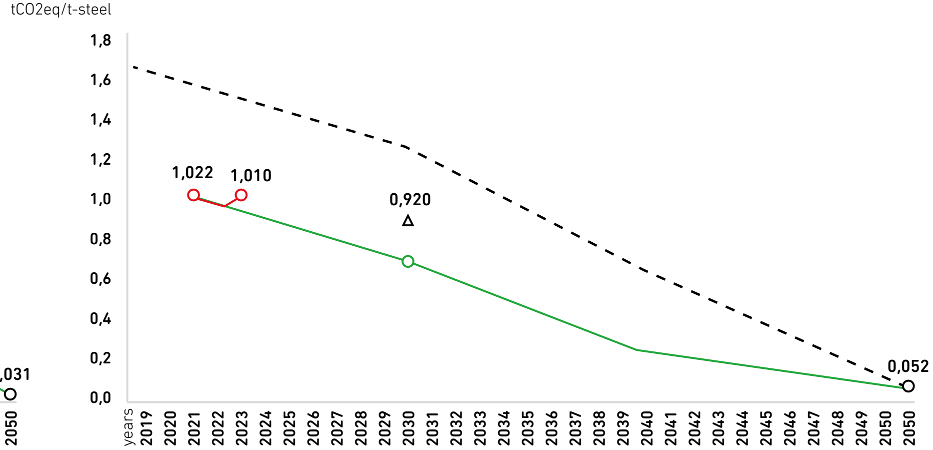
In line with the above, setting these targets stems from the analysis of the level of alignment of the Entity's current portfolio as regards the NZE 2050 (IEA) 1.5°C reference pathways of the Global scenario of each sector in different time horizons. This study analyses how aligned the Entity is with the reference curves of each sector in meeting the Paris Agreement targets. This vision is complemented with the targets set by the counterparties.

Illustration 21: Alignment metrics analysis of the Entity's main portfolios

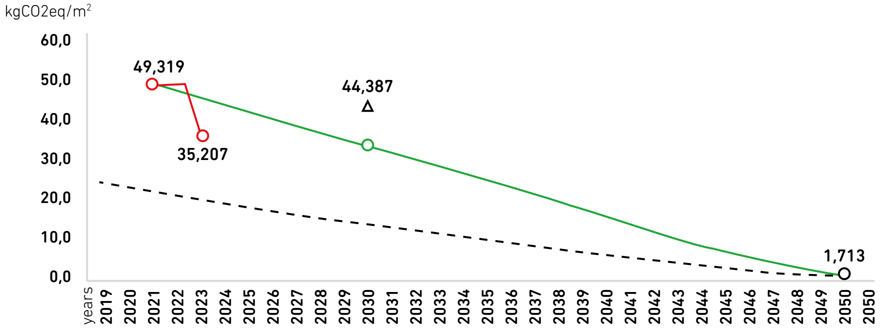




Cement



Steel



Mortgage Portfolio

- - Reference Pathway
— Decarbonization Pathway
○ Intermediate Target
○ Long-term target
○ Portfolio Intensity
△ Corporate Target Intensity
— Evolution of Intensities

Source: Own elaboration

Section 5. Targets and Metrics provides more detailed information about the degree of progress and the achievement of the intermediate decarbonization targets set by the Entity.

In addition, it is important to note, that in June 2024, the Entity has approved the Procedure for calculating the Decarbonization Targets, which describes the calculation methodology of the targets, the dynamics and the periodicity of monitoring the compliance thereof and the scaling process to implement in case of deviations or non-compliance of the targets, including potential mitigation levers to apply in case it is considered necessary.

3.3.8. Obtaining ESG Risk Rating from Sustainalytics

During 2023, the Entity, for the second time, has requested the ESG Risk Rating from Morningstar Sustainalytics, the leading global ESG Agency which provides services to the main companies and investors internationally.

After the research and analysis process conducted, Sustainalytics has placed the Entity among 1% of the entities with the best rating globally of a total of 15,700 companies analysed, placing it in the best valued category – between 0 and 10 points -, which corresponds to a "negligible" ESG risk level and a general solid management process in this field. Given the results obtained, the Entity has also been awarded with the ESG REGIONAL TOP RATED and ESG INDUSTRY TOP RATED badges.

Ilustración 22: Resumen Sustainalytics ESG Risk Rating Report

Kutxabank SA. Thrifts and Mortgages. Spain

ESG Risk Rating

9.5
Last full Update
Nov 27, 2023

+0.2
Momentum

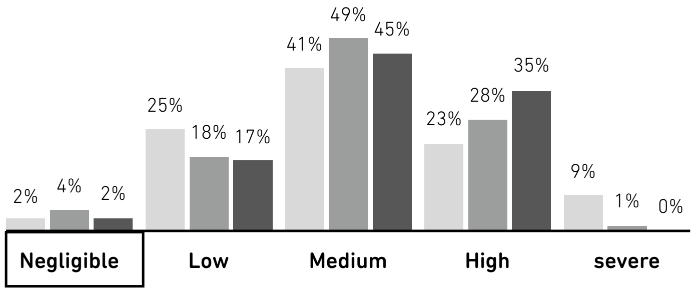
SUSTAINALYTICS
ESG INDUSTRY TOP RATED
2023

SUSTAINALYTICS
ESG REGIONAL TOP RATED
2023

Negligible Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

ESG Risk Rating Distribution



ESG Risk Rating Distribution

UNIVERSE	RANK (1st=lowest risk)	PERCENTILE (1st = Top Score)
Global Universe	**219**/15719	**2nd**
Banks INDUSTRY	**32**/1010	**4th**
Thrifts and Mortgages SUBINDUSTRY	**2**/98	**2nd**

Information based on the report received in November 2023

Source: Sustainalytics

3.3.9. Roadmap for Climate and Environmental Risks

ECB Guide on climate and environmental risks

In November 2020, the ECB published the first edition of its Guide on Climate-Related and Environmental Risks, in which it established its expectations regarding the way in which financial institutions must integrate these risks into their management frameworks. Generally speaking, such expectations are addressed in the following terms:

In relation to the business models and the strategy:

1. Entities are expected to know the impact of climate-related and environmental risks on the business landscapein which they operate in the short, medium and long-term in order to be able to make informed strategic and business decisions
2. When determining their business strategy, entities are expected to take into account climate-related and environmental risks which have an impact on the corporate setting on the short, medium and long-term

In relation to governance and risk appetite:

3. The Board of Directors is expected to take into account climate-related and environmental risks when defining the general corporate strategy, the business objectives and the entity's risk management framework and to effectively monitor these risks
4. Entities are expected to explicitly include climate-related and environmental risks into their risk appetite frameworks
5. Entities are expected to assign the responsibility of managing climate-related and environmental risks in their organisational structure in accordance with the three lines of defence model
6. For the purposes of internal communication, entities are expected to communicate aggregate risk data which reflect their exposures to climate-related and environmental risks so that the Board of Directors and corresponding committees can make informed decisions

In terms of risk management:

7. Entities are expected to include climate-related and environmental risks as factors of existing risk categories in their applicable risk management frameworks in order to manage, monitor and mitigate these risks from a sufficiently long-term perspective and regularly review their mechanisms. Entities are expected to identify and quantify these risks within the framework of their overall process to ensure capital adequacy
8. In their credit risk management, entities are expected to take into account climate-related and environmental risks in all the phases pertinent to the credit granting process and to monitor their portfolio risks
9. Entities are expected to consider how climate-related and environmental risks might affect the continuity of operations and the extent to which the nature of their activities might increase reputational and responsibility risks
10. Entities are expected to continuously monitor the effect of climate and environmental factors of their current market risk positions and their future investments and to develop stress tests which include climate-related and environmental risks
11. Entities with significant climate-related and environmental risks are expected to assess the suitability of their stress tests in order to include them in their base and adverse scenarios

In terms of information:

12. Entities are expected to assess whether significant climate-related and environmental risks may cause net cash outflows or reduce their liquidity buffers and, in this case, include these factors in their liquidity risk management and calibration of the liquidity buffers

13. In terms of communicating regulatory information, entities are expected to publish significant information and key parameters on climate-related and environmental risks which they consider significant, taking into account the European Commission guidelines on non-financial reporting

Kutxabank Group Roadmap

In order to ensure compliance of the expectations drawn up by the European Central Bank in its Guide, Kutxabank Group has designed a Roadmap for Adapting to the ECB Guide on Climate and Environmental Risks which identifies the key milestones which should lead to such compliance, including the internal allocation of responsibilities in its execution, as well as the corresponding timetable over a multiannual period culminating in December 2024.

Although the first version of said Roadmap was approved by the Board of Directors of Kutxabank in April 2021, it has been subjected to several subsequent amendments according to the supervisory feedback received, as well as the evolution of the work within the Group.

In this respect, the most relevant advances undertaken in the different milestones of this Roadmap have been summarised in the different chapters of this document, among which the following stand out:

- Incorporating climate and environmental risks to the internal governance of the Group's risk management such as underlying risk factors to the main risk categories, including adjustments in the internal regulations applicable to governing bodies, risk coordinating areas and internal control functions
- Identifying a list of climate and environmental risk factors to consider when integrating these risks into the Group's management framework, as well as the main correspondences with its main risk categories
- Assessing the materiality level of the correspondences between the climate and environmental risk factors and the Group's main risk categories, for different time horizons
- Integrating climate and environmental risks in the strategic planning of the Group, including establishing strategic guidelines on specific aspects (Sector Policy in environmental and social terms and Intermediate Decarbonization Targets of the financing portfolio)
- Conducting training actions on climate and environmental risks aimed at the members of Kutxabank Group's governing bodies, as well as the teams directly related to their management, such as its staff in general
- Updating the Group's Remuneration Policy, including elements related to climate and environmental risks in its variable remuneration schemes
- Developing the Internal Climate and Environmental Stress Testing Framework and conducting the Group's first Internal Climate Stress Test
- Publishing the third edition of the Entity's Climate Report and including qualitative and quantitative information required by current regulations into the Pillar III report

3.3.10. Other initiatives and plans to outline

Purchases from local suppliers and monitoring sustainable procurement policies

Kutxabank is an entity that primarily works locally, and in which one of the priorities is the generation of a positive economic, social and environmental impact in its surroundings, and for this reason, it works primarily with local suppliers, providing social value and wealth in its area of activity in turn (committed to Km 0 policies). In this respect, the Entity is working to reach sustainable purchasing policy agreements with stocks and services suppliers.

In addition, Kutxabank and Cajasur Banco request from suppliers who provide services that may have a major environmental impact, such as office renovation works or maintenance and facility cleaning, the commitment to comply to current environmental regulations, properly manage their waste, or use biodegradable cleaning products, among others. In addition, when awarding works and renovations of offices an Environmental Management System is positively valued, certified pursuant to ISO 14001 standards or EMAS Regulation.

Alternatively, priority is given to the purchase of office furniture from suppliers who use wood comes from sustainable forests by means of PEFC certification and ecodesigned products in order to minimise their environmental impact.

In general, the clauses of contracts signed with suppliers include that they will collaborate in environmental policy enforcement and compliance, in order to minimise impacts in case any exist.

Additionally, the assessment process of the sustainability level of main suppliers continues, in order to further progress in the commitment to the sustainable development of the environment in which it operates.

Adhesions and partnerships

Kutxabank continues to develop the commitments undertaken in its adhesion to the 10 Principals of the 2012 United Nations Global Compact. Annually, it justifies and keeps in force such commitments related to Human Rights, Labour Rights, Protection of the Environment and the fight against Corruption either through a specific progress report or referring to these in the Non-Financial Information Statement each year.

In addition, as signatory of COP 25, the Entity plays a prominent role in this transition towards a low-emission economy, putting the focus on project financing with positive environmental impact, also accompanying customers in managing Next Generation Funds to undertake environmental projects, among others.

Furthermore, Kutxabank is a member of the “Basque Ecodesign Center” promoted by Ihobe (Environmental Management Agency of the Basque Government). Within this collaboration framework, which will extend until 2025, the member companies of the “Basque Ecodesign Center” will work together with the Basque Government to generate innovative knowledge on circular economy which may be transferred to the rest of the Basque business network.

A “Think Tank” was created for this purpose in which these companies and the Basque Government will make an annual strategic reflection on the challenges of circular economy for the Basque business network. As a result of this reflection process recommendations will be generated for the improvement of the environmental policy of the Basque Country and commitments will be adopted by businesses at the highest level.

Additionally, in line with what has been already mentioned, within the Group, Fineco and Kutxabank Gestión are signatories of the UN Principles for Responsible Investment (UNPRI) since 2016 and 2017, respectively.

On the other hand, in May 2023 the Management Committee approved the adhesion of the Entity to PCAF (Partnership for Carbon Accounting Financials) which seeks to set an international standard so that financial institutions can calculate and disclose the carbon footprint of their financing and investment portfolio. Setting out the methodology to calculate emissions that will enable institutions to better manage risk, properly identify the opportunities related with GHG emissions and progress on the path towards a low-emission economy.

In this context, the Entity is analysing and assessing its adhesion to other initiatives and obtaining ratings and classification of a different nature which will enable it to advance in its commitments in terms of sustainability and the transition towards a low-emission economy.

Advances in the improvement of climate and environmental information

During the last few years, the Entity has continued working intensively on compiling key climate and environmental information so they are incorporated into its internal systems in order to implement them into the different commercial and management processes and comply with the different reporting obligations to which it is subject.

Of the most relevant information compiled the following aspects are highlighted, among others:

- Energy Performance Certificates and their mortgage guarantees, adjudicated and own-use properties
- Exposure to different physical risks of mortgage guarantees, adjudicated and own-use properties
- Compilation of the environmental label for the financing of car loans
- Sustainability rating of the main counterparties of companies, private fixed income and investee portfolio
- Indicators on the level of eligibility and alignment with the Taxonomy of the activity of the Entity's main counterparties (for those subject to disclosure obligations in this respect)
- Scope 1, 2, and 3 emissions and intensity per production unit of the Entity's main counterparties
- The decarbonization targets of the Entity's main counterparties
- Energy Audit on the own-use real estate assets (branch offices and central services buildings) of the Group

These improved reporting procedures have been obtained through the direct compilation of information from customers and from the development of collaborative projects with key market players in this field. All the information compiled by external agents is validated by areas in charge of their use within the Entity, such as the validation task of the methodology used and error mitigation.

In order to remedy the lack of information in certain aspects, the user departments of climate and environmental information continuously participate in collaborative projects in the sector throughout the year to collect these data. In so doing, the Entity, manages to become familiarized with existing suppliers, the methodologies used and with the sector situation regarding the latest practices in obtaining and estimating relevant climate data.

Sustainability action plan of the Group subsidiaries

In addition to everything described related to Kutxabank Group's banking activity, the different para-banking business subsidiaries of the Group (managing companies, insurance companies, etc.) also have a strong Sustainability vocation, and are developing specific action plans in this respect.

Some of the most relevant milestones achieved by each of the main subsidiaries during the last few years are outlined below.

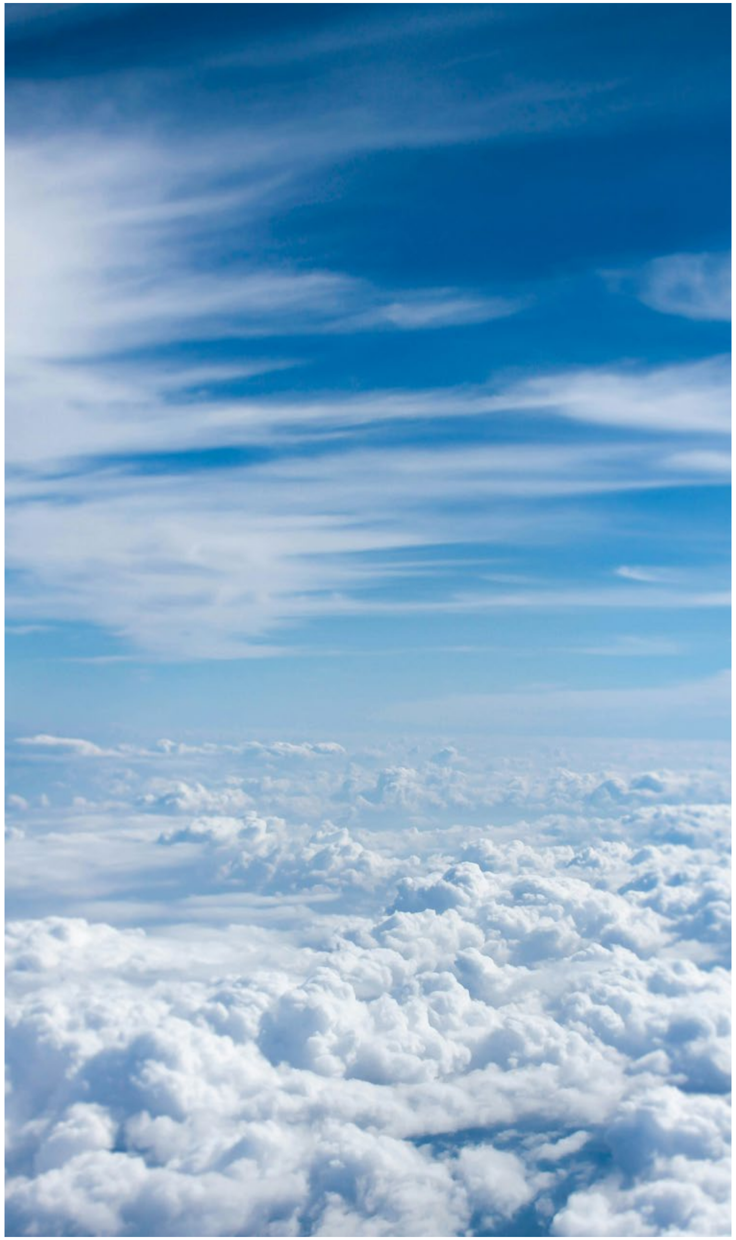


Illustration 23: Focus on the Sustainability of the main para-banking subsidiaries of Kutxabank Group

kutxabank
gestión

- Adhesion to the UN **"Principles for Responsible Investment" (UNPRI)** in 2017. In the 2022 Audit a maximum rating of 5/5 in the main category **of Policies, Governance and Strategy** and in the categories of the direct implementation of the internal model (Equities and Fixed Income)
- **Leading Spanish management company** in the sustainable assessment of investment funds by **Morningstar Sustainability Rating** (3.84/5) vs the sector average of 3.18
- **Leader in the offer of qualified products in accordance with SFDR regulation** (disclosure in terms responsible investing (SRI):
  - **24 investment funds** art. 8 and 2 funds art. 9
  - **69% of the total equity managed**
  - **3rd** Spanish **management company** as regards ESG assets managed (more than M15,000)
  - **1st** Spanish **management company** with more percentage of funds in article 9 (4%)
  - Launching of **two new art. 9 funds** (Equities and Fixed Income)
  - **All the managed portfolios** (Baskepensiones + KB Pensiones) catalogued also as **art. 8** during 2023
- **Pioneers in launching solidarity funds:** Kutxabank Solidario in 2005 (0.70% allocated to the banking foundations + Gureak + Lantegi Batuak). Under process of transformation to an art. 9 fund to reinforce its commitment to sustainability (currently art. 8 fund in accordance with SRDR maintaining its spirit of solidarity
- **Participation in collaborative initiatives promoted by international agencies.** "Advance" (human rights) and "Spring" (environmental

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Fineco
Banca Privada Kutxabank

- Adhesion to the UN **"Principles for Responsible Investment"** (UNPRI) – 2016
- Drafting and publication of Fineco's **Corporate Social Responsibility and Sustainability Report** audited by an external expert
- Implementation of the **ESG Investment Policy to 100% of the assets managed**
- More than **40% of the assets managed** in our investment funds are rated in accordance with **art. 8 of the SFDR Regulation** in promoting ESG characteristics (4 funds and 4 sub-funds)
- Development of the **internal methodology for integrating sustainability risks** in the investment decision-making process
- **Delegation agreements** in international **management companies** leaders in sustainable finances such as Robeco, Schroders, Blackrock, Pimco or Amundi
- Launching of the Bidegin I European **Long-Term Investment Fund** contributing to the business development of our environment together with Kutxabank Empresas and Elkargi
- **Specific training** for all Fineco staff on **Regulating Sustainable Finances** in collaboration with an external expert.
- **Collaboration with Universities** for training in finances in the environment
- Organization of the **"ESG Investment and Finance Summer Programme"** with Deusto Business School

kutxabank seguros

- Steady progress in the different lines of work of the **Sustainability Roadmap**
- Monitoring **of the climate risk management** in the portfolio of own investments:
  - Analysis of the **transition risk exposure** integrated for all the portfolios
  - Entry into force of the **exclusion procedure** for applying them into new investments
- **Strengthening of the analyses and stress tests on climate and environmental risks for Home and Life portfolios** (increase in accidents due to climate causes, impact due to rising sea levels, qualitative analysis on mortality an longevity risks, etc.)
- All **individual pension funds** catalogued in accordance with article 8 of the Disclosure Regulation
- **Approval and publication of the financial impact assessment report** of climate change-related risks of insurance and reinsurance companies pursuant to Art. 32.3 of Law 7/2021 of 20 May, on climate change and energy transition

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NOR BOLSA SOCIEDAD DE VALORES, S.A

- Publication of the progress report as a company adhered to the **UN SDGs**
- **Overall coordinator of the sustainable issue of the Basque Government** and Co-lead manager of the green issue of FCC Servicios medio ambiente
- Dealer in **10 green promissory notes programmes** or linked to sustainability
- Equities and fixed income **portfolios** managed with **ESG criteria**
- Incorporation **of ESG KPIs** in the analysis of local companies

Source: Own elaboration

4. Management of climate and environmental risks

4. Management of climate and environmental risks

In recent years, the risks associated to climate change are becoming increasingly relevant in terms of managing financial institutions, due to the increase of their potential capacity to impact banking activity as well as the increasing attention arising in the main stakeholders of the sector.

In this respect, the Group's corporate risk typology is prepared based on organisational criteria, under the premise that the responsibilities on the different control frameworks are clearly assigned, and there is a correspondence adjusted as much as possible between the nature of each risk category and the executive committees and coordinating areas responsible for their management.

In this sense, each risk category has different underlying risk factors which may negatively impact the Group's value through different materialization pathways or transmission channels.

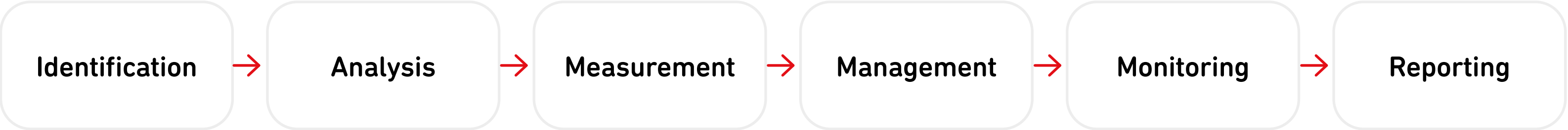
Such is the case of climate and environmental risks, which in the internal governance of risk management in Kutxabank Group are considered as underlying risk factors of already existing risk categories (credit risk, operational risk, market risk, risk of insurance activity, reputational risk, risk in investee companies...). Therefore, they have no specific categories in the corporate typology of the Group's risks, but must be integrated into the control frameworks of the different types of risk, with an intensity proportional to the estimated relevance for correspondences between the climate and/or environmental risk factors and the risk categories belonging to the Group's corporate typology. The coordinating areas of each type of risk are responsible for promoting such integration.

This interpretation is pursuant to the European Central Bank in its Guide on Climate-Related and Environmental Risks of November 2022, which outlines the following:

(...) the ECB expects institutions to consider climate-related and environmental risks as factors of existing risk factors when formulating and applying their business strategy and governance and risk management frameworks (...)

In conclusion, although climate and environmental risks do not constitute a risk typology per se, for a correct management thereof, Kutxabank Group bases itself on the phases of the management cycle of traditional risks.

Illustration 24: Phases of the risk management cycle



Source: Own elaboration

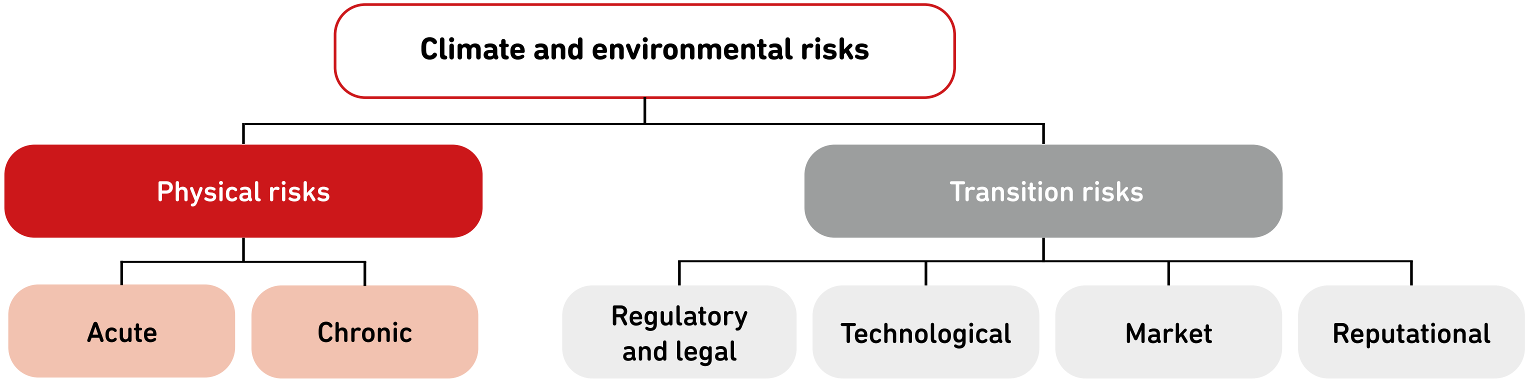
The following sections provide a top-level description on how to manage climate and environmental risks in each of the phases defined.

4.1. Identification

This first phase carries out the conceptualization of climate and environmental risks.

As has already been introduced in chapter 3.2 of this report, the Group has defined a series of underlying risk factors for each category of climate and environmental risks identified: chronic, acute, regulatory and legal, technological, market and reputational risks.

Illustration 25: Calimate and environmental risk categories



Fuente: Elaboración propia

Identification of the risk factors

In a first step, Overall Risk Control has identified a list of climate and environmental risk factors which manage to touch on those risks of a climate, environmental, or mixed nature, for which a certain potential capacity has been recognised (albeit minimum) that has an impact on its economic value, either on the short, medium, or long-term.

By so doing, a total of 18 climate and environmental risk factors have been identified, which are categorized as follows:

Table 3 Summary table of the climate and environmental risk factors identified

	PHYSICAL RISKS		TRANSITION RISKS				Total
	Acute	Chronic	Regulatory and legal	Technological	Market	Reputational	
Climate	1	2	2	-	-	-	5
Environmental	-	3	-	-	-	-	3
Climate & Environmental	-	-	3	3	2	2	10
Total	**1**	**5**	**5**	**3**	**2**	**2**	**18**

Source: Own elaboration

The factors identified in this phase of the process are detailed below:

Tabla 4 Climate and environmental risk factors identified by Kutxabank Group

UNDERLYING C&E RISK FACTORS		
PHYSICAL RISKS		
Risk factor	**Nature**	**Sub-risk**
C&ER-F01 – GENERAL TEMPERATURE RISES with impacts of a chronic nature (rising sea and/or river levels, alteration of biodiversity with an impact on the habitability and productivity of specific areas)	Climate	Chronic
C&ER-F02 – INCREASE IN THE FREQUENCY OF EXTREME WEATHER EVENTS (storms, hurricanes, hail, heat waves, droughts, etc.) with impacts of an acute nature (floods, destruction, isolation, fires, etc.)	Climate	Acute
C&ER-F03 – PERMANENT CHANGES IN RAINFALL with impacts of a chronic nature (desertification, agriculture, tourism...)	Climate	Chronic
C&ER-F04 – DETERIORATED NATURAL ECOSYSTEMS with impacts on the economic activities in the area (fishing, hunting, forestry, tourism...)	Environmental	Chronic
C&ER-F05 – INCREASED AIR, WATER, LAND POLLUTION with impacts on the health of the population and/or economic activities in the area (agriculture, livestock, construction...)	Environmental	Chronic

UNDERLYING C&E RISK FACTORS

PHYSICAL RISKS

Risk factor	Nature	Sub-risk
C&ER-F06 – INCREASED WATER STRESS as a result of different factors (overexploitation of aquifers, drought, macro-infrastructures...) with chronic impacts on the economic activities of the area (population settlements, agriculture, livestock, industry...)	Environmental	Chronic

UNDERLYING C&E RISK FACTORS

TRANSITION RISKS

Risk factor	Nature	Sub-risk
C&ER-T01 – The emergence of regulations (fees, taxes, urbanism...) which **PENALIZE HOUSING** with poor energy ratings	Climate	Regulatory and legal
C&ER-T02 – The emergence of regulations (fees, taxes, prohibitions...) which **PENALIZE THE MOST CONTAMINATING ECONOMIC ACTIVITIES OR WITH A MORE INTENSIVE USE OF NATURAL RESOURCES**	Climate & Environmental	Regulatory and legal
C&ER-T03 – The emergence of regulations (fees, taxes, prohibitions, requirements...) creating the need for considerable investments to improve its **ENERGY EFFICIENCY**	Climate	Regulatory and legal
C&ER-T04 – The emergence of regulations applicable to the selling of **INVESTMENT PRODUCTS** which, for reasons related to climate and/or environmental issues, require changes in the non-independent advisory tests, suitability assessment or in communicating information to customers	Climate & Environmental	Regulatory and legal
C&ER-T05 – Imposition of sanctions as a result of **GREENWASHING** or **GREEN-HUSHING** practices	Climate & Environmental	Regulatory and legal
C&ER-T06 – Changes in **CONSUMER PREFERENCES** and other market agents associated with greater environmental awareness which significantly affect business models	Climate & Environmental	Market
C&ER-T07 – LOSS OF ATTRACTIVENESS of certain investment products as a result of the generalized use of investment policies and/or limits associated to taxonomies which assign levels according to the climate and/or environmental impact of economic activities	Climate & Environmental	Market
C&ER-T08 – The emergence of eco-friendly **TECHNOLOGICAL INNOVATIONS** which significantly affect business models (for example, due to inventing green alternatives to current products)	Climate & Environmental	Technological
C&ER-T09 – Investment in unprofitable or directly unsuccessful climate and/or environmental transition **TECHNOLOGICAL PROJECTS**	Climate & Environmental	Technological

UNDERLYING C&E RISK FACTORS		
TRANSITION RISKS		
Risk factor	**Nature**	**Sub-risk**
C&ER-T10 – Lack of **RELIABLE DATA** for preparing statistical models on possible impacts derived from climate and/or environmental risk factors	Climate & Environmental	Technological
C&ER-T11 – The emergence of negative news as a result of **GREENWASHING** or **GREEN-HUSHING** practices	Climate & Environmental	Reputational
C&ER-T12 – The emergence of negative news and/or **LOSS OF CORPORATE REPUTATION** as regards the role played in the fight against climate change and/or environmental preservation	Climate & Environmental	Reputational

Source: Own elaboration

Identifying the correspondences between C&E risk subfactors and risk sub-categories

Below is the mapping between the 18 factors identified and 70 risk sub-categories provided in the Group's corporate risk typology, attempting to identify the combinations which could lead to a materialization of each risk sub-category for reasons associated to climate and environmental risk factors.

Also identified are the most feasible specific pathways for each one of the combinations identified.

This analysis has led to a list of 112 correspondences between climate and environmental risk factors identified and risk sub-categories.

Based on these correspondences, a matrix has been created which combines the 6 sub-categories of climate and environmental risks detailed in the first part of this section and the 20 main risk categories of the Group (excluding overall risk), with the following results:

Table 5 Matrix of climate and environmental risk sub-categories and main risk categories

Correspondences between the main risk categories and climate and environmental risks (C&E)		PHYSICAL RISKS		TRANSITION RISKS			
		Acute	Chronic	Regulatory and legal	Technological	Market	Reputation
CREDIT RISKS	Credit Risk	X	X	X	X	X	
	Counterparty Risk						
	Sovereign Risk						
FINANCIAL RISKS	RETI						
	RETC						
	RESC						
	Liquidity Risk	X	X	X	X	X	
	Market Risks		X	X	X	X	X
OPERATIONAL RISKS	Operational Risk	X	X	X			
	Technological Risk	X					
	Reputational Risk	X		X			X
	Regulatory Compliance Risk			X			
	Model Risk				X		
NON-BANKING ACTIVITIES RISK	Insurance Activity Risk	X	X	X			
	Real Estate Activity Risk	X	X	X			
	Investee Company Risk	X	X	X	X	X	X
OTHER CATEGORIES OF RISK	Strategic Risk				X		
	Banking Business Risk			X			X
	Pension Risk		X				
GLOBAL RISKS	Concentration Risk	X	X	X	X	X	

Source: Own elaboration

Identification of the transmission channels

Lastly, identification of the possible transmission materialization/channels of the physical and transition risk factors to the main risk categories, conducted below is a summary of the most relevant.

Table 6 Identification of climate and environmental risks

Underlying risk factor	Materialisation pathway / Transmission channels (Potential financial impact)	Associated risk category
PHYSICAL RISKS		
Chronic		
GENERAL INCREASE IN TEMPERATUES with impacts of a chronic nature (rising sea and/or river levels, or alterations of biodiversity with impact on the habitability and productivity of specific areas)	Loss of the value of residential property and non-residential assets financed and used as guarantee for mortgages or a real guarantee -	Riesgo de crédito
	Deterioration in the economic situation of borrowers	
	Negative impact on the effective value of the Entity's liquidity buffer: Negative impact on the value assets used as collateral for issuing guaranteed bonds (Covered Bonds, Securitizations, etc.)	Liquidity risk
	Less issuance capacity (reduced capacity for generating new liquid assets)	
	Movement of population or companies in vulnerable areas arising in a loss of business with implications in terms of cash withdrawals by customers in the affected areas of action	
	Loss in the value of financial assets in markets	Market risk
	The Group's tangible assets suffer relevant deterioration as a result of events related to climate change or with environmental risk	Operational risk
	Increase of accidents in the branch of non-life insurance (car, home, economic activities, reassurance...)	Insurance activity risk
	The Group's property, plant and equipment assets suffer relevant deterioration as a result of events related to climate change	Property activity risk
	Deterioration in the results obtained by investee companies	Investee company risk
	Loss in economic value as a result of an investment level concentrated in geographies particularly exposed to climate and environmental risk or as a result of investment level concentrated in a certain economic Group particularly exposed to this risk factor	Concentration risk

Underlying risk factor	Materialisation pathway / Transmission channels (Potential financial impact)	Associated risk category
PERMANENT CHANGES IN RAINFALL	Deterioration in the economic situation of borrowers	Credit risk
	Negative impact on the effective value of the Entity's liquidity buffer: Negative impact on the value of assets used as collateral for issuing guaranteed bonds (Covered Bonds, Securitizations, etc.)	Liquidity risk
	Less issuance capacity (reduced capacity to generate new liquid assets)	
	Movement of population or companies in vulnerable areas arising in a loss of business with implications in terms of cash withdrawals by customers in the affected areas of action	
	Increase of accidents in the branch of non-life insurance (car, home, economic activities, reassurance…)	Insurance activity risk
	Deterioration in the results obtained by investee companies	Investee company risk
	Loss in economic value as a result of an investment level concentrated in geographies particularly exposed to climate and environmental risk or as a result of investment level concentrated in a certain economic Group particularly exposed to this risk factor	Concentration risk
DETERIORATION OF NATURAL ECOSYSTEMS	Deterioration in the economic situation of borrowers	Credit risk
Increase in AIR, WATER, LAND CONTAMINATION	Deterioration in the economic situation of borrowers	Credit risk
	Increase in extraordinary provisions for ESPVs and other external vehicles	Pension risk
Increase in WATER STRESS	Deterioration in the economic situation of borrowers	Credit risk
	Loss in the value of financial assets in markets	Market risk
	Deterioration in the economic situation of issuers	
	Deterioration in the results obtained by investee companies	Investee company risk

Underlying risk factor	Materialisation pathway / Transmission channels (Potential financial impact)	Associated risk category
Acute		
INCREASE IN THE FREQUENCY OF EXTREME WEATHER EVENTS (storms, hurricanes, hail, heat waves, droughts, etc.) with impacts of an acute nature (floods, devastation, lack of communication, fires, etc.)	Loss of the value of residential property and non-residential assets financed and used as guarantee for mortgages or a real guarantee	Credit risk
	Deterioration in the economic situation of borrowers	
	Negative impact on the effective value of the Entity's liquidity buffer. Impact on liquid assets: Loss in asset value (shares or bonds) of the counterparties affected to which the Group may have exposure	Liquidity risk
	Larger valuation haircuts from ECB for assets potentially more vulnerable to these types of eventualities	
	The Group's property, plant and equipment assets suffer relevant deterioration as a result of events related to climate change or with environmental risk	Operational risk
	Discontinuities in the systems as a result of the physical deterioration caused in technological assets	
	Discontinuities in the business as a result of the unavailability of buildings	
	Discontinuities in the business as a result of difficulties in the mobility of people	
	Discontinuities in the systems as a result of the physical deterioration caused in technological assets	Technological risk
	Incidents and/or unavailability in critical ICT services entrusted to external services suppliers	
	The Group's corporate reputation suffers deterioration related to the negative perception of stakeholders as regards the support provided to customers and sectors affected by extreme weather events	Reputational risk
	Increase in the accidents in the branch of non-life insurance (car, home, economic activities, reassurance...)	Insurance activity risk
	The Group's property, plant and equipment assets suffer relevant deterioration as a result of events related to climate change	Property activity risk
	Deterioration in the valuation of investee companies	Investee company risk
	Deterioration in the results obtained by investee companies	
	Loss in economic value as a result of an investment level concentrated in geographies particularly exposed to climate and environmental risk or as a result of investment level concentrated in a certain economic Group particularly exposed to this risk factor	Concentration risk

Underlying risk factor	Materialisation pathway / Transmission channels (Potential financial impact)	Associated risk category
TRANSITION RISKS		
Policies (Regulatory and legal)		
The emergence of regulations which penalize housing	Loss in the value of residential property assets financed and used as guarantee for mortgages	Credit risk
	Losses in economic value as a result of a deterioration of the mortgage market or of its commercial position	Riesgo del negocio bancario
The emergence of regulations which penalize the most polluting economic activities	Deterioration in the economic situation of borrowers	Credit risk
	Negative impact on the Entity's liquidity buffer. The reduction in investors' appetite and possible rating reductions in the adaptation process to climate and/or environmental risk, will negatively impact the effective value of the assets of such issuers including in the cushion.	Liquidity risk
	Deterioration in the economic situation of issuers	Market risk
	Loss in the value of financial assets in markets	
	Loss in the value of financial assets of the investment portfolio of the Insurance Company in markets	Insurance activity risk
	Deterioration of the valuation of investee companies	Investee company risk
	Deterioration in the results obtained by investee companies	
	Loss in economic value as a result of an investment level concentrated in geographies particularly exposed to climate and environmental risk or as a result of investment level concentrated in a certain economic Group particularly exposed to this risk factor	Concentration risk
The emergence of regulations which require undertaking substantial investments to improve its ENERGY EFFICIENCY	Sanctions and/or unfavourable rulings as a result of non-compliance or infringement of regulations	Regulatory compliance risk
	Deterioration of the results obtained in selling transactions of non-current Assets on sale	Property activity risk
	Need to bear relevant costs for adapting own-use property	
The emergence of regulations applicable to investment products	The Group's corporate reputation suffers deterioration related to Sanctions and/or unfavourable rulings as a result of infringing regulations connected with the provision of investment services which are made public	Reputational risk
	Sanctions and/or unfavourable rulings as a result of infringing regulations connected to the provision of investment services	Regulatory compliance risk
Imposition of sanctions as a result of GREENWASHING or GREEN-HUSHING practices	Materialisation of operational risk events connected to sanctions, disruptions, compensations arising from greenwashing	Operational risk
	Sanctions and/or unfavourable rulings as a result of infringing regulations connected to the provision of investment services	Regulatory compliance risk

Underlying risk factor	Materialisation pathway / Transmission channels (Potential financial impact)	Associated risk category
Technological		
The emergence of technological innovations	Deterioration in the economic situation of borrowers	Credit risk
	Greater financing needs of companies and individuals that generate large cash outflows	Liquidity risk
	Deterioration in the economic situation of issuers	Market risk
	Deterioration of the valuation of investee companies	Investee company risk
	Deterioration of the results obtained by investee companies	
	The emergence of new technologies which totally or partially invalidate the Group's business model or of its investee companies	Strategic risk
	Loss in economic value as a result of an investment level concentrated in activity sectors particularly exposed to climate and environmental risk or as a result of investment level concentrated in a certain economic Group particularly exposed to this risk factor	Concentration risk
Investment in technological projects	Deterioration in the economic situation of borrowers	Credit risk
	Greater financing needs of companies and individuals which generate large cash outflows	Liquidity risk
	Deterioration in the economic situation of issuers	Market risk
	Deterioration in the valuation of investee companies	Investee company risk
	Deterioration of the results obtained by investee companies	
	The emergence of new technologies which totally or partially invalidate the Group's business model or of its investee companies	Strategic risk
	Loss in economic value as a result of an investment level concentrated in activity sectors particularly exposed to climate and environmental risk or as a result of investment level concentrated in a certain economic Group particularly exposed to this risk factor	Concentration risk
Lack of reliable data for preparing statistical models	Underestimating or overestimating expected levels of loss	Model risk

Underlying risk factor	Materialisation pathway / Transmission channels (Potential financial impact)	Associated risk category
Market		
Changes in consumer preferences	Deterioration in the economic situation of borrowers	Credit risk
	Deterioration in the economic situation of issuers	Market risk
	Deterioration in the valuation of investee companies	Investee company risk
	Deterioration of the results obtained by investee companies	
	Loss in economic value as a result of an investment level concentrated in activity sectors particularly exposed to climate and environmental risk or as a result of investment level concentrated in a certain economic Group particularly exposed to this risk factor	Concentration risk
Pérdida de atractivo de productos de inversión	Difficulties / increasing price of access to wholesale funding markets	Liquidity risk
	Loss in the value of financial assets in markets	Market risk
Reputation		
The appearance of negative news due to Greenwashing or Green-hushing practices	The corporate reputation of the Group suffers deterioration with the appearance of negative news due to GREENWASHING or GREEN-HUSHING practices	Reputational risk
The appearance of negative news and/or Loss of corporate reputation	Loss in value of financial assets in markets	Market risk
	The corporate reputation of the Group suffers deterioration related to the poor performance in the fight against climate change or against environmental risks/elements	Reputational risk
	Deterioration in the valuation of investee companies	Investee company risk
	Deterioration of the results obtained by investee companies	
	Losses in economic value as a result of a deterioration of its commercial position, arising from customer attrition to other entities they consider more sustainable	Banking business risk

Source: Own elaboration

4.2. Materiality analysis

At a Risk category level

Once the identification process of the climate and environmental risks has been completed, which has provided climate and environmental risk factors, their correspondences with the main risk categories and most feasible transmission pathways, the question arises as to the materiality of such correspondences.

Given the particular nature of climate and environmental risks, the relevance of which will increasingly evolve over the coming years, such materiality analysis has been conducted for three different time horizons:

- Short term (up to 3 years)
- Medium term (between 3 and 10 years)
- Long term (more than 10 years)

For the establishment of these horizons, publications by entities such as the EBA[5] or the BCBS have been taken into account, considering it reasonable to establish the short-term analysis to the same extent contemplated for the financial and capital planning in the ICAAP (3 years) and the 10-year threshold considered by the EBA. Additionally, Kutxabank is also sensitive to the timelines set in the European Climate Law[6] and considers it within the medium-term bracket (3-10 years) the first target date (2030) of such Law and on the long-term for the final date (2050) in which the EU has set its climate neutrality target.

The following show the conclusions of the materiality analysis conducted:

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[5] EBA Report on management and supervision of ESG Risks for Credit Institutions and Investment Firms (EBA/REP/2021/18); BCBS Principles for the effective management and supervision of climate-related financial risks, of June 2022

[6] European Climate Law (Regulation (EU) 2021/1119 of the European Parliament and of the Council establishing the framework for achieving climate neutrality) approved in June 2021

Table 7 Qualitative assessment of materiality on the short, medium and long term

Materiality assessment on the short term (0-3 years)

Impact of climate and environmental risks (C&E) in the Risk categories (€M)		Physical risks		Transition risks				SCORE GLOBAL
		Acute	Chronic	Regulatory and legal	Technological	Market	Reputation	
CREDIT RISKS	Credit Risk	🟢	🟢	🟢	○	🟢		🟢
	Counterparty Risk							
	Sovereign Risk							
FINANCIAL RISKS	IRRBB							
	Structural Exchange Rate Risk							
	CSRBB							
	Liquidity Risk	○	○	○	○	○		○
	Market Risks		○	○	○	○	○	○
OPERATIONAL RISKS	Operational Risk	○	○	○				○
	Technological Risk	○						○
	Reputational Risk	○		○			○	○
	Regulatory Compliance Risk			🟢				🟢
	Model Risk				○			○
NON-BANKING ACTIVITIES RISK	Insurance Activity Risk	○	○	○				○
	Real Estate Activity Risk	○	○	○				○
	Investee Company Risk	○	○	🟢	○	🟢	🟢	🟢
OTHER CATEGORIES OF RISK	Strategic Risk				○			○
	Banking Business Risk			○			○	○
	Pension Risk		○					○
GLOBAL RISKS	Concentration Risk	○	○	○	○	○		○

No impact has been identified	○ VERY LOW	🟢 LOW	🟠 MEDIUM	🔴 HIGH	⚫ VERY HIGH

Materiality assessment on the medium term (3-10 years)

Impact of climate and environmental risks (C&E) in the Risk categories (€M)		Physical risks		Transition risks				SCORE GLOBAL
		Acute	Chronic	Regulatory and legal	Technological	Market	Reputation	
CREDIT RISKS	Credit Risk	🟢	🟠	🟠	🟢	🟢		🟠
	Counterparty Risk							
	Sovereign Risk							
FINANCIAL RISKS	RETI							
	RETC							
	RESC							
	Liquidity Risk	○	🟢	○	○	🟢		🟢
	Market Risks		○	○	○	○	○	○
OPERATIONAL RISKS	Operational Risk	○	○	○				○
	Technological Risk	○						○
	Reputational Risk	○		○			🟢	🟢
	Regulatory Compliance Risk			🟢				🟢
	Model Risk				○			○
NON-BANKING ACTIVITIES RISK	Insurance Activity Risk	🟢	○	○				🟢
	Real Estate Activity Risk	🟢	○	○				🟢
	Investee Company Risk	○	🟢	🟠	🟠	🟢	🟢	🟠
OTHER CATEGORIES OF RISK	Strategic Risk				🟢			🟢
	Banking Business Risk			🟢			🟢	🟢
	Pension Risk		○					○
GLOBAL RISKS	Concentration Risk	○	○	○	🟢	○		🟢

No impact has been identified	○ VERY LOW	🟢 LOW	🟠 MEDIUM	🔴 HIGH	⚫ VERY HIGH

Materiality assessment on the long term (>10 years)

Impact of climate and environmental risks (C&E) in the Risk categories (€M)		Physical risks		Transition risks				SCORE GLOBAL
		Acute	Chronic	Regulatory and legal	Technological	Market	Reputation	
CREDIT RISKS	Credit Risk	🟠	🔴	🔴	🟠	🟠		🔴
	Counterparty Risk							
	Sovereign Risk							
FINANCIAL RISKS	RETI							
	RETC							
	RESC							
	Liquidity Risk	○	🟢	○	○	🟢		🟢
	Market Risks		○	🟢	○	○	🟢	🟢
OPERATIONAL RISKS	Operational Risk	○	○	○				○
	Technological Risk	🟢						🟢
	Reputational Risk	○		○			🟢	🟢
	Regulatory Compliance Risk			🟢				🟢
	Model Risk				○			○
NON-BANKING ACTIVITIES RISK	Insurance Activity Risk	🟢	○	○				🟢
	Real Estate Activity Risk	🟢	🟢	○				🟢
	Investee Company Risk	○	🟠	🔴	🟠	🟠	🟢	🔴
OTHER CATEGORIES OF RISK	Strategic Risk				🟢			🟢
	Banking Business Risk			🟢			🟢	🟢
	Pension Risk		○					○
GLOBAL RISKS	Concentration Risk	○	○	🟢	🟢	🟢		🟢

No impact has been identified	○ VERY LOW	🟢 LOW	🟠 MEDIUM	🔴 HIGH	⚫ VERY HIGH

Source: Own elaboration

The results of the materiality assessment process of climate and environmental risks provide very relevant information when prioritizing actions aimed at integrating such risks into the control frameworks of potentially more affected risk categories. In general, the materiality levels assessed are low or very low.

In order to arrive at this conclusion, the feasible impacts on the internal capital available of the Group (impact for a very low probability of occurrence, but not remote) are estimated initially, for each one of the correspondences selected and for each time horizon. For each combination between risk categories and subcategories of climate and environmental risk factors and for each time horizon the estimated feasible impacts and a materiality level is aggregated, according to the location of the aggregated feasible impacts on a threshold scale.

Only the materiality of credit risk and investee company risk have been assessed as high on a long-term time horizon (more than 10 years)

In the case of credit risk, the correspondences for which a higher level of materiality has been estimated are those related to chronic physical risks (due to their capacity to affect business models of accredited investors particularly dependent on climate and/or environmental conditions or to the value of property used as guarantee of credit exposures) and with regulatory transition risks (particularly linked to the emergence of regulations - particularly, prohibitions and tax surcharges – which affect the business model of certain accredited investors). Although with a lower materiality level, feasible impacts have also been identified on credit risk associated to technological transition risks and market transition risks.

Regarding investee company risk, the feasible impacts of higher materiality identified are associated to regulatory transition risks (in particular, those derived from the evolution of applicable regulations to economic activity sectors linked to energy production and distribution), although feasible impacts of lower materiality have been identified associated to chronic physical risks, technological transition risks and market transition risks.

For correspondences between the climate and environmental risk factors and the rest of the main risk categories present in the corporate risk typology of the Group, low or very low materiality levels have been estimated. Just to mention some examples:

- No material feasible impacts of the climate and environmental risks have been identified on the liquidity risk of the Group, among other reasons because of its scarce dependency on wholesale financial markets and its high portfolio of available liquid assets
- In the case of market risk, Group exposure to this risk is reduced, and is linked mostly to Public Debt positions. For its part, exposure derived from the private fixed income portfolio of the Group does not reach 1% in terms of the size of its Assets, and is mostly composed of bonds issued by other financial institutions
- As regards operational and technological risks, some feasible impacts have been identified associated to a possible materialization of physical and transition risks (such as the possible imposition of sanctions as a result of greenwashing practices), but the severity of such impacts, in the event they were to occur, would be limited.
- Relating regulatory compliance risk and reputational risk, possible feasible impacts have been identified derived from non-compliance of environmental regulations, or of negative perceptions on the environmental commitment level of the Group, or on greenwashing or greenhushing

practices, but in no case would they reach significant materiality levels

- Some feasible impacts have also been identified of climate and environmental risk factors of a physical nature on the risk of insurance activity (in the form of higher accident levels) and on property activity risk, but in none of the two cases have relevant severity levels been estimated for the types of materialization considered

At a Product level

Additionally, analysis has been conducted as regards the materiality of climate and environmental risk in relation to the products of the Group with a higher potential sensitivity to such risks.

Table 8 Conclusion of the materiality analysis conducted on products on the short, medium and long term

Materiality assessment on the short term (0-3 years)

	Physical Risks		Transition Risks				SCORE GLOBAL
	Acute	Chronic	Regulatory and legal	Technological	Market	Reputation	
Residential mortgages	○	○	○				○
Corporate lending – Fixed assets	○	○	○	○	○		○
Investment and pension funds			○		○	○	○
Customer deposits						○	○
Insurance	○	○					○

Materiality assessment on the medium term (3-10 years)

	Physical Risks		Transition Risks				SCORE GLOBAL
	Acute	Chronic	Regulatory and legal	Technological	Market	Reputation	
Residential mortgages	●	●	●				●
Corporate lending – Fixed assets	○	○	●	●	●		●
Investment and pension funds			○		○	○	○
Customer deposits						○	○
Insurance	●	○					●

Materiality assessment on the long term (>10 years)

	Physical Risks		Transition Risks				SCORE GLOBAL
	Acute	Chronic	Regulatory and legal	Technological	Market	Reputation	
Residential mortgages	🟠	🟠	🟠				🟠
Corporate lending – Fixed assets	○	🟢	🟢	🟢	🟢		🟢
Investment and pension funds			○		○	○	○
Customer deposits						🟢	🟢
Insurance	🟢	○					🟢

No impact has been identified	○ VERY LOW	🟢 LOW	🟠 MEDIUM	🔴 HIGH	⚫ VERY HIGH

Source: Own elaboration

The results of this materiality assessment process of climate and environmental risks provide relevant information when prioritising actions aimed at integrating such risks into the business strategy of the Group identifying products that may be potentially more affected in order to identify risks as well as business opportunities. In this case, no high or very high materiality levels have been identified, for any of the time horizons contemplated.

On the long-term time horizon, average materiality levels have been detected for residential mortgages, due to the potential deterioration of the property used as guarantee or due to the emergence of particularly demanding regulations for property with poorer energy ratings.

For the rest of the products, low or very low materiality levels have been estimated.

In short, the conclusions obtained from the analyses conducted regarding the exposure of the Group to climate and environmental risks are summarised in the following terms:

- The Group has identified potential correspondences between the climate and environmental risks and their main risk categories
- On the short term (up to 3 years) it is estimated that the materiality level of climate and environmental risks is reduced, with little capacity to significantly impact the solvency and/or liquidity levels of the Group
- Hence, in the ICAAP of the Group, no economic capital surcharges have been established associated to climate and environmental risks
- As the time horizon of the analysis is extended, slightly higher materiality levels of the climate and environmental risks are foreseen, in particular as regards their potential impact on credit risk and investee company risk, without reaching very high materiality levels in any case

4.3. Measurement

In order to complement the materiality analysis conducted on climate and environmental risks, during the last few years the Entity has progressed significantly in measuring its exposure level to this type of risks and the potential impacts which they could have in the financial solvency of the Entity regarding their hypothetical occurrence.

The measurement of this type of underlying risk factors allows valuing the resistance capacity of the Entity related to events of this nature and undertake strategies and measures for their prevention and mitigation.

However, and first of all, in order to understand the results of the exposure level analysis and impact of the sensitivity analyses and stress tests, it is necessary to bear in mind the key aspects which determine the business model of the Entity and its risk profile:

- Kutxabank Group is an Entity which primarily focusses its business on retail customers, which is why the credit portfolio of Kutxabank is mainly concentrated on retail mortgages (>65%)
- Additionally, 11% of the portfolio corresponds to financing with Public Administrations and 20% is granted to legal persons, with a relatively low representativity level in those sectors which may be considered as more polluting
- Moreover, it is also worth noting the risk profile and financial power of the Entity, it has the lowest non-performing loans ratio in the sector and is the most solvent competitor in the sector

By so doing, the exposure of Kutxabank to transition risks in its wholesale portfolio is reduced, whereas the exposure to physical risks of the mortgage portfolio could be higher, although the probability of occurrence is lower, particularly on the short and medium term.

Therefore, a summary of the different initiatives in which the Entity has been working regarding the measurement of climate and environmental risks during recent years, is provided below.

4.3.1. Level of portfolio exposure to physical and transition risks

The Entity has started measuring its exposure to physical and transition risks in its most significant portfolios, primarily, for the mortgage portfolio and the Corporate Finance portfolio. In addition, an analysis is also being performed of the climate and environmental risks in the Equities and Private Fixed Income portfolios.

In order to carry out these analyses, data collected directly by the managers in the origination process have been used (for example the Energy Performance Certificates of the mortgage guarantees) as well as data obtained by means of external suppliers (for example the incidence of the different physical risks analysed in each geographical area).

In addition, the Entity has also been working on the incipient design of various methodologies for obtaining summary indicators which will allow it to measure the exposure level of potential risks. It is to be noted that the information broken down below differs slightly from that already reported in the Prudential Relevance Report, which considers the requirements of the EBA, incorporating, in this case, information regarding the internal management indicators which the Entity is implementing and revisiting.

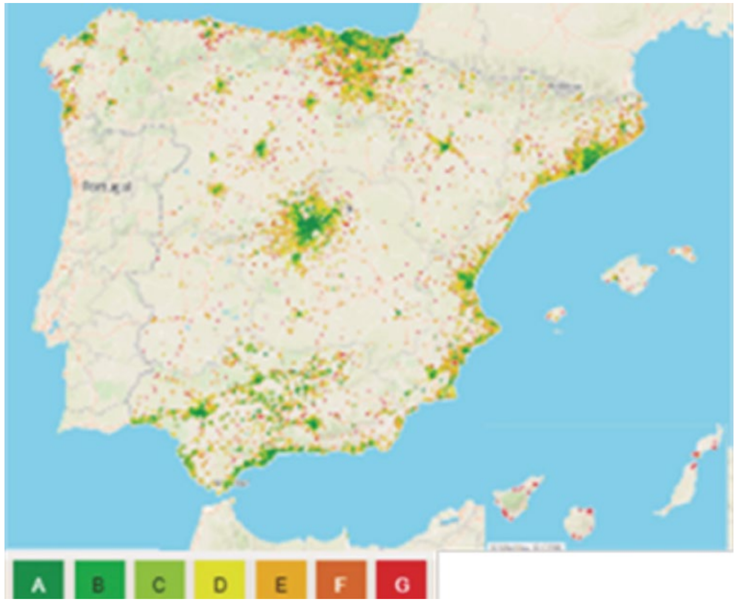
Additional information of the analysis carried out for each one of the main portfolios of the Entity is provided below.

4.3.1.1. Analysis of the exposure level of the mortgage portfolio to transition risks

In order to measure the exposure level to the transition risks in this portfolio, it is understood that the property with worse energy ratings based on Energy Performance Certificates (EPC) could undergo potential value losses due to the need to adapt to new more efficient energy systems or to the worsening of the payment profile of accredited investors in a scenario of increasing energy costs, among other aspects. In order to analyse the transition risks of the Group's mortgage portfolio, the EPCs of the entire portfolio have been collected, with the support of a collaborative project developed by a key market supplier:

- First of all, the information already available internally has been used captured in the formalization process of the loan or in the offer for sale of the adjudicated property
- Additionally, for most of the registers, the data have been completed with information requested to an external supplier, who has obtained the information directly from public registers or has developed several approach models for estimating it and the methodology of which has been audited by an external independent auditor
- In order to complete the information of the guarantees on which the supplier has not been able to provide data, an internal proxy was developed for the different variables to calculate. For the development of these approaches at an internal level, key variables of the property have been used such as the year of construction or its geographical location, which have enabled the calculation of the modes and measures to apply in order to complete the pertinent information on the guarantees

Illustration 26: Illustrative example of the transition risks of Kutxbank's mortgage portfolio



Source: Compiled in-house and market supplier (information referring to 2021

At the end of December 2023, Kutxabank's mortgage portfolio only had 17% of guarantees with F or G consumption Energy Performance Certificates. In addition, in line with what has already been mentioned above in this document, 22% of the new mortgage loans formalized during 2023 were carried out on EPC A or B property, which means that during the coming years the Sustainability level of this portfolio will progressively improve, thereby limiting the potential transition risks related to the energy efficiency level of its mortgage guarantees portfolio. This aspect is being encouraged by promoting mortgages with sustainable purposes such as the already mentioned "Green" Mortgage.

Table 9 Distribution of the mortgage portfolio by Energy Performance Certificates

EPC Rating Level of Consumption	% distribution on balance in M€ 2023/12/31
A	8%
B	5%
C	3%
D	8%
E	59%
F	7%
G	10%
TOTAL	**100%**

Source: Own elaboratio

In addition, the transition risk of the adjudicated assets portfolio has also been analysed, which due to its nature has a lower concentrated distribution in property with better energy ratings.

Table 10 Distribution of the Adjudicated Assets portfolio according to Energy Performance Certificates

EPC Rating Level of Consumption	% distribution on balance in €Bn 2021/12/31
A	0%
B	1%
C	2%
D	4%
E	86%
F	2%
G	5%
TOTAL	**100%**

Source: Own elaboratio

4.3.1.2. Analysis of the exposure level of the corporate portfolio to transition risks

Additionally, the Entity has also measured the impact of transition risks in the corporate portfolio, by identifying the sectors which most damage the environment by means of a summary indicator of climate and environmental risks for corporations.

The indicator allows those sectors with the most damaging environmental impact to be identified according to 5 variables: Greenhouse Gas emissions, other gases, generation of hazardous and non-hazardous waste and consumption of water resources, in line with the information provided by CEPREDE on the portfolio of the Entity.

Additionally, the indicator, analyses the contribution of each sector to GDP and to employment, being considered a mitigating of transition risk of great relevance in these two indicators. In this manner, a ranking of the different sectors is obtained according their potential transition risk to climate and environmental factors. It should be noted that this indicator is the basis for the development of the Entity's Sector Heatmap.

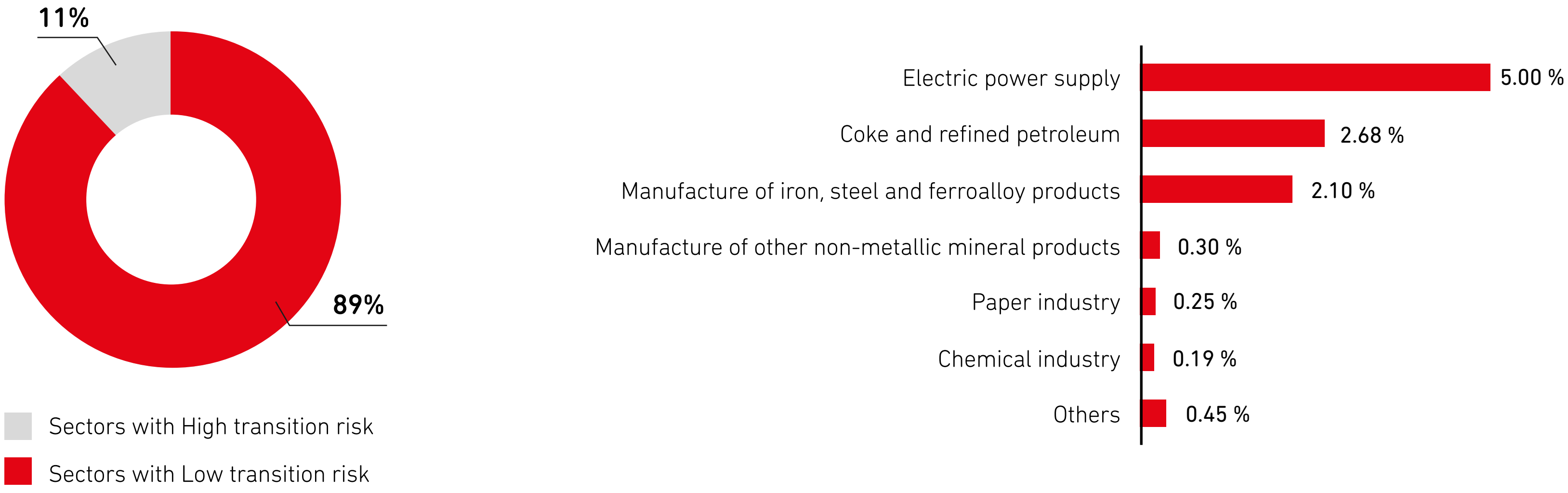
For a more extensive analysis, the summary indicator is complemented with an internal study of the CNAEs which determines those which, while they are not a part of the sectors with the highest environmental impact, are activities considered to have a high risk of transition. In addition, the CNAEs are identified which are in a sector considered to have a high environmental risk, due to the specific activity they carry out, are not exposed to transition risk. For example, the production of wind energy, despite being in a high transition risk sector such as is Energy, it is an activity clearly aligned with the fight against climate change, consequently there is no risk in this specific activity.

Illustration 27: Details of sectors with a potentially high climate and environmental transition risk (based on the internal summary indicator)

- Coke and refined petroleum
- Supply of electric power
- Manufacture of iron, steel and ferroalloy products
- Manufacture of other non-metallic mineral products
- Manufacture of pharmaceutical products
- Maritime and inland waterway transport
- Chemical industry
- Agriculture, livestock and hunting
- Paper industry
- Extractive industries
- Food, beverage and tobacco industry
- Textile industry
- Collection and treatment of waste water
- Wood and cork industry
- Air transport

Source: Own elaboration

Illustration 28: Exposure level of the portfolio in company financing on 31 December in sectors with the highest transition risk according to the summary indicator



Source: Own elaboration

In this respect, 11% of the Entity's corporate loan portfolio is granted to those activities which could be considered as most polluting, and therefore, potentially more exposed to transition risks. If this figure is compared to the total credit investment of the Group, it would represent less than 4%.

Additionally, the weight of the leading sectors has also been analysed on the total of the Group's income from interest and fees, in order to assess the existing level of dependency in terms of profitability.

Table 11: Weight in revenues from interest and fees of the sectors with the highest transition risk according to the summary indicator in the Corporate Finance portfolio of the Entity on 31 December 2023

Activity Sector	% Revenues from interest and fees
Coke and refined petroleum	0.62%
Manufacture of iron, steel and ferroalloy products	0.51%
Supply of electric power	0.58%
Agriculture, livestock and hunting	0.14%
Food, beverage and tobacco industry	0.28%
Collection and treatment of waste water	0.40%
Manufacture of other non-metallic mineral products	0.08%
Rest	0.27%
Total	**2.88%**

* This is the information which is reported in the SREP on Climate Risk with data on 31 December 2023.

** These details include all the CNAEs/activities in each sector although some activities have been deleted in the summary indicator analysis of companies for being considered not susceptible to transition risk. In other words, if intensive activities are only considered within each sector the percentages are slightly lower.

Source: Own elaboration

The sectors with the highest transition risk according to the synthetic indicator account for approximately 2.9% of the total interest and fee income of the corporate portfolio.

It is notable that a significant percentage of the financing granted in these sectors corresponds to reference players at a sectoral level that have firm commitments in the fight against climate change.

In this respect, the Entity's vocation, as a key driver of the economy, focusses on supporting companies in these sectors in the transition towards less polluting and low-emission productive systems, through the financing of their needs in this process.

Additionally, the Entity has also designed specific strategies for mitigating these risks by means of different lines of action, among others:

- Promoting the incorporation of improvement indicators for the environmental and social performance of counterparties in the financing transactions
- Measuring the volume of C02 emissions being financed in these sectors
- Setting decarbonization targets and alignment of portfolios for the most relevant sectors (Energy; Oil and Gas; Cement; Steel and Coal)
- Identifying certain activities which the Entity prefers to limit financing of due to their environmental impact (Sector Policies)

Ultimately, as a complementary aspect, and as detailed in the information provided in the Prudential Relevance Report, Kutxabank Group on December 2023 has no risk and/or direct exposure via-à-vis the 20 most polluting companies in the world. This exposure is 1.11% of the total exposure with non-financial corporations.

4.3.1.3. Analysis of the exposure level of the mortgage portfolio to physical risks

The Entity has designed a summary indicator in order to measure its exposure level to the four main significant physical risks which could affect the environment where the Group operates:

- Risk of River Flooding: possible human, environmental, economic and material losses caused as a result of a river bursting its banks
- Risk of Coastal Flooding: this is a flood caused by rising sea levels
- Risk of Fire: losses associated to the probability of a fire occurring in a certain area
- Risk of Desertification: this is land degradation due to causes associated to drought and lack of water

The Entity obtains the incidence of each one of the 4 physical risks analysed in each one of the guarantees of the Entity from an independent and specialized supplier. By means of this information, the Entity creates an indicator which combines the different risks and allows the identification of those guarantees whose exposure to physical risks is greater according to the geographical area they are located in.

Illustration 29: Illustrative example of the physical risks of the Kutxabank mortgage portfolio

Desertification Risk

Fire Risk

Coastal Flooding Risk

River Flooding Risk

Source: Compiled in-house and by market supplier (information referring to 2021)

From the analysis of the summary indicator result it might be concluded that the physical risks to which the Entity's mortgage guarantees portfolio is currently exposed are reasonably limited, where certain residual risks could exist to river flooding in some areas in the north of Spain, and to desertification risks particularly in some sites located in the south of the Peninsula.

Table 12 Distribution of the mortgage portfolio according to physical risk sensitivity on 31 December 2023

RISK	DESERTIFICATION	FIRE	COASTAL FLOODING	RIVER FLOODING	TOTAL PHYSICAL RISK
With Physical Risk	4%	1%	0%	2%	6%

Source: Own elaboration

At present, the Entity is undertaking a revision and sophistication process of the methodology used for preparing the summary indicator and expects to be able to continue progressing in the measurement of the physical risks in other portfolios such as the corporate portfolio. In this respect, it should again be noted that the results of the indicator may differ slightly from the preliminary information provided in the reporting of the Prudential Relevance Report (due to scope as well as methodological aspects).

4.3.1.4. Analysis of the Investee Companies portfolio exposure level

Kutxabank Group as part of its business model foresees the maintenance of an industrial portfolio of shares that complement the lines of the banking business, contributing to it from its mix of revenues and risks geographical and sectoral diversified elements, and contributing to strengthen the business network of the environment in which it operates.

This mission, aligned with the general objectives of Kutxabank, is based on the recurrent contribution of the Bank's Profit and Loss Statement and to its Equity, a contact with the real economy and the environment, and a support of feasible projects and with an appropriated risk profile.

In this respect, the Entity conducts a differentiated analysis on the climate and environmental impact of its portfolio according to the level of exposure, nature and impact level of the counterparties.

On one hand, an individualized analysis for the main companies in the portfolio to meet any of the following conditions:

- The activity exercised by the counterparty can be included as an economic activity that considerably impacts the environment or may contribute to achieving the decarbonization targets of the economy (industrial activities)
- The participation falls indirectly on the property of a unique building (given the relevance of these type of participations in the composition of Kutxabank's Portfolio)

The Investee Companies that do not meet the above criteria will form part of a global analysis at an aggregate level.

Illustration 30: Results of the expert analysis on the investees portfolio distribution in environmental parameters on 31 December 2023

Kutxabank Group Portfolio	
Green exposure	83.4%
Rest Exposure	7.2%
Brown exposure	9.0%
Portfolio Excluded	0.4%

Source: Own elaboration

In light of the above, it should be noted that the current Equity portfolio of the Entity is in a good climate position and, in general, with a low transition risk even including the relevant positions in sectors intensive in emissions. Such is the case, that more than 83% of the portfolio is rated as "Green Exposure".

Although the potential impacts derived from transition risks associated to shareholder exposures of the Group may have a certain level of relevance, particularly on the medium and long-term, such analysis concludes that the main companies which make up the investee portfolio of the Group have Sustainability and the fight against climate change fully integrated into their business strategies, that they pursue an orderly transition towards more sustainable productive models.

A summary table of the key aspects which characterize the Sustainability level of the main investees in the equity portfolio of the Entity is shown below.

Table 13 Analysis of the commitment to Sustainability of the main investees of the Entity

IBERDROLA	The world's largest wind power producer and global leader in **renewable energies** Only European utility selected in the 23 editions, being considered one of the **most sustainable electricity utilities in the world in the Dow Jones Sustainability Index.** Rated as **"Silver Class"** in the electricity S&P Global. In addition to receiving the gold medal, as one of the companies with **best performance by Ecovadis.** Its pioneer commitment to renewable energies and grids have enabled it to **anticipate itself to the current energy transition** and be a **reference in climate action.** It is the third most innovative utility in the world, the second in Europe and the first in Spain for resources allocated to R+D+I, with a cumulative investment of more than 2,000 million euros in the last decade In 2022, the CO2 **emissions** per MWh generated are maintained among the **lowest of energy companies** at a national and international level and remains on the downward path marked by its climate action plan
Petronor	In a context of fighting against climate change, in which the energy sector is responsible for 75% of the global CO2 emissions, **it commits to a change of the energy model in order to reduce emissions.** The main **purpose** is to be a net **zero emission company** by 2050, in line with the goals established by Grupo Repsol. Currently a slight positive trend can be observed in terms of emission reduction Petronor, **invests in key projects for energy transition** such as the Decarbonization Hub in the port of Bilbao, which is made up of a synthetic fuel plant and an urban waste assessment project. This results in a reduction in the participation of fossil fuels in the energy mix

CAF

- CAF is undertaking relevant positions in order to **enlarge its value offer in sustainable mobility and contribute to decarbonization.** CAF is **number one in sustainable urban mobility,** with a value proposition no other player can equal (subways, trams, and LRVs, low and zero emission buses)
- It has received an **improvement in the performance perception of the Group by rating agencies in terms of Sustainability.** An example of this has been obtaining the prestigious platinum medal in the assessment of sustainability management conducted by Ecovadis, placing the CAF Group among the companies with the best performance in the sector. It is present among the 100 best companies of S&P global
- CAF **participates in the Railsponsible sector initiative** where it collaborates with other stakeholders in the development of sustainable practices throughout the value chain of the railway industry

Ingeteam

- Ingeteam has **aligned its strategic targets with the Agenda 2030 sustainable development goals and sets itself the goal of triple sustainability** (social, economic and environmental), minimising the impact of its activities on nature, reducing its energy consumptions and CO2 and greenhouse gas emissions
- Ingeteam is specialized in the **conversion of electric power** which allows it to offer solutions for the wind, photovoltaic, hydroelectric generation and mobility sectors etc., always seeking to achieve a **more efficient energy generation and consumption**
- The **products manufactured by Ingeteam are for renewable energies,** enabling a reduction into the atmosphere of more than 13 million tons of CO2 emissions
- Its **commitment to responsible environmental management** is structured through an **environmental management system audited** externally and certified under the **ISO 14001** standard, based on indicators and environmental objectives for monitoring and improving processes. In 2022 85% of its EBITDA comes from activities with ISO 14001 environmental certification

Source: Own elaboration

Additionally, the participation in Torre Iberdrola and San Mamés Barria should be noted, buildings that meet LEED Green Building Rating System certification, as an example of their high level of Sustainability and energy efficiency.

4.3.1.5. Analysis of the exposure level of the fixed income portfolio

Regarding the fixed income portfolio, the Entity has developed an analysis based on the corporate heatmap on the Sustainability level of the portfolio. With data at the end of 2023, 99.34% of the total exposure in terms of fair value is rated as a low or medium-low risk according to the definition established in the Group's heatmap.

Illustration 31: Results of the expert analysis on the distribution of fixed income instruments in environmental parameters on 31 December 2023

Fixed Income Instruments	
Low Risk	14.4%
Medium Low Risk	84.9%
Medium Risk	0.0%
Medium High Risk	0.0%
High Risk	0.7%

Source: Own elaboration

It is important to emphasize that 83% of the fixed income instruments portfolio is made up of Public Debt, therefore, only 17% are private sector issuers.

The public debt portfolio of the Entity is made up of issues from countries with a high commitment to sustainability and compliance to the SDGs. The greater weight in this portfolio corresponds to Spanish debt, which as well as being ranked 16th in the world in the degree of SDG compliance, it also has a low environmental risk, since it is actively encouraging policies for the transition towards a low-emission economy providing firm support to renewable energies.

Regarding private fixed income, the Entity concentrates more than 86% of its investment in large companies, included in the Dow Jones Sustainability Index (DJSI) or which have positive ESG ratings based on the sustainability rating developed by an expert market supplier. This is an increase of close to 10% related to the percentage recorded in 2022.

Additionally, on December 2023, Kutxabank Group has a participation in green, social or sustainable bonds for a total amount of 256 million euros. Of this amount, 74.5 million correspond to green issues made by public and private institutions (Banco Santander, Naturgy, Apple,...), 168.6 million euros are associated to Sustainability-related issues (of which 84.5% are in the public debt portfolio) and 12.5 million euros to social bonds. Kutxabank's intention, reinforcing its commitment with Sustainability and the transition of its customers towards a low carbon economy, is to continue along this line, and proof of this is the exposure to green, social and sustainable issues in the fixed income portfolio that has grown by about 12% at the end of the first quarter 2024, as regards the end of 2023.

In short, and in line with the above, the exposure level to transition risks of the fixed income portfolio of the Entity is considered to be significantly reduced.

4.3.2. Climate and environmental sensitivity analysis and stress testing

Stress tests and sensitivity analyses enable risk situations to be measured and assessed for subsequent inclusion into the strategy and risk management model of the Group.

The Entity has been making remarkable progress in the exposure level analysis of climate and environmental risks and in assessing their potential impact by implementing sensitivity/stress testing analyses. In fact, these analyses have been forming part of the Entity's strategic and financial planning processes during the last few years.

In this respect, the Entity already incorporated an initial approach to a sensitivity scenario regarding transition risks into the corporate portfolio in its ICAAP in 2020. Additionally, in the 2021 edition, it complemented this exercise with a scenario on physical risks for the mortgage portfolio. In subsequent editions climate stress tests have been developed and expanded as shown in the Illustration below.

Last year, the main progress and improvements regarding the climate stress test conducted in 2022 (ICAAP 2023) focus on the increase of risks envisioned and the number of tests conducted, as well as on the sophistication / development thereof:

- **Credit risk:**
  - Adaptation of the estimation models of the expected loss to the Entity's IFRS9 models
  - Sensitisation of LDG in transition risk scenarios (initially only PD) and of PD in the physical risk scenarios of companies (initially only LGD)
- **Market risk:**
  - Incorporation of dynamic balance scenarios (without reinvestment of maturities and with reinvestment)
- **Investee company risk:**
  - Incorporation of physical risks
- **Property activity risk:**
  - Incorporation of transition risks and physical risks on the portfolio of adjudicated property assets and stocks
- **Insurance activity risk:**
  - Incorporation of a new accident increase scenario with a forward-looking vision

Illustration 32: Evolution of the climate stress tests included in the different years of planning (until the first quarter of 2024)

2020	2021	2022	2023	2024
ICAAP 2020	ICAAP 2021	ICAAP 2022	ICAAP 2023	ICAAP 2024
Transition Risks – Credit to Companies	**Transition Risks** – Credit to Companies **Physical Risks** – Credit to Individuals	**Transition Risks** – Credit to Companies – Credit to Individuals **Physical Risks** – Credit to Companies – Credit to Individuals **Environmental Factors** – Equities	**Transition Risks** – Credit to Companies – Credit to Individuals – Equities – Fixed income – Insurance **Physical Risks** – Credit to Companies – Credit to Individuals – Insurance **Environmental Factors** – Equities **+ Liquidity /Regulatory Compliance / Reputation**	**Transition Risks** –Credit to Companies – Credit to Individuals – Equities – Fixed income – Insurance – Property assets **Physical Risks** – Credit to Companies – Credit to Individuals – Insurance – Property assets **Environmental Factors** – Equities **+ Liquidity /Regulatory Compliance / Reputation**
1 test	2 test	6 test	25 test	30 test

Source: Own elaboration

4.3.2.1. Internal Climate and Environmental Stress Testing Framework

The Internal Climate and Environmental Stress Testing Framework of the Entity (approved by the Steering Committee in December 2022), identifies the principles and characteristics which define these types of tests, the risk categories with greater potential impact and, therefore, candidates to stress, the typologies of tests to implement in each of the risk categories, the teams responsible for the implementation, the governance applicable, key aspects on the integration of the management results, etc.

By way of illustration, the most relevant characteristics which define this typology of stress tests are summarised below.

Table 14 Summary of the most relevant characteristics of the climate and environmental stress tests

1	They may combine **sensitivity analysis** with **complete stress testing scenarios**
2	They must jointly include a **current vision** and a **forward-looking vision** on the evolution of these risks in the future
3	Where possible, they will combine **short, medium and long-term** temporary impacts
4	The stress tests proposed may consider a **static condition** as well as a future evolution or **dynamic balance** (depending on its nature)
5	The test design will be based on the main **vulnerabilities** to which the Entity is exposed in this field. In this respect, the potentially most vulnerable portfolios of the Entity must be considered and what **traditional risks** category would be **most affected** based on the materiality analysis implemented
6	From a climate viewpoint, **physical risks** as well as **transition risks** will be considered, according to which is most decisive in each portfolio analysed. Additionally, stress tests on **environmental factors** will be incorporated as far as possible
7	Preparing sensibility analyses and stress tests should be based (as much as possible) on **science-based scenarios,** on **official sources** and reliable data bases, **international agencies,** etc. However, they will also be complemented through **internal sources** which best represent the vulnerabilities to which the Entity is exposed
8	The impact of **mitigation measures** (insurance, portfolio composition and nature of the counterparties, etc.) will be considered, where possible
9	In addition, the development of scenarios may consider **cross-cutting scenarios** which affect different risk categories, as well as **"stand-alone" scenarios** for each case
10	The tests will be performed under **conservatism criteria,** but always attempting to be realistic in the assumptions **adopted**
11	Developing these tests may be done **internally** or **collaborating with external advisors**
12	The design of the stress tests, information sources and data used and estimating impacts will **evolve** and **reinforce** as the Entity and the market reach maturity in analysing and measuring climate and environmental risks

Source: Internal Climate and Environmental Stress Testing Framework

The Entity has defined the tests to perform according to the vulnerabilities of the portfolios associated to the climate and environmental risks which will allow it to assess its stress capacity of the hypothetical occurrence of this type of events. In this regard, and based on the results obtained from the materiality analysis described above the risk categories below have been incorporated into said Framework such as those with a more significant potential impact to climate-related and environmental risks and which, therefore, should be incorporated into the stress tests to define:

Illustration 33: Risk Categories incorporated into the internal Climate and Environmental Stress Testing Framework

- **Credit Risk**
- **Liquidity Risk**
- **Market Risk**
- **Risks in Investee Companies**
- **Operational Risk**
- **Reputational Risk**
- **Regulatory Compliance Risk**
- **Insurance Activity Risk**
- **Risk of Property Activity**

Source: Internal Climate and Environmental Stress Testing Framework

In any case, as pointed out in this document, incorporating the different risk categories identified into the Framework does not necessarily mean specific stress tests have to be performed every year.

Additionally, it should be noted that the stress tests performed should serve as input for the financial and capital planning exercises, such as ICAAP/ILAAP, the drafting of the Strategic Plan or for strengthening the control frameworks of the Group's main risk categories.

Regarding organisational and governance aspects, so far, the overall process coordinating area (from an overall viewpoint, as well as from the climate and environmental perspective), is the Strategic Planning area. Nevertheless, each of the risk coordinating Areas are responsible for the stress testing conducted within their field of action and of integrating the results into their internal management frameworks. In this respect, and by way of example, the implementation and integration of the tests on liquidity risk are the responsibility of the Treasury team or the reputational risk tests of the Regulatory Compliance and Control of the Group (although with the cross-sectional support from the Strategic Planning team and the Sustainability area). Regarding governance processes, the internal Climate and Environmental Stress Testing results are presented in the Steering Committee of the Entity and in the Risk Control Committee, who subsequently informs the Board of Directors about these issues.

4.3.2.2. Results of the internal Climate and Environmental Stress Testing conducted at the end of 2023

In the second half of 2023, the Entity has conducted a new internal climate and environmental stress test, sophisticating, extending and reinforcing the analyses which it had already been conducting before:

- The number of tests, categories of stressed risks and portfolios within the scope conducted has been extended, along the lines detailed above
- Complete climate scenarios have been combined with specific sensitivity analyses
- Transition as well as physical climate risks have been considered, and some tests on environmental factors
- Static and dynamic balances have been used
- Tests on different time horizons have been conducted
- Impact mitigation measures have been incorporated such as insurance

Regarding the integration in management:

- The climate stress test results are a reference upon the potential impacts the climate and environmental factors may have on the Group. Additionally, it is also a reference for conducting the materiality analysis thereof on the different
- In this respect, they may provide guidance for defining the Entity's strategy as regards the sectors to finance and/or in which to invest and products to market, among others
- In particular, they help to identify sectors and counterparties with potential larger impacts and that may require particular attention, related to its payment capacity (to evaluate in granting credit) as well as in the products required (to consider in defining the product catalogue)
- Additionally, these results can serve as a basis for defining the pricing policy
- The climate stress test results must be shared with different lines of defence, as well as reported to the different executive and governing bodies of the Group, so they can be considered when adopting the main strategic decisions
- Additionally, these results must be considered with the ICAAP framework, that it to say, they must be a factor to forsee when assessing capital adequacy
- Ultimately, it is necessary to note that the implementation of the Internal Climate and Environmental Stress Test Framework has not been fully produced yet, and that as the Entity obtains more and better information, and as it develops the approach adopted for supervisors as well as for comparable entities, the risks to assess and the tests to conduct will be extended tending to a greater sophistication of the analyses

In this respect, credit, as well as liquidity, market, investee, regulatory compliance, reputational, property activity and insurance activity risk impacts have been compiled. The key aspects and results of this analysis have been included in the 2024 edition of the ICAAP.

Table 15 Tests conducted in the Internal Climate and Environmental Stress Testing of Kutxabank Group at the end of 2023

Typology	Portfolios	Events		Time horizon	Type of test
Credit risk	Wholesaler (unsecured)	Transition risk	Orderly Disorderly	Long term	Scenario (according to ECB climate ST)
	Wholesaler (unsecured)	Physical risk	Drought	Short term	Scenario (according to ECB climate ST)
	Retail (secured)	Transition risk	Orderly Disorderly Hot House	Long term	Scenario (according to ECB climate ST)
	Retail (secured)	Physical risk	Coastal Fl. River Fl. Fire	Short term	Escenario (IPCC + ST clima BCE)
Market risk	Private Fixed-income securities	Transition risk	Orderly Disorderly Hot House	Short term (Disorderly) Long term	Scenario (according to ECB climate ST)
Risk in investee companies	Main investee companies	Transition risk		Long term	External and internal scenario and sensitivity analysis
	Main investee companies	Physical Risk	Drought	Long term	Sensitivity analysis
	Main investee companies	Environmental risk		Short term	Sensitivity analysis
Liquidity Risk		Transition risk	Increase of cuts in liquid assets	Short term	Sensitivity analysis
		Transition risk	Loss of liquid assets admisibil.	Short term	Sensitivity analysis
		Transition risk / Physical risk	Rating drop	Short term	Sensitivity analysis
Compliance or Regulatory Risk		Transition risk		Short term	Sensitivity analysis
		Transition risk	Theoretical greenwashing	Short term	Sensitivity analysis

Typology	Portfolios	Events		Time horizon	Type of test
Reputational Risk		Transition risk	Theoretical greenwashing	Short term	Sensitivity analysis
Property activity risk	ANCV and Stocks (ex-land)	Transition Risk		Long term	Sensitivity analysis
	ANCV and Stocks	Physical Risk		Long term	Scenario (according to BCE climate ST)
Insurance activity risk	Home Insurance	Physical Risk		Long term	AEMET / IPCC
	Investment Portfolio	Transition Risk		Short term	EIOPA

Source: Own elaboration

Based on the internal stress testing analyses developed by the Entity, it may be concluded that the low level of exposure of the Group's business model to potential climate and environmental risks and the composition and distribution of its financing and investment portfolio, will enable it to easily overcome the potential impacts arising from hypothetical events of this nature, despite the severity addressed in defining them (in terms of impact as well as in probability of occurrence). In none of the cases will the feasibility of the Entity be jeopardized, neither from the capital nor the liquidity viewpoint.

A summary table with solvency level impacts obtained in the different stress tests conducted is shown below. Attention is drawn to it due to the different scenarios proposed and the high improbability of the simultaneous occurrence if the different events considered, the expected impacts should not be counted in aggregate form.

Table 16 Summary of the impacts of the internal climate stress testing conducted at the end of 2023

Risk	Stress Test	Impact acc./ CET1 Ratio
Credit	Transition - Companies: Orderly Scenario (LT)	50 - 100 bps
	Transition - Companies: Disorderly Scenario (LT)	50 - 100 bps
	Transition - Companies: Hot House Scenario (LT)	50 - 100 bps
	Transition - Mortgages: Orderly Scenario (LT)	5 - 10 bps
	Transition - Mortgages: Disorderly Scenario (LT)	5 - 10 bps
	Transition - Mortgages: Hot House Scenario (LT)	5 - 10 bps
	Physical – Mortgages: River flooding	5 - 10 bps
	Physical - Mortgages: Coastal flooding	<5 bps
	Physical - Mortgages: Fires	5 - 10 bps
	Physical - Companies: Drought / Heat Wave	10 - 25 bps
Market	Transition - Companies: Orderly Scenario (LT)	<5 bps
	Transition - Companies: Disorderly Scenario (ST)	<5 bps
	Transition - Companies: Disorderly Scenario (LT)	<5 bps
	Transition - Companies: Hot House Scenario (LT)	<5 bps
Investees	Transition – Investee of energy sector A	10 - 25 bps
	Physical – Investee of energy sector A: Drought	25 - 50 bps
	Transition – Investee of energy sector B	<5 bps
	Environmental – Investee of energy sector B	10 - 25 bps
Real estate	Transition – ANCV / stocks	10 - 25 bps
	Physical – ANCV / stocks: river flooding	<5 bps
	Physical – ANCV / stocks: coastal flooding	<5 bps
	Physical – ANCV / stocks: fires	<5 bps
Liquidity	Collateral cuts	n.a.
	Inadmissibility of collaterals	n.a.
	Drop in rating	<5 bps
Compliance	Non-compliance of energy standards	5 - 10 bps
	Sanction for regulatory non-compliance	10 - 25 bps
Reputational	Outflow of deposits	n.a.
Insurance	Physical - Home	5 - 10 bps
	Transition – Investment portfolio	<5 bps

Source: Own elaboration

In this respect, the following conclusions are highlighted:

- Kutxabank has a reduced exposure to the financing of companies (in relative terms), which would be the segment most affected by the transition, limiting the potential impact on the Group. In any case, the Entity should continue to accompany customers in this energy transition, primarily those who operate in the potentially most affected sectors (Extractive industries, Oil Refining, Energy, etc.)
- The mortgage portfolio shows a limited risk to physical risks, which in addition would be mostly mitigated by the existing insurance cover. However, it is a portfolio with a low energy efficiency (although better than the sector average), hence a situation could arise in which customers are required to invest in energy improvements, with a negative potential impact in their capacity to pay or such collateral may be affected in their assessment
- The Fixed Income portfolio is mainly concentrated in Public Debt. Private Fixed Income is reduced and shows a low exposure to sectors potentially more affected by climate and environmental factors
- The equity positions in the different energy sectors have credible and robust climate change mitigation and adaptation strategies. However, it should not be ruled out that such companies are affected by transition risks, mainly in the oil refining sector. In any case, the potential impact expected for the Entity would be reduced
- The main equity position (Iberdrola) is a global leader in renewable energies and Petronor has set the Net Zero target for 2050. However, it cannot be ruled out that both companies may be potentially affected by transition risks given their primary activity. In any case, the potential impact is foreseen to be reduced due to the decarbonization commitments undertaken
- The potential impacts in the insurance business are reduced due to the cover existing for climate and environmental events from the Insurance Compensation Consortium
- In the case of the rest of risks (property activity / regulatory compliance / reputation / liquidity) the impact is estimated to be limited, although these have a broader scope and upon which the Entity may have less room to manoeuvre (regulation / reputation), therefore closely monitoring such aspects is essential

Ultimately, and in line with the commitments undertaken by the Entity in its Roadmap for adapting to the ECB Guide on climate and environmental risks, the Group continues reinforcing its capacities for developing internal sensitivity and stress testing exercises which will enable it to strengthen its strategic decision-making process and incorporate its results into the control frameworks of the different types of risk.

4.3.2.3. Participation in the Climate Stress Testing exercises developed by the ECB

In 2022 the ECB conducted the first sectoral Stress Test aimed at analysing the potential impacts of climate risks, physical as well as transition, on European financial institutions.

The exercise was divided into 3 modules:

1. Questionnaire that measures the capacity of the Entity to analyse the bank's resilience as regards to climate risks
2. Analysis of the exposure of institutions to emissions intensive sectors and companies (income per sector and volume of emissions of the main counterparties)
3. Stress tests for physical and transition risk scenarios, short term as well as long term (where the Entity has only had to provide information on the starting point)

The ECB based itself on the Network for Greening the Financial System scenarios (mentioned previously) for preparing this exercise. In this context, the NGFS has created, in collaboration with climate experts, a set of climate scenarios in order to understand the possible effects of climate change (physical risks) and of trends in policy and technologies (transition risks). The scenarios are shown below:

- **Orderly scenario:** transition and physical risks are moderate, since the climate policies are introduced gradually and on time and decrease the effects
- **Disorderly scenario:** the necessary climate policies are introduced late and differently between countries and sectors, which causes the risks to be more significant, transition as well as physical risks
- **"Hot house world" scenario:** climate policies are implemented only in certain countries and sectors, which make global efforts insufficient and the consequences include severe physical and transition risks
- **"Too Little, too late" scenario:** climate policies are implemented late and are insufficient to palliate physical and transition risks, the consequences are devastating

Part of the results by sectors of the scenarios incorporated by the ECB in its supervisory exercise have provided a reference and contrast for the internal analyses conducted by the Entity.

Additionally, in the first months of 2024, the Entity has also participated in the new exercise the ECB has developed for analysing the resilience of the financial system in the "Fit for 55" framework included in the European Green Deal.

4.3.3. Other impacts to consider at a financial level

During 2023 the Entity has continued working on incorporating climate and environmental risks into the credit provisions. In the absence of historical data that may be incorporated into the credit models in use, conservative overlays have been calculated (provisions additional to the credit parameters) that capture the potential impacts the climate risks may have in the Entity's credit portfolio.

In this respect, four overlays have been calculated to cover the physical and transition risks in the mortgage portfolio (coastal/river flooding; fire/desertification; energy efficiency certificated) and the transition risk in the corporate portfolio. The aim is to identify the potential impact of the credit portfolio to the materialization of this type of risks, impacting the LGD parameter in some cases (less value in the guarantees), and in others of the PD parameter (deterioration in the credit quality of creditors due to the incorrect management of the transition towards a low-carbon economy).

These are scenarios that would foreseeably generate medium-long term deterioration, but adopting a prudent criterion, on 31 December 2023, approximately 30 million euros have been provided to cover the potential contingencies pointed out above.

It follows that during 2023 no relevant impacts have occurred in the credit portfolio of the Entity arising from climate risks.

Finally, and from a financial impact viewpoint of these risks, it should be noted that, in the opinion of the Board of Directors of the Entity, the climate and environmental risks have not had, for the time being, a significant impact on the financial statements corresponding to 2022 and 2023.

4.4. Management

The Risk Management Framework of Kutxabank Group is composed of the following elements:

- Risk Appetite Framework
- Internal Risk Management Governance Framework
- Management Policy Guides

As has already been mentioned in previous sections of this document, and as established by the ECB in its Guide on climate and environmental risks, the Group considers climate and environmental risks as underlying risk factors in several risk categories which make up its corporate risk typology, which must therefore be integrated into the corresponding control frameworks. As is established in the Internal Risk Management Governance Framework of the Entity.

The correspondence between climate and/or environmental risk factors and the main risk categories of the Group are defined in its Corporate Risk Map.

As regards the risk management strategy of the Group, its Risk Appetite Framework includes a mention of climate and environmental risks in its section on General Risk Management Policies as one of the general risk management principles to be taken into account by the Entity. In addition, it includes a statement in which the Board of Directors of Kutxabank expresses its willingness for the presence of the mentioned risk factors to not significantly modify the appetite risk level of the Group, as well as for the Entity to cover the expectations developed by the ECB on climate and environmental risks.

Additionally, Kutxabank Group has progressively included reliable and representative climate and environmental risk indicators into its Risk Appetite Framework. In particular, the following indicators have been included:

Table 17 Indicators on Sustainability included in the Risk Appetite Framework

Name of the indicator
Credit exposure to sectors with a high or medium-high transition risk
Shareholder exposures classified as "transition" and "brown" on computable capital
Level of mortgages with consumption energy efficiency certificate F or G
ESG risk rating from Sustainalytics

Source: Own elaboration

In addition, in the work plan framework in the Roadmap for adapting to the ECB Guide on climate and environmental risks, the areas coordinating the different types of risk are in the process of including these underlying factors into the corresponding control frameworks (credit, market, investees, liquidity risk...), allowing it to reinforce management dynamics and incorporate climate and environmental aspects into the decision-making processes of the Entity.

A summary of the most relevant advances implemented by the different coordinating areas for the most significant risk categories in this field, is provided below.

4.4.1. Credit Risk

Credit Risk Admission Policies include, as one of their fundamental principles for managing this risk, promoting the compliance of the targets for a transition towards a low-emission economy within the framework of ESG principles by monitoring the key indicators adapted to each company and sector of activity.

In this respect, the policies establish physical and transition risks as two underlying risk factors for credit risk and which therefore must be considered in the valuation of the guarantees provided as well as the analysis of the business model due to the impact it may have on the development of the activity in the production chain of customers and suppliers.

Additionally, in line with this fundamental principle, two processes are being deployed in the management of credit risk throughout its life cycle:

- A due diligence process in terms of climate and environmental risks in the credit risk admission phase to corporate firms, collecting information that, as an Entity, is considered fundamental for identifying the level of Sustainability as part of the basic relations with customers (GHG emissions, emission reduction targets, physical risks, etc.).

  From the information collected in the due diligence process, a series of qualitative indicators have been designed that allows the tracking of the evolution and changes in the customer profile motivated by climate and environmental risks. Among these is an Expert Indicator that holistically and qualitatively assesses the degree of awareness, preparation and progress (APP) of the customer to evolve towards a more sustainable business model in terms of climate and environmental risks considering physical as well as transition risks.

  Additionally, worked is being carried out on mitigation measures to adjust the financing strategy to customer characteristics in terms of climate and environmental risk and payment capacity.

  In so doing, Kutxabank will act as a key support in accompanying customers in their transformation towards a sustainable business model and a low-emission economy.

- Obtain indicators on the physical and transition risk of transactions with mortgage guarantee of individuals.

These indicators are used in the admission phase, monitored in the follow-up phase and are also integrated into the recovery management phase:

  - Regarding transition risks, properties with an Energy Efficiency Certificate (EPC) F, G or without an available EPC are identified with a greater transition risk and is included as such in these qualitative indicators
  - On the physical risk side, these are rated according to heir impact level (chronic, acute or both)

The information used in calculating the physical risk indicator is based on the information provided by a supplier or on internal estimation in case of not having information available. In the case of transition risk, data on Energy Efficiency is used which is obtained either from the EPC document provided by the customer or from an estimation.

Additionally, an as another line of work related to the integration into management, the Price Management Framework of the Entity includes certain incremental impacts in the cost of the risk of each transaction associated to those sectors or guarantees that are potentially more exposed to climate and environmental risks, in line with the indicators stated above.

On the other hand, it should also be noted that the Entity continues working on the expansion and sophistication of the internal stress tests regarding the climate and environmental risks of the credit risk portfolio.

4.4.2. Investee Company Risk

In line with the best practices of the Kutxabank Group Sustainability Policy, the investee company area has developed a climate-related and environmental Risk Management Procedure in Investee Companies in order to rigorously analyse and categorise the Investee Company Portfolio in terms of Sustainability and therefore be able to assess the degree of transition need of the counterparties and carry out a follow-up of these during the Group accompaniment as shareholder/partner.

Additionally, in order to establish a metric relative to the monitoring and exposure on climate and environmental Risks associated to the Investee Company Risk, the Group has developed an indicator for Investee Company Risk that allows monitoring the climate and environmental risks of its investment portfolio, including it into the Group's Risk Appetite Framework in 2023 (in line with what is stated above in this document). This inclusion has also been reflected in the Investee Companies Risk Policies Management Manual which was updated in December 2023 incorporating, among other aspects, the integration of climate and environmental risks as risk factors in Investee Company Risk. Additionally, in November 2023, environmental criteria were included into the Valuation procedure of the Equities Portfolio.

Conversely, in the Internal Climate and Environmental Stress Testing Framework several stress tests have been conducted and extended regarding the specific impact in certain counterparties of Kutxabank Group.

4.4.3. Market Risk

The first step to integrate climate risks, within the Market Risk management framework, requires understanding and analysing the interrelation between these two risks. In this regard, Kutxabank Group has conducted this preliminary analysis in order to be able to treat these climate risks as additional factors to market risk factors.

Transition as well as physical, may have a greater or lesser impact on factors associated to Market Risk through different macroeconomic and financial variables. These changes in variables may be abrupt and sudden, if they occur in a short period of time (acute physical risks) or, are milder and maintained over time (transition risks) they may affect each of the market risk factors in different ways (interest rate curves, exchange rates, prices of financial assets, credit spreads, etc.), materialising indirectly on financial instruments subject to market risk and transfer to the valuation of financial instruments gradually and over a longer period of time.

In the case of physical risks, these would impact directly through exposure of financial assets issued by institutions affected by these risks. In these cases, the impact on market risk factors, in most of the cases, would be immediate and would be transferred to the valuations of the financial instruments. Mention could be made of price movements of the financial instruments or of foreign currency, movements in interest rate curves, credit spread movements in response to an increase of the probabilities of the default of companies.

In line with the commitment undertaken, Kutxabank Group, has updated the policy manuals and procedures relating Market Risk integrating the climate risks into the Market Risk management framework. This key pillar sets the guidelines upon which the indicators and controls have been created deploying a robust monitoring framework of the climate risks associated to Market Risk.

By so doing, with the objective of assessing the quality and impact of the portfolio of financial instruments, that are susceptible of generating Market Risk, in environmental and social terms, the following work is recurrently carried out:

- Analysis and categorization in terms of Sustainability of all the management portfolios related to market areas using different assessment approaches including all the financial instruments therein regardless of the nature thereof
- Monitoring the evolution of the management portfolios associated to Market Risk under the segmentation of the corporate Heatmap.
- Monitoring of climate and environmental indicators associated to the Market Risk evolution and exposure of the fixed income financial instruments portfolio
- Within the internal climate and environmental stress testing framework a first assessment has been conducted on climate risks based on the stress exercise of these using the methodology and scenarios related to the 2022 climate stress exercise conducted by the ECB. This internal exercise is evolving towards an internal and own methodology including scenarios generated purposely for Kutxabank Group and progressively expanding the field of analysis

4.4.4. Liquidity Risk

On the other hand, the Entity has advanced considerably in integrating climate and environmental risks into the Liquidity Risk Management Framework.

In the context of the new internal stress testing framework, a first stress exercise has been conducted where the occurrence of the climate and environmental factors considered had an effect on the main liquidity indicators through different materialization pathways. In addition to these sensitivity exercises the Entity is working on incorporating climate and environmental risk factors into the quarterly stress exercises of the Group's liquidity position.

Also regarding the Roadmap agreed with the ECB for implementing climate and environmental risks into the Liquidity Risk Management Framework, a methodology has been designed internally for categorising exposures to Liquidity Risk under climate and environmental criteria, having conducted a first execution at the close of September 2023 and its update with reference date December 2023.

Following the work carried out in the framework of such methodology two new indicators climate risk factors have been established in terms of Liquidity Risk, with their respective controls. In February 2024, the evolution of these two new indicators was submitted to the Risk Control Committee.

Additionally, the Management Policy Manual of Liquidity Risk has been updated, approved by the Board of Directors in its session on 21 December 2023, that includes the novelties as regards the integration of climate and environmental risks into the Liquidity Risk Control Framework.

Finally, work is also being carried out on furthering the categorisation of Liquidity Risk exposures under climate and environmental criteria that will allow a higher level of analysis relative to the Group's funding sources.

4.4.5. Operational Risk

The Internal Governance Framework of the Kutxabank Group Risk Management, defines operational risk as the possibility that the Group may incur losses of economic value caused by faults, errors, insufficiency or inadequacies in its processes, systems or staff, as well as a result of external events. Operational Risk encompasses a wide range of risks, which are grouped into 7 sub-risks (Internal Fraud, External Fraud, Labour relations and work place safety, Customers, business products and practices, Damage to tangible assets, Incidents in the business and system failures and Execution, delivery and management of processes).

In March 2023, the Guide for Operational Risk Management Policies was updated, incorporating Climate and Environmental Risk as one of the cross-cutting risk factors to any type of operational risk.

In January 2023, and as a result of incorporating climate risk factors into the scenarios of possible contingencies included in the Business Continuity Policy of the Entity, two new indicators have been incorporated into the Technological Risk Dashboard in terms of the sub-risk on availability and continuity.

In March 2024, the Operational Risk Control Framework and Corporate Risk Map of Kutxabank Group have been updated, incorporating greenwashing as an underlying factor to the operational sub-risk of Customers, business products and practices.

In addition to the above, the Corporate Risk Map of Kutxabank Group includes the underlying risk factors for each operational risk category and subcategory.

Among said underlying risk factors are the climate-related and environmental risks, for which the materiality assessment and materialization pathways have been updated.

4.4.6. Reputational Risk

The Entity considers that climate and environmental risks may affect the perception of the Entity's reputation among is different stakeholders, if the latter understand the Group's performance as regards the fight against climate change is not appropriate. In addition, a negative stakeholder perception in relation to the support given to customers and sectors responsible for climate change, may also cause a significant detriment in the reputation of the Entity.

In line with the above, this perception of reputation may be influenced by the actions of the Group in terms of ESG, as well as the perception stakeholders have on it.

The consequences of a damaged reputation may be relevant for the business of the Entity, resulting in a loss of customers, withdrawal of funds, decline in rating agency ratings, etc.

In this respect, the Entity already has a first summary indicator for measuring reputational risk, where it has attempted to incorporate issues related to climate and environmental risks. In addition, a first stress test has also been conducted on climate and environmental aspects and their impact on reputational risk.

Taking this into consideration, the Reputational Risk Management Policies Manual has been updated, implementing new attributes and indicators that allow the analysis of the impact of Climate and Environmental Risks in Reputational Risk with more granularity. This has allowed the analysis of the impact of these in stakeholder perception of the measurement of Reputational Risk for 2023. The three ESG attributes incorporated are as follows:

- Social and territorial commitment
- Climate and environmental commitment in own actions
- Climate and environmental commitment through the relations with third parties

Additionally, in the first half of 2024 the Entity has advanced in defining a Procedure for climate-related and environmental Reputational Risk Management, that responds to negative publicity and classifies the main counterparties (investees, corporate risks) with the potential negative impact to the environment that will be monitored, from the reputational risk viewpoint. As a result of such Procedure, several indicators have been incorporated into the Corporate Risk Dashboard, monitored quarterly.

4.4.7. Concentration Risk

In compliance with the different milestones established in the Roadmap defined by the Entity, Kutxabank Group has designed reports and indicators in order to integrate climate and environmental risks with the information on the concentration levels present in the Group's exposure to risk, under the different dimensions analysed in the concentration risk control framework.

In this respect, reports and indicators have been designed on the sectoral, individual and geographical concentration arising from climate and environmental risks, with the aim of measuring and tracking the risk concentration in the sectors and companies most exposed to transition risks and in the geographical areas most exposed to physical risks.

4.5. Monitoring

The edition of the Risk Appetite Framework approved in 2023 includes a series of climate-related and environmental risk indicators.

The Governing Bodies are informed on a quarterly basis, through the Corporate Risk Dashboard, of the most relevant climate-related and environmental risk indicators for the Group, including those that form part of the Risk Appetite Framework.

Additionally, every six months, a Monographic Report is prepared on the management of climate and environmental risks with the main developments in this field from the areas responsible for the different risks. Similarly, each one of these areas includes the most relevant information on this matter in their specific Monographic Reports (categorisation methodologies, indicator tracking, stress-testing exercises...). These reports are submitted to the Governing Bodies in order for them to have the most current information on the management of climate and environmental risks in the different risk control frameworks.

4.6. Reporting

Climate and environmental risks have been included in the reporting circuits of the Group, internally as well as regards the information provided to the market.

Internal reporting on climate and environmental risks

In line with what is already mentioned in section 2.1.3 Internal reporting section in terms of ESG of this document, the governing and executive bodies of the Entity (among ohters, its Board of Directors, as well as its Risk Control Committee, as well as its Steering Committee) receive detailed and regular information on the evolution of the integration process of climate and environmental risks into the Group strategy, as well as into its risk control framework.

External reporting on climate and environmental risks

On the other hand, during the last few years, the Group has been providing information to the market on the integration of climate and environmental risks into its management framework through the following vehicles:

- In its Non-Financial Information Statement (NFIS), the Group includes a few mentions on the integration of climate and environmental risks in its risk management framework. On a separate issue, it dedicates a full chapter to its environmental performance, where it also details the eligibility and alignment level of its assets with the Taxonomy Regulation requirements of the European Union

- The Pillar III disclosure report published on the Kutxabank corporate website includes a specific chapter on the integration of ESG risks into the Group strategy, as well as into its risk management framework. In addition, it also provides different quantitative information on the physical and transition risks of the main portfolios and the adaptation and mitigation measures implemented in this respect
- This Climate Report incorporates detailed information on the climate and environmental issue, regarding the role played by the Group as an active agent in the fight against the deterioration of the climate and environmental conditions of the planet, such as in the way to integrate climate and environmental risks into its management infrastructure, as a potential passive subject of such risks, whether directly or through its counterparties

In addition, it is expected that during the coming years the disclosure information requirements regarding climate and environmental risks will be clarified and consolidated, therefore the Entity will reinforce these dynamics in line with its transparency obligations and principles.

5. Targets and Metrics

5. Targets and Metrics

The most relevant metrics and targets which allow measuring the environmental performance of the Group, according to different perspectives are summarised below:

- Sustainable Business Volume
- Eligibility and alignment ratios
- Energy consumption of the corporate activity
- Scope 1, 2 and 3 emissions of the Entity's activity
- Emissions of the financing and investment portfolio
- Decarbonization targets
- Key indicators on climate and environmental risks
- Economic and environmental impact study of the Group

In line to what has previously already been discussed in this report, over the coming years the Entity will continue working on extending and reinforcing these metrics, indicators and targets on its climate and environmental impact.

5.1. Main indicators and targets on sustainable business

The key milestones reached by the Group in 2022 are listed below in relation to the business classified as sustainable with the support of the internal criteria defined in this document in section 3.3.1 Development and promotion of a sustainable business model:

SUSTAINABLE FINANCING:

- The Entity **has financed close to 2,116 million euros in terms of sustainable economy during 2023,** in order to promote the development of initiatives with a positive environmental and social impact, support the transition towards a low carbon economy and actively contribute to the development of sustainable finance:
  - **721 million euros granted to the financing of green mortgages**[7] (with EPC A or B), which is 22% of the total of the new production in this segment and 6.7% above the figure formalized in the previous year. This type of loan offers special financing conditions for property with the highest energy certifications, specifically energy consumption letter A or B.
  - **25.3 million euros** have been allocated, more than twice as much as last year, to **consumer loans** aimed in particular to the purchase of electric, low-emission and hybrid vehicles[8].
  - The **specialized divisions in companies and institutions** have formalised **transactions for more than 1,369 million** euros in investments included, in accordance with the Entity's in-house criteria, within the green, social and sustainable economy[9]

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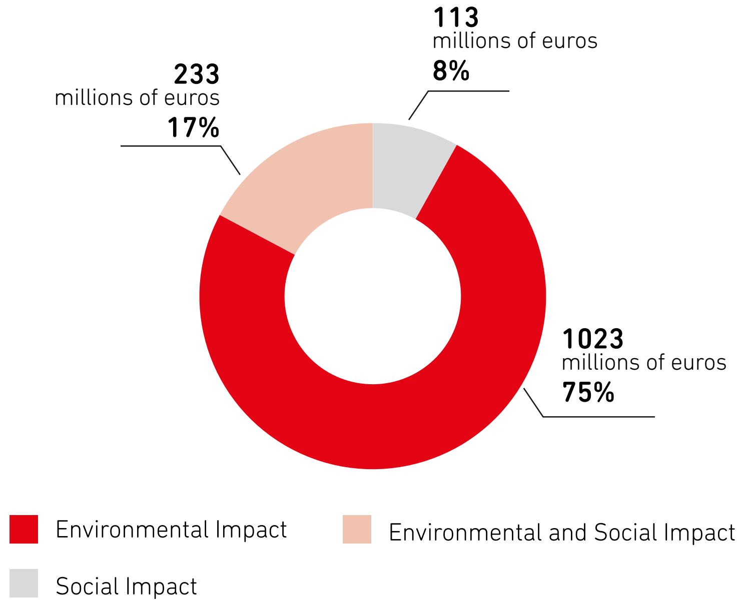
[7] In the calculation of the volume of mortgages and 'green' consumption in 2023, methodological improvements were applied at the end of December to adapt to the demands of supervisors and the requirements set out in the new Internal Financing Framework. Sustainable. As a result, the volumes calculated in accordance with the new criteria have been readjusted, and homogeneous pro forma data for the 2022 financial year have also been estimated.

[8] For further details on this product can be found on the following link: https://portal.kutxabank.es/cs/Satellite/kb/es/particulares/productos/prestamos-consumo/prestamo-coche-verde/pys

[9] Considering as "green" the financing that generates a positive environmental impact, "social" that generated an impact of a social nature, according the internal criteria defined. The 1,369 million euros are distributed into 1,023 million, 113 and 233, respectively.

llustration 34: Breakdown of the sustainable financing amount granted to Companies and Institutions (1,369 million euros)



Source: Own elaboration

- In particular, progress continues in **incorporating ESG clauses into financing contracts, with 777 million euros** granted in the year, from a total of 1,369, of which 677 have an environmental impact and 100 exclusively social. Certain financing conditions are linked to achieving indicators of an environmental or social nature or to the assessment of ESG ratings. To a lesser extent (255 million of the 777 million euros), loans have been formalised with the customer's commitment of allocating the funds to eligible projects pursuant to its own internal Sustainable Financing Framework audited by a third party
- Among the transactions with a known purpose, in the climate and environmental field projects have been favoured, inter alia, that generate and incorporate renewable energies, of activities that support sustainable mobility, or that promote social, protected and energy efficient housing. In particular, and as regards this last sector, more than 512 million have been authorised for promoting housing with the highest energy efficiency (EPC with letter A or B, in line with the internal criteria defined by the Entity) or green buildings

A summary table is shown below containing the marketing of green and sustainable financing products during 2023 and their growth as regards to the data of the previous year:

Illustration 35: Sustainable Financing during 2023

Green Mortgage
€M 721
(22% on new production)

Green Consumption
€M 25.3
(x2.4 regarding to 2022)

Sustainable Fin. Businesses
€M 1,369
(of which €M 113 are exclusively of the social area)

€M 777
KPIs on Sustainable purposes

€M 512
Green buildings

€M 80
Rest of levers
(sustainable transport, agricultural, social economy...)

Total Sustainable Fin.: €M 2,116
(mortgages, consumer and financing to companies)

*Classification of sustainable products based on internal criteria being developed in the Sustainable Fin. Frameworks

Source: Own elaboration

In this respect, it should be noted that the Group has exceeded the green and sustainable financing figure it set itself as a target for 2023.

RESPONSIBLE INVESTMENT AND SAVINGS:

- Regarding asset management under Socially Responsible Investment (SRI) criteria, the Group management companies (Kutxabank Gestión and Fineco) manage around 30,000 million euros by following such principles. Both companies are adhered to the United Nations Principles for Responsible Investment (UNPRI)
- In addition, in 2021 **Kutxabank Gestión was the first asset manager in the system to have 100% of its active management funds catalogued under article 8** of the SFDR, authorised by the CNMV, as it has managed to promote environmental, social and governance characteristics in 100% of these funds. In 2023 the gross volume of such funds amounted to 16,326 million, 73% of the total assets under management. In March 2023 Kutxabank Gestión took a further step in its commitment to favouring sustainable investments at the highest level, by launching two new investment funds that fall under Article 9 of the SFDR: funds that not only promote, but that explicitly pursue sustainability targets with a direct impact on one of several of the SDGs. At the close of the year the balance of these funds amounted to 952 million.
- With effective date on 1 January 2023, the individual pension plans of **Kutxabank Pensiones** (except those with a target return, guaranteed or not), the management mandate for the investments which is entrusted to Kutxabank Gestión, formalised their adaptation to the requirements of article 8 of the SFDR Regulation. The balance deposited here on the 31 December 2023, amounts to 1,661 million

euros. In addition, with effective date on 1 July 2023, the formal adaptation of article 8 was implemented to provision schemes affiliated to Baskepensiones, EPSV of the individual modality (except those with a target return, guaranteed or not), the promotor of which is Kutxabank and the investment manager is Kutxabank Gestión. On 31 December 2023, the volume of ESPVs which entered into the category of article 8 amounted to 5,949 million euros

- For its part, **Fineco** has 4 investment funds and 4 of the 6 sub-funds of its fund by sub-funds catalogued in article 8, as funds that promote ESG characteristics. The gross volume on 30 June 2024 amounts to 2,255 million euros, more than 40% of the total funds managed.

  The considerable growth, of Kutxabank Gestión as well as Fineco in funds of articles 8 and 9 of the SFDR regulation, has increased Kutxabank Group's share in sustainable funds, at the close of 2023, up to 14.5%, particularly 14.2% in the case of art. 8 funds and 25.9% in art. 9 funds. In both cases, these market shares are well above the share in the general market of funds of the Group that reached 7.5% in December 2023

RESPONSIBLE INTERMEDIATION

Regarding Kutxabank Group's participation in capital markets, through its specialized subsidiary Kutxabank Investment Norbolsa, work has continued in promoting sustainability as a cross-cutting strategic axis.

In 2023 Norbolsa acted as the global coordinator of the 7th sustainable issue of the Basque Government carried out in the month of February for an amount of 700 million euros.

Additionally, it has coordinated the green issue carried out by a major business group for an amount of 600 million euros.

It has also continued participating as Joint Lead Manager of programmes for green promissory notes or linked to the sustainability of large business corporations of the country, in 10 programmes in 2023 for a global amount of 4,500 million euros.

In line with this commitment to responsible intermediation, Norbolsa has published a progress report as a company adhered to the SDGs of the UN and maintains all its equities and fixed income portfolios managed with ESG criteria.

Finally, it should be noted that during the first half of 2024 Kutxabank Investment Norbolsa has continued it intensive activity in terms of Sustainability and has been the global coordinator again for the 8th sustainable issue of the Basque Government carried out in the month of February for an amount of 600 million euros.

5.2. Main eligibility and Taxonomy alignment ratios

A summary of the eligible asset and taxonomy aligned ratios of Kutxabank Group on 31 December 2023 is shown below, these have been calculated according to the details of the Tables in Annex I Non-Financial Information Statement of Kutxabank Group:

Illustration 36: Summary table of the main mandatory basis eligibility and alignment ratios

	MANDATORY BASIS									
			BUSINESS VOLUME VERSION				CAPEX VERSION			
Thousands of euros December 2023	Total Gross Assets	%/Total Assets	Total Eligible Assets	% Total Assets Covered by GAR	Total Aligned Assets	% Total Assets Covred by GAR	Total Eligible Assets	%	Total Aligned Assets	% Total Assets Covred by GAR
A) Exposures to eligible economic activities according to taxonomy	37,360,990	57.4	32,947,196	60.2	3,121,547	5.7	33,944,760	62.0	4,166,570	7.6
Exposures to NON-financial companies not subject to publishing non-financial information in accordance with art. 19 bis of the 2013/34/UE Directive	5,836,364	9.0	2,292,086	4.2	1,118,479	2.0	3,306,407	6.0	2,163,502	4.0
Homes: loans guaranteed with residential property assets	29,004,596	44.6	29,004,596	53.0	1,984,178	3.6	29,004,596	53.0	1,984,178	3.6
Rest of eligible exposures according to the taxonomy	2,520,030	3.9	1,650,513	3.0	18,891	0.0	1,633,757	3.0	18,891	0.0
B) Exposures to NON-eligible economic activities according to taxonomy	17,359,232	26.7								
Exposures to financial and non-financial companies not subject to publishing non-financial information in accordance with art. 19 bis of the 2013/34/UE Directive	5,601,652	8.6								
Rest of non-eligible exposures	11,757,580	18.1								
Total assets covered in terms of GAR (A+B)	54,720,222	84.1								
C) Exposures excluded from the GAR numerator and denominator	10,337,024	15.9								
Exposures to Central Administrations and supranational issuers	5,941,707	9.1								
Exposures to Central Banks	4,359,745	6.7								
Exposures to Trading Portfolio	35,571	0.1								
Total Assets (A+B+C)	65,057,246	100.0								

Source: Own elaboration and Non-Financial Information Statement 2023

Of the 33,829 million euros of eligible assets, the Entity has identified a total of 3,121.5 million as aligned with taxonomy, 5.7% over the total of assets covered, highlighting:

- 1,984.2 million euros correspond to the Home mortgage portfolio, 6.8% over the gross volume.
- 3.3 million euros correspond to the item of vehicle purchase.
- 1,118.5 million euros correspond to loans and advances, representative values of debt and capital instruments of non-financed companies subject to disclosure (19.2% over its total gross balance).

  In this non-financial companies that are subject item, only transactions to unknown funds have been included as aligned that, in accordance with the regulation, they must be weighted by the key indicators of the results on the taxonomy reported by the counterparties.

  This year, the Entity, although having made the greatest effort possible, has not seen it possible to complete the revision of transactions with a known purpose to alignment. Current regulations require revising the compliance of the substantial contribution of technical criteria in the prioritized objective, of significant non-detriment to the other objectives, and compliance of the minimum social safeguards. For the time being and bearing in mind the still insufficient level of information the counterparty generally has and the technical complexity present in the regulation, it has not been feasible for the Entity to make a complete verification of the regulatory requirements, consequently, out of caution, it has decided to not included all the known purpose transactions yet as aligned and continue working in the development of analysis data capture methodologies that enable to do so in the next reporting.

  However, the fact that this type of financing is not yet included in the taxonomic analysis, is not be an obstacle for the Entity, in accordance with its Internal Sustainable Financing Framework, to continue increasing the financing to particular investments with a positive environmental impact.

Regarding the version on the CapEx of the counterparties, the alignment ratio of Kutxabank Group rises to 7.6%, starting with an eligibility of 62%.

The difference as regards Turnover is in the volume of aligned assets of the non-financial companies subject to disclosure that are calculated with the support of CapEx indicators published by these companies. Thereby in this item the 2,163.5 million euros of aligned assets are achieved over the total of 4,166.6 million euros. These 2,163.5 million euros are a significant 37% over the gross volume of the heading of subject non-financial companies.

The improvement of the ratios over the CapEx in companies over the Turnover shows that the Entity is directing its financing or investment to corporations the investments of which are in increasing alignment with the taxonomic criteria and that, therefore, are evolving their economic activity with the objective of also increasing the alignment of their turnover and invoicing in the future and thereby meeting their transition plans towards a low-carbon economy.

5.3. Energy consumption of the corporate activity of the Entity

A summary table is shown below with the evolution of the consumption of the Group's resources over the last few years, a major part of them have decreased considerably.

Table 18 Evolution of the consumption of Kutxabank Group's corporate activity

CONSUMPTION OF THE CORPORATE ACTIVITY							
	2018	2019	2020	2021	2022	2023	Variation **
Total paper consumption (kg)	517,085	482,939	397,515	415,479	349,978	358,288	2%
Total paper consumption (kg) per employee	93.74	87.46	74.09	79.82	69.68	70.91	2%
Consumption of de toner (kg)	6,187	6,470	5,409	5,854	5,577	4,124	-26%
Consumption of toner per employee	1.12	1.17	1.01	1.12	1.11	0.82	-26%
Energy consumption (GJ)*	151,523	142,130	128,503	125,107	112,600	99,213	-12%
Energy intensity (GJ/employee)	26.23	24.56	22.65	22.90	21.10	18.40	-13%
Water consumption (m3)	33,872	43,962	38,865	43,810	36,449	29,399	-19%

*Includes electric power, natural gas and diesel
**Variation of year 2023 with 2022

Source: Own elaboration

For further information, the Non-Financial Information Statement of 2022 may be resorted to, verified by an independent third party and published by the Entity during the first half of 2024.

On the other hand, four-yearly audit the Entity has conducted on all its facilities has revealed significant conclusions related to the positive data derived from its Sustainability policy, such as the 12% reduction in energy consumption.

A key factor in such improvement has been the supply of completely green energy. It should be noted that all the facilities and branch offices of Kutxabank Group exclusively consume green certificate electricity.

Kutxabank has also implemented other measures which have favoured efficiency and the reduction of energy consumption in the work centres of the Entity, by applying more efficient conditioning and ventilation measures.

In this respect, alterations in several buildings have been carried out, the conditioning equipment of certain centres have been renovated, and cooling and power supply equipment has been adjusted in the three DCs data centres.

Currently, Kutxabank is engaged in implementing a global automation project in its branch network, once the central buildings have been tested, with a set of technologies which enable the remote, efficient and automated management of the conditioning, lighting systems and energy consumption as a whole.

Additionally, in 2019 Kutxabank also launched a three-year plan to encourage decreasing paper consumption, preventable in many cases thanks to new technologies. The Entity expects to continue promoting measures which positively impact customers and the environment, such as facilitating online document exchanging, remote signing of certain contracts, etc.

5.4. Scope 1, 2 and 3 emissions of the Entity's corporate activity

One of the most significant effects of Kutxabank Group's proactive attitude in protecting the environment is reducing the intensity of greenhouse gases its activity generates, these have decreased by more than 85% since 2018.

In this respect, the activity carried out by Kutxabank Group, does not directly generate a significant volume of pollutant emissions nor environmental noise.

The calculations of greenhouse gas emissions are provided in CO2 equivalent tons, that already include the rest of the greenhouse gases from the combustion of the different sources of energy used in Kutxabank. Such greenhouse gases are primarily CO2, NO2 and CH4.

In this respect, the emissions generated during the last three years have been as follows:

Table 19 Emission intensity from the activity of Kutxabank and Cajasur Banco

EMISSION INTENSITY KUTXABANK AND CAJASUR	2021	2022	2023
Scope 1	775.75	580.50	475.77
Scope 2	0	0	0
Scope 3	412.5*	544.79*	1,273.42
Emissions generated (scope 1, 2 and 3) tnCO2e	**1,188.25**	**1,125.29**	**1,749.19**
No. of People Kutxabank and Cajasur	5,205	5,023	5,053
Emission intensity of greenhouse gases (TnCO2e/people)	**0.22**	**0.22**	**0.35**

* Information re-expressed as regard the data reported in reports of previous years.

Source: Own elaboration

- Scope 1[10]: direct emissions derived from the energy consumption of the Entity, including fuel emissions (gas, diesel), as well as fugitive emissions of refrigerant gases for conditioning facilities such as CFCs (chlorofluorocarbons, such as R22) and HCFCs (hydrochlorofluorocarbons such as R407C, R410A, R134A), which although do not damage the ozone layer such as the previous ones, directly affect the greenhouse effect, since they have a high global warming potential
- Scope 2: indirect emissions from electricity, which are void as from 2020 due to the agreement reached with an energy company for the supply of exclusively renewable energy
- Scope 3[11]: indirect emissions generated from transporting people between the different Kutxabank work centres, as well as other trips taken by the activity of the Entity using different means of transport (car, bus, plane, railway)

The emissions of the financing and investment portfolio are included in category 15. Investments of Scope 3 emissions, however, due to their significance an individualized calculation has been made in section 5.5 Emissions of the financing and investment portfolio in this document.

Further detail on the methodology used for calculating emissions of the corporate activity is included in the Non-Financial Information Statement of the Entity published on its Corporate Website. Additionally, the Corporate Carbon Footprint Measurement Manual was approved in June 2024, which explains in detail the methodology followed for calculating these emissions. The Corporate Carbon Footprint for 2023 has been verified by AENOT with satisfactory conclusions that do not include "Non-conformities".

5.5. Emissions of the financing and investment portfolio

The Entity has calculated the impact in emissions of its financing and investment portfolio, which will be included in Scope 3 (category 15: Investments) of its Corporate Carbon Footprint. Since this impact is the most significant for a banking institution, a differentiated description is considered relevant.

The methodology to follow for calculating and disclosing the emissions of the financing and investment portfolio of the Entity is PCAF, since it is a globally accepted and used international standard for financial institutions, which makes it possible to obtain the calculation of Scope 3 emissions: Category 15 of the Entity, based mainly on real emission information published by the counterparties and, failing this, on the sectoral averages provided by this international standard. Additionally, this methodology considers the particularities of the different portfolios for calculating the emissions, so the most significant data are considered according to the nature of each portfolio.

The method used by the Entity for calculating emissions is still preliminary. It is being reinforced and sophisticated as more experience and information is obtained from the market, which is going to allow extending the scope and enable calculating the emissions of a higher number of portfolios more accurately.

In this respect, on 31 December 2023, the emissions of the Group's most significant portfolios were calculated, which represent more than 60% of the total assets and which amounts to 5.3 million tons of CO_2eq.

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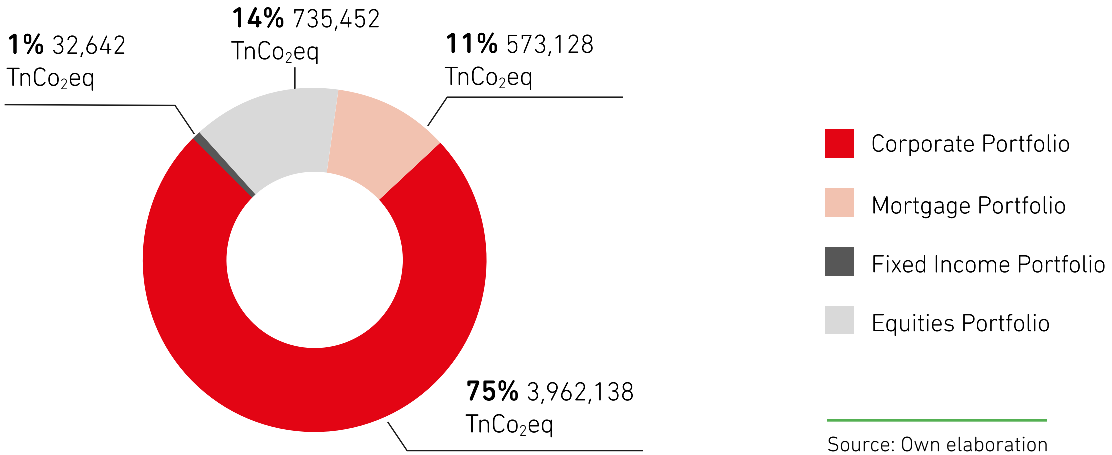
[10] Emission factors according to: GHG Inventory Report Spain, Annex 7; IPCC 2006- Stationary Combustion in Industry; IPCC- AR 4. In the case of emissions derived from refrigerant gases; calculations made from global warming potentials in Annex I of "Annex I of Regulation 517/2014" and IPCC- AR 4- WG 1- Chapter 1.

[11] Calculations made according to emission factors reported by DEFRA: Guidelines to Defra-GHG Conversion Factors for Company Reporting.

Illustration 37: Distribution of the Entity's CO2eq emissions according to portfolios on 31 December 2023



Source: Own elaboration

Based on the methodological recommendations, in the case of the mortgage portfolio, the emissions calculated consider Scopes 1 and 2, whereas in the rest of the portfolios the emissions calculated contain Scopes 1, 2 and 3.

Table 20 Mortgage Portfolio Emissions on 31 December 2023

EPC	Balance in €M	Emissions (C02eq tons Scope 1 and 2)	% of the total emissions of the portfolio	Intensity (KgCO2eq/m^2)
A	2,185	6,472	1%	6.52
B	1,623	7,575	1%	9.14
C	890	6,920	1%	13.28
D	2,457	33,120	6%	22.24
E	17,359	350,224	61%	37.24
F	2,118	64,500	11%	54.94
G	2,888	104,316	18%	62.72
Total	**29.519**	**573.128**	**100%**	**35.21**

The balance in euros corresponds to the guarantees included in cell 160 of Statement F18 and which due to their nature and characteristics are susceptible to having an Energy Efficiency Certificate

Source: Own elaboration

As is reasonable, emissions intensity (kgCO2eq/m^2) in guarantees with less efficient EPC are higher than the emissions of the most efficient EPC. This information is relevant in order to analyse what is the Entity's exposure to climate and environmental transition risks in the mortgage portfolio. In addition, knowing this data is essential for implementing mitigation measures, how to promote the purchase of housing with Energy Performance Certificates A or B through loans or provide financing for reforming or renovating buildings.

The emissions of the corporate financing portfolio, of the private fixed income and equities portfolio are shown together, in the table below:

Table 21 Emissions of the portfolio in corporate financing, equities and private fixed income on 31 December 2023

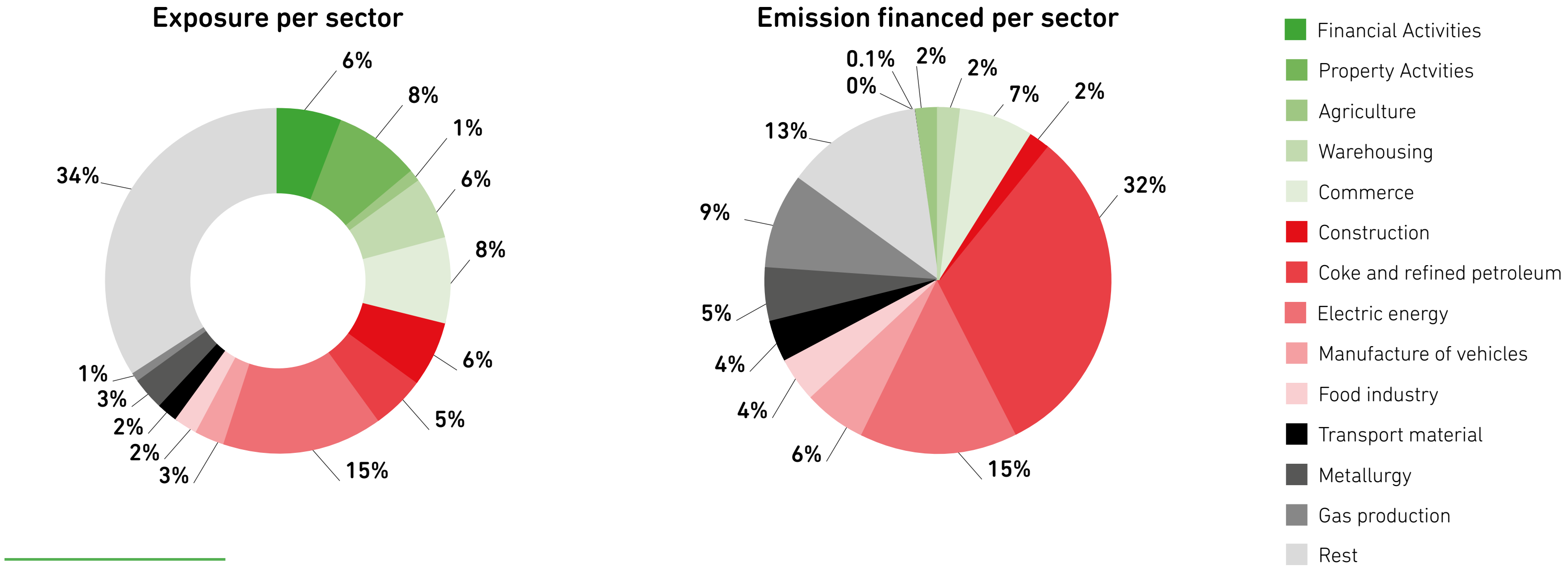
Portfolio	Balance in €M	Scope 1 TnCO2eq	Scope 2 TnCO2eq	Scope 3 TnCO2eq	Total TnCO2eq	Intensity in TnCO2eq/€M
Corporate portfolio	8,752	545,952	135,235	3,280,951	**3,962,138**	**452.73**
Equities	1,674	123,466	15,839	596,147	**735,452**	**439.44**
Private Fixed Income	121	5,613	2,431	24,598	**32,642**	**268.74**
Total	**10,547**	**675,031**	**153,505**	**3,901,696**	**4,730,232**	**448.49**

The balance in euros is obtained from the internal management information for calculating emissions and has a scope practically the same as the one shown in the templates reported on 31 December 2023 in EBA Pillar 3

Source: Own elaboration

The total emissions of these portfolios vary according to the amount of the exposure and the distribution of the exposure between the different activity sectors. In this respect after a joint analysis of the corporate, equities and private fixed income portfolio, there is a noticeable difference of the impact between the different sectors. By way of example, the Coke and refined petroleum sector accounts for only 5% of the portfolio but generates 32% of the total emissions. By contrast, the Real Estate Activities sector has a weight of 8% and accounts for only 0.1% of the total emissions.

Illustration 38: Details of the weight of each sector in the total portfolio and in emissions generated



Source: Own elaboration

The information on the emissions generated by the different portfolios is essential for measuring the risks of the Entity. Additionally, knowing this information is necessary for developing and implementing mitigation measures, such as for example, decarbonization targets and Sector Policy. Regarding the figure reported in 2022 (7.1 TnCO2eq) the emissions of the financed portfolio have reduced by 26%. This reduction is primarily due to two factors:

- The intensity of the mortgage portfolio decreases mainly due to the improvement in the emission factor of the energy mix and a slight improvement of the energy efficiency level of the portfolio
- The intensity of the Corporate and Equities Portfolio, is because some customers more intensive in emissions have significantly reduced their emissions, outlining some of the energy and oil and gas sectors

On the other hand, in this process, the data quality classified in a scale from 1 to 5 is particularly relevant, score 1 being the highest data quality and score 5 the lowest data quality. The average score of the portfolio within the scope of this analysis is 2.87. The average score of the portfolio in 2022 was 2.95, the decrease of the average score is due to an increase in the number of counterparties in portfolios such as the corporate, leading to the slight decrease in the exposure percentage from which the real data is obtained.

Table 22 Average scores achieved in the portfolios in which emissions have been calculated

Portfolio	Average score
Mortgage portfolio	3.00
Corporate portfolio	2.74
Private Fixed Income	4.12
Equities	1.10
Total	**2.87**

Source: Own elaboration

The mortgage portfolio scored 3 for all the guarantees, since in order to achieve a higher data quality it would be necessary to obtain the real measurement of the energy consumption of each property.

In the case of loans to companies, 44% of the portfolio scored 1, 50% scored 4 and 6% scored 5. A score of 1 means that the real data of the emissions published by the counterparties are being used (although, in this case, without being able to confirm that all of these have gone through the corresponding verification process), there are no real data of emissions for score 4 but the financial information on the value of the company and its revenue is available, finally, score 5 defines those counterparties for which there is no complete financial data nor real emission data. This analysis is also applicable for the Private Fixed Income and Equities portfolios.

In this respect, in the Private Fixed Income portfolio 22% of the portfolio scores 1, 1% scores 4 and 77% scores 5. The Equities portfolio scores 1 for 97% of the portfolio, whereas the remaining 3% scores 4 (in line with the concentration level of this portfolio in large counterparties with real information reported).

More information on the estimation methodology of the financing and investment portfolio emissions are provided in Annex B.

Additionally, the Financed Carbon Footprint Measurement Manual has been approved in June 2024, which provides a detailed explanation of the methodology used for calculating these emissions. The Financed Carbon Footprint for 2023 has been verified by AENOR with satisfactory conclusions that do not include "Non-conformities".

Lastly, it should be noted that the information provided in this Climate Report considers a scope greater than the emissions previously reported in the Prudential Relevance Report of the Entity, and therefore, the total figure of emissions does not coincide. In this respect, the impact of the residential mortgage portfolio has been incorporated and progress has been made in obtaining real data of the Equities portfolio.

5.6. Decarbonization targets

In line with what has already been outlined in this document, the Entity has set intermediate decarbonization targets for the sectors with higher emission intensity and with a significant exposure in the Entity's corporate portfolio.

In this context, the Governing Bodies of Kutxabank Group have recently approved a review and extension of the intermediate decarbonization targets for its credit portfolio, private fixed income and equities for the Energy sectors (30% reduction), Oil and Gas (20% reduction), Cement (10% reduction), Steel (10% reduction) and Coal (continue without exposure in the sector), as well as for its residential mortgage portfolio (10% reduction):

Illustration 39: Intermediate sectoral decarbonization targets

SECTOR / PORTFOLIO		% REDUCTION TARGET (2021-2030)
	Energy	**-30%**
	Oil and Gas	**-20%**
	Cement	**-10%**
	Steel	**-10%**
	Coal	**~0%**
	Mortgage Portfolio	**-10%**

Source: Own elaboration

In this respect, the first tracking dynamics have been implemented in 2024 on the degree of progress in achieving the targets defined. The tracking is mainly based on two variables:

1. Evolution of achieving the target. It analyses to what extent progress has been made in achieving the target set in each sector. This tracking is calculated taking the base year for setting the target, which is 2021
2. Analysis of the difference between the target set by the reference pathway of the sector (Global NZE scenario 1.5°C of the IEA) and the target set by the Entity. It allows analysing what the situation of the Entity's portfolio is as regards the reference pathways at a sectoral level. If the situation of the Entity is favourable as regards the sector as a whole, this means that the counterparties that form part of the portfolio are committed and advanced on the road to decarbonization

Illustration 40: Tracking of the intermediate sectoral decarbonization Targets

Sector	Intensity	2021	2022	2023	Evolution (2021-2023)	2030 goal	Dif. Pathway KB vs. Referene scenario 2030
Energy	kgCO2eq/MWh	138	135	125	-9%	-30%	42.9%
Oil and Gas (*)	kgCO2eq/GJ	75	71	73	-3%	-20%	-31.8%
Cement	kgCO2eq/t-cement	794	802	790	-1%	-10%	-41.4%
Steel	kgCO2eq/t-steel	1,022	998	1,010	-1%	-10%	22.7%
Coal (**)	Exposure in euros	0	0	0	Goal met	~0	N/A
Mortgage Portfolio(***)	kgCO2eq/m2	49.3	48.6	35.2	-29%	-10%	-68.0%

* A methodological change has been made in the Oil and Gas unit of intensity. In the target set in 2022 the ktnCO2eq/€M was used because the principal counterparties of the Entity did not publish their unit of intensity in the basic production unit of the sector. The current information published by the Group counterparties allows sophisticating the calculation performed previously

** Companies that obtain more than 20% of their revenues from the exploitation, mining, extraction, distribution or refining of coal (since December 2023)

*** The base year refers to data from June 2022. It is a target set voluntarily by the Entity, since international standards make reference to activity sectors

Source: Own elaboration

The main conclusions reached after conducting the first tracking of the degree of compliance of the targets are as follows:

- **All the sectors and portfolios show reductions in emission intensity,** although the rates of progress differ according to the nature of each activity, the composition of the portfolios and the technological alternatives available
- The progress in the **energy sector portfolio** is significant, due to it being a sector which has highly developed technologies for reducing emissions, noting renewable energies. The trend is for decarbonization in this sector to make rapid progress on the short / medium term
- The **Oil and Gas, Cement** and **Steel** sectors show more discrete reductions in their average emission intensity in the years under the scope of the first tracking. However, these are key sectors for achieving the decarbonization of the economy, that are working on diversifying their activities as well as developing new technologies that will enable them to achieve an efficient decarbonization. Therefore, the Entity will continue to conduct a close monitoring of the degree of progress and compliance of the commitments undertaken by the key counterparties that make up these sectors. In any case, it is relevant to point out that in the case of the Steel sector the behaviour

of counterparties of the Entity's portfolio is significantly better than the average reference pathway

- Regarding the **mortgage portfolio,** on December 2023, the target set by the Entity has already been met. However, this reduction in the average intensities of the mortgage loans is due to the variation in the energy mix used by households, measured through energy emission factor published by the European Environmental Agency (EEA). The Entity has no direct control over this factor, since it represents the percentage of the technological mix consumed in each of the countries reported by the EEA

The Group continues deploying different actions with its main counterparties in order to promote compliance with the decarbonization targets set. Additionally, a procedure has been established to follow in case a deviation or non-compliance of the set targets is detected, together with an inventory of potential mitigation measure to adopt in case it is deemed appropriate.

5.7. Key indicators on climate and environmental risks

The Entity, additionally to the targets on green and sustainable financing, has determined a series of preliminary KPIs and KRIs with regards to climate, deployed at a portfolio level, in order to include climate and environmental risks more specifically into its management model and strategy.

These key indicators on climate and environmental risks have been approved during the Strategic Plan review, and the governing and have been incorporated into the regular monitoring carried out by the governing and executive bodies of the Entity. Additionally, and in line to what has already been described in this document, part of these have been incorporated into the Group Risk Appetite Framework.

Illustration 41: Deployment and monitoring of climate indicators

Portfolios / Indicators	Dec. 2022	Dec. 2023	Mar. 2024		Target
Mortgage					
% Green mortgage acc./production (vol.)*	21.3%	22.2%	26.9%	✓	**> 20%**
% Mortgages with EPC Consumption F or G (porfolio vol.) *	17.5%	16.9%	16.8%	✓	**< 25%**
% Mortgages in areas with Physical Risk (portfolio vol.)**	6.2%	6.0%	5.95%	✓	**< 10%**
Companies					
% Exposure to High or Medium High (portfolio vol.)***	10.72%	10.96%	11.57%	✓	**< 15%**
Developer					
No. of Developments with EPC A and B	>70%	≈ 90%	≈ 90%	✓	**> 70%**
Equities portfolio					
% Investment in "transition and brown" / Computable Own Resources (OR)	2.9%	2.8%	2.8%	✓	**< 10%**

* For calculating the transition risk indicators of mortgages, the EPC letter used is for consumption

** Calculated by means of the summary Indicator of the physical risk based on the probability of occurrence of 4 physical risks (coastal and river flooding, desertification and fire)

*** Calculated by means of the summary Indicator of transition risk for legal individuals based on GHG emissions, water consumption, generation of waste, etc.

Source: Own elaboration

Carbon Footprint Indicators	Current Situation		Monitoring
Corporate Carbon Footprint			
Maintenance of the balance between the economic and environmental impact	Accomplished	✓	Annual
Maintenance of the neutral Carbon Footprint	Accomplished	✓	Annual
Maintenance of consumption of 100% renewable energy	Accomplished	✓	Annual
Reduction of scope 3 emissions arising from the mobility plan to be approved	Ongoing	◌	Annual

Other relevant indicators	Current Situation	Monitoring
Maintaining the Sustainalytics score equal to or less than "Low"	NEGLIGIBLE RISK ✓	Annual
Increase in Sustainability training	Accomplished ✓	Annual
Office climate Renove plan: renovation of 25 offices / year Energy efficiency: works 12 offices / year Fitting remote control systems in offices: 100 offices / year	Accomplished ✓	Annual

Source: Own elaboration

In this respect, the Entity will assess the inclusion of new indicators or the modification thereof, pursuing the target of strengthening the integration of climate and environmental risks into its strategy and business model as it deploys methodologies and improves the information sources at its disposal.

5.8. Economic impact vs the environmental impact of the Group's activity

Since 2019, in collaboration with CEPREDE, the Entity has been developing an economic impact analysis of its activity, as well as an environmental impact assessment of its corporate and credit activities. Consequently, this study enables analysing not only the environmental impact of the Entity's own activity, but the indirect impacts of its goods and services suppliers and the impacts caused by the financing activity it provides to its customers.

This study not only considers the environmental impact of GHG emissions but also incorporates the impact of other environmental factors such as the generation of hazardous and non-hazardous waste or the consumption of water resources, among other aspects (a total of 64 parameters analysed).

In this respect, the Entity considers it to be of crucial importance in order to understand and put into context the environmental impact of its corporate and credit activity to compare it with the positive economic impact it generates. The Entity aspires to maintain a balance between its economic impact and its environmental impact, enabling the promotion of the sustainable growth of the economic network.

Regarding the results of this year for 2023 it is to be noted that the corporate and financing activity of the Entity has a positive contribution in terms of the relationship between the economic vs the environmental impact. In other words, every euro it invests into its activity, and every euro the Entity lends, generates a more positive contribution from the economic (contribution to GDP) and social perspective (contribution to employment and tax collection), than to the environmental (Greenhouse Gas emissions, Other Gases, hazardous waste and consumption of water resources). Nevertheless, and given the high exposure of the Entity to the mortgage business, it does have a higher impact on non-hazardous waste.

Logically, the positive externalities are much greater in its traditional areas of action (the Basque Country and Andalusia), than in the whole territory (Spain), although they are also positive in this case. Therefore, Kutxabank contributes to the generation of wealth to larger extent than its environmental impact, thereby promoting the sustainable development in the environments in which it operates.

Illustration 42: Positive externalities of the Entity's activity on 31 December 2023

Result: economy versus environmental

ECONOMIC IMPACT	CO_2	🗑	🛢	💧
Basque Country 10.9% of GDP	9.5%	19.1%	6.0%	9.9%
Andalusia 2.4% of GDP	2.4%	4.6%	2.2%	2.2%
Spain 2.5% of GDP	2.5%	4.2%	2.2%	2.4%

CO_2 Greenhouse gases

🗑 Non-hazardous waste

🛢 Hazardous waste

💧 Water

Source: Ceprede and own elaboration

The complete study of the economic impact is available on the Corporate Website of the Entity. Annex C of this report provides a summary note about the methodology used by CEPREDE for estimating the GHG emissions of the corporate and financing activity.

6. Concluding reflections on the resilience of the Entity’s business model versus climate change

6. Concluding reflections on the resilience of the Entity's business model versus climate change

The TCFD recommends organisations to describe how resilient their strategy and business model is to climate-related risks and opportunities.

In the case of Kutxabank, and in line with what has been described throughout this report, the business model it develops is aligned with the market and its main stakeholders focus towards Sustainability. In this respect, the Entity has been a pioneer in terms of Sustainability in different fields and has set significant targets regarding the promotion and marketing of sustainable products that encourage the transition towards a decarbonized economy.

As proof of the above, Sustainability has been one of the core axes in preparing the Entity's new 2022-2024 Strategic Plan, which has initiated different lines of action during the last few years (defining the internal taxonomy in order to classify activities, preparing the economic and environmental impact study, compiling climate information about its activity, decarbonization targets, Sector-based Policy, measuring the carbon footprint...).

Furthermore, it will continue being a priority line of action in the new Strategic Plan that is being drawn up.

In addition, the Entity's business model, particularly regarding the short term, has relatively little exposure to potential climate and environmental risks, physical as well as transition, which provides it with more resistance and sustainability to events of this type. In any case, its solid financial situation and solvency enable it to cope with the potential adverse effects of this nature. The ongoing work of all the areas of the organisation to integrate climate and environmental risks into their strategy, as well as, the different action and mitigation plans being undertaken, will strengthen the situation of the Entity even more regarding all the existing risks.

In addition to having a strong and low risk situation to climate and environmental risks, the Entity generates positive externalities, given that its economic and social impact is greater than its environmental impact.

Finally, it should be noted that in line with its Roadmap for adapting to the ECB Guide on climate and environmental risks, the Entity will continue working over the coming years to incorporate and reinforce this type of risks into its business management (credit risk policies, price policies, extending and developing the internal stress testing exercises,

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Annexes

Annex A – Correlation tables of the Climate Report with TCFD recommendations and from Climate Law 7/2021

Table 23 Correlation table of the Climate Report with TCFD recommendations

TCFD Pillar	TCFD Recommendation	Climate Report Chapter
Governance: disclose the governance of the organisation in terms of climate-related risks and opportunities	a) Describe the function of the administration when assessing and managing climate-related risks and opportunities	Section 2.1
	b) Describe the control on climate-related risks and opportunities to the board of directors	Sections 2.1, 2.2 and 2.3
Strategy: disclose the current and potential impact of climate-related risks and opportunities on the businesses, strategy and financial planning of the organisation in cases in which such information is substantial	a) Describe the climate-related risks and opportunities the organisation has identified on the short, medium and long term	Sections 3.1 and 3.2
	b) Describe the impact of climate-related risks and opportunities on the businesses, strategy and financial planning of the organisation	Sections 3.1, 3.2, 3.3 and 4.1
	c) Describe the resilience of the organisation's strategy, taking into account the different climate-related scenarios, such as a scenario with 2ºC or less	Section 3.3.7
Risk management: disclose how the organisation identifies, assesses and manages climate-related risks	a) Describe the processes of the organisation in order to identify and assess climate-related risks	Section 4
	b) Describe the processes of the organisation in order to manage climate-related risks	Section 4.4
	c) Describe how the processes to identify, assess and manage climate-related risks are integrated into the general risk management of the organisation	Section 4.4

TCFD Pillar	TCFD Recommendation	Climate Report Chapter
Metrics and Targets: disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities in cases in which such information is substantial	a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities according to its risk strategy and management process	Sections 4.3 and 5
	b) Disclose Scope 1, Scope 2 and, if applicable, Scope 3 of greenhouse gas (GHG) emissions and related risks	Sections 3.3.5, 3.3.6, 5.4 and 5.5
	c) Describe the targets used by the organisation for managing climate-related risks and opportunities and performance in comparison to the targets	Section 5

Source: TCFD and own elaboration

Table 24 Correlation table of the Climate Report with the recommendations of the draft Royal Decree developing the content of the report in accordance with art. 32 of Law 7/2021

Element of the Climate Law	Recommendation of the Climate Law	Climate Report Chapter
Governance: governance structure of the organisation in relation to identifying, assessing and managing transition risks and physical risks as well as climate-related opportunities	a) Whether the board of directors or specialized committees of the board of directors take into account climate-related aspects when defining the business strategy, actions, implementation of risk management policies and establishing and monitoring the performance targets and indicators of the business. If yes, how are the mandate and responsibilities of the board of directors or the specialized committees specified and structured in order to undertake these tasks and what are the processes and frequency with which the board of directors or specialized committees are informed about climate-related issues	Section 2.1
	b) Whether there are departments or mechanisms, as well as senior staff with responsibilities in terms of identifying, assessing, monitoring and managing climate-related risks and opportunities. If yes, a description of such departments or mechanisms; about how these departments supervise the management of climate-related issues; and how and with what frequency they inform the board of directors or the specialized committees of the board of directors	Sections 2.1, 2.2, 2.3 and 4.4
Processes: identification, assessment, control and management processes of climate-related transition risks and physical risks and how these are integrated into the global business risk analysis	a) Whether the organisation has processes to assess the size and potential field of climate-related risks and, if yes, a description of these processes and resources used	Sections 4.2 and 4.3
	b) Definitions and terminology of risks used, as well as frameworks used for classifying climate-related risks	Sections 3.2 and 4.1
	c) Whether the organisation has processes through which it manages climate-related risks, including the materiality analyses needed for prioritizing these risks and, if yes, a description of these processes and resources used	Sections 4.1, 4.2 and 4.4
	d) How these processes are integrated into the overall risk management system of the organisation	Section 4.4
Risks: transition and physical risks, as well as climate-related opportunities existing at the time the report was drawn up and those that may arise in the future	a) The short, medium and long-term horizons used in the analysis, bearing in mind the service life of the assets and infrastructures of the organisation	Section 4.2
	b) The processes by which the organisation determines what are the risks and opportunities which have a material impact	Section 4.2
	c) Climate-related risks and opportunities which have a material financial impact on the organisation in each one of those horizons	Sections 3.1, 3.2, 4.1 and 4.2

Element of the Climate Law	Recommendation of the Climate Law	Climate Report Chapter
Impacts: real and potential impacts from a quantitative and qualitative perspective, of the transition risks and physical risks, as well as climate-related opportunities of the organisation, in its strategy and financial planning	a) Impacts on its products and services, its investment in capital, the development of research and development activities and its access to financing	Sections 4.1, 4.2 and 4.3
	b) Impacts on the value and supply chain of the organisation, in its adaptation and mitigation activities	Sections 4.1, 4.2 and 4.3
	c) How these real and potential impacts affect the financial performance of the organisation, including the impact on revenues and expenses, as well as the financial situation of the organisation, including assets and liabilities	Sections 4.1, 4.2 and 4.3
	d) How these impacts affect the financial planning of the organisation, as well as the time horizons and, where applicable, the scenarios used	Section 4.3
	e) How the organisation prioritizes climate-related risks and opportunities	Sections 3.1, 3.2, 4.1 and 4.2
Strategy: strategic approach for managing transition risks and physical risks, as well as climate-related opportunities	a) The decisions and commitments of the organisation, as well as changes in its strategy and business model in order to adapt and mitigate the negative impacts of climate-related risks	Section 3.3
	b) The decisions and commitments of the organisation, as well as changes in its strategy and business model in order to promote positive impacts arising from climate-related opportunities	Section 3.3
Targets and Metrics: the metrics, scenarios and targets used in order to assess and manage transition risks and physical risks, as well as relevant climate-related opportunities and, in case these have been calculated, scope 1, 2 and 3 of its carbon Footprint and how to address reducing it	a) The metrics used to measure and manage climate-related risks, providing historical information and future projections whenever possible. For physical risks, identification of the metrics used for identifying the hazards, and for exposure, the sensitivity and adaptative capacity of its assets and activities	Sections 4.3 and 5
	b) Identifying the methodology followed, and, if necessary, a description of such methodology to calculate or estimate such metrics	Sections 4.3 and 5
	c) In case it has been calculated, scope 1, 2 and 3 of greenhouse gas emissions, providing whenever historical information is possible. This information will include the area of the organisation for which the emissions have been calculated, identifying the parts excluded, and will cover the total data of emissions, in absolute terms and relative terms, with reference to an activity index of the organisation	Sections 5.4 and 5.5
	d) The targets addressed for the metrics mentioned in the previous sections, defining the time period encompassing, the year used as a reference as well as, if deemed pertinent, the performance indicators which may be used to assess progress in meeting these targets. Similarly, where necessary, organisations must provide a description of the methodologies used to calculate these targets	Section 5
	e) Whether there is variable remuneration for workers, managers, directors, and executive members, including the members of the Board of Directors, linked to achieving climate targets, and if yes, its description	Section 2.5

Source: Draft of Royal Decree on the development of the content of the report pursuant to art.32 of Law 7/2021 and own elaboration

Annex B – Methodology for calculating emissions of the Entity's financing and investment portfolio

As described in the Measurement Manual of the Financed Carbon Footprint approved in June 2024, the Entity uses the template from a sectoral project prepared by an expert supplier in ESG solutions. The template has been prepared following PCAF[12] methodology, and makes it possible to calculate the emissions of different portfolios adapting to the availability of data.

The template, once completed by the Entity with existing information, calculates the data on emissions with the best possible quality, so that in the case the counterparties publish real data on emissions these are used; failing this, the emissions are calculated by means of sectoral averages provided by PCAF.

In order to determine the percentage of emissions of the counterparties which correspond to the Entity the outstanding capital data are used on the total financing structure of the customer or the transaction. By so doing, the Entity attributes the emissions it finances of each one of the counterparties.

Within the template there are different ways to calculate emissions for different portfolios and products, since according to the nature of these the calculation methodology varies.

Additionally, the sectoral project template helps calculate the decarbonization targets following the Sectoral Decarbonization Approach (hereinafter, SDA) of the SBTi and using the NZE 2050 reference pathways of the IEA.

Details of the methodology used for calculating emissions

In order to calculate the emissions attributable to the Entity, it is necessary to define the overall proportion of total GHG annual emissions from the borrower or investee company to which the loans or investments are assigned. This concept is called Attribution Factor and is calculated as a division between:

- Numerator: proportion of outstanding capital from loans or investments of the financial institution. According to the type of asset, it is calculated by means of principal outstanding (e.g., mortgages) or by means of the relative share of the institution (e.g., shares in unlisted companies)
- Denominator: value of the company expressed as a sum of own funds plus the debt (or total liability and net worth), the value of an asset in its origination (loans for mortgages and for motor vehicles) or the GDP and debt of a country or an autonomous community

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[12] All the information on the emissions of the financing and investment portfolio calculated by means of the PCAF methodology has been performed following the contract terms and conditions of the adhesion of the Entity to such body

Illustration 43: Attribution factor formula for the different portfolios

$$\text{Attribution Factor} = \frac{(\text{Outstanding Capital}) \text{ or } (\frac{\#\text{ Shares held}}{\#\text{Total shares}} \times \text{Equity Total})}{(\text{Own Funds} + \text{Debt}) \text{ or } (\text{Value of assets at origination}) \text{ or } (\text{GDP} + \text{Debt})}$$

Source: Sectoral project

Once the percentage of GHG emissions attributable to the financial institution and the information on counterparties is defined, the calculation of the emissions uses the corresponding emission factors from external databases. The databases correspond to PCAF and to major national and international statistics agencies (INE, SOTASA, Eurostat, European Environmental Agency, inter alia).

Illustration 44: Final formula to calculate financed emissions

$$\text{Emissions Financed} = \sum \text{Attribution Factor} \times \text{Required Data} \times \text{Emission Factor}$$

Source: Sectoral project

The credit portfolio registers the different types of credits and the financial leasing transactions granted by financial institutions under the different authorised rates. This methodology defines each asset in detail based on its nature. The nature of each sub-asset conditions the calculation methodology to use, distinguishing five alternatives according to whether they are: corporate loans, project finance, mortgage loans, loans for motor vehicles or loans to public administrations. In this document, the emissions published are generated by the mortgage portfolio, corporate loans (which refers to loans to companies), equity portfolio and fixed income portfolio with corporations.

Additionally, according to the information collected data quality varies from Score 1 to Score 5, Score 1 being the highest information quality and Score 5 the lowest information quality.

Described below, is the methodology used for calculating the financing or investment in companies (similar for both cases since only the numerator of the attribution factor is changed) and the methodology used for mortgage loans.

Corporate loans:

Corporate loans are defined as loans for general corporate purposes (unknown use according to the definition in the

Greenhouse Gas Protocol, hereinafter, GHG Protocol) to listed companies or not, non-profit organisations and any structure which is on the balance sheet of the financial institution.

The attribution factor for corporate loans is calculated as a division between the outstanding capital of the investment (financing minus redemptions) and the value of the financed company.

Illustration 45: Attribution Factor Formula for corporate loans

$$\text{Attribution Factor} = \frac{\text{Outstanding Capital}_c}{(\text{Own Funds} + \text{Debt})_c}$$

(c = corporate loans)

Source: Sectoral project

The calculation methodology uses databases from PCAF (PCAF web-based emission factor database), with the corresponding sector level estimations and emission factors for calculating the emissions.

The data collected by the financial institution, together with the information provided by the external databases, allows the emissions of corporate loans to be calculated.

Table 25 Details of the formulas for calculating the emissions of the corporate loans portfolio with different data qualities

	Information required	Calculation formulas	Score
Option A	Not applicable	$\sum \text{Outstanding capital}_c \times \frac{\text{GHG}_s\ \text{Emissions}}{\text{Actives}_s}$	Score 5
	Company revenue	$\sum \text{Attribution Factor}_c \times \text{Income}_c \times \frac{\text{GHG}_s\ \text{Emissions}}{\text{Income}_s}$	Score 4
Option B	Not applicable	$\sum \text{Attribution Factor}_c \times \text{Non-verified Emissions}_c$	Score 2
	Verified reported emissions	$\sum \text{Attribution Factor}_c \times \text{Verified Emissions}_c$	Score 1

(c= corporate loans) | (s= estimate based on the company's sector of activity)

Source: Sectoral project

The methodology does not consider the calculation of the emissions for corporate loans by means of productive factors (Score 3). The primary reason is the difficulty of institutions in collecting data, considering it a better practice to include the emissions reported by the financed companies into the calculation.

The emissions of the Private Fixed Income and Equities portfolios, as these are similar counterparties due to being private companies, they follow the same calculation methodology as the portfolio of corporate loans.

Mortgage loans:

Mortgage loans are defined as loans for buying or refinancing real estate assets of a commercial or residential nature (known use as defined in the GHG Protocol) included on the balance sheet of the financial institution.

The calculation methodology for residential and commercial assets is identical.

The attribution factor for mortgage loans is defined as the value of the debt the borrower owes the lender (financed capital minus any redemption) between the value of the asset when the loan is originated. When the loan changes (e.g., renovation of the building) and there is a revaluation of the asset, the value of the property at origin must be updated.

Illustration 46: Attribution Factor Formula for guaranteed mortgage guarantees

$$\text{Attribution Factor} = \frac{\text{Outstanding Capital}_b}{\text{Asset value at origination}_b}$$

(b = real estate assets)

Source: Sectoral project

The calculation methodology uses information contained in the database of an expert supplier using estimations on the consumptions of the properties in the portfolio. Additionally, the European Environmental Agency (EEA) data has been used for the energy emission factor.

The data collected by the financial institution and estimations according to portfolio assets, allow calculating the emissions for mortgage loans. Below, these are shown in detail together with the reference formulas for calculating these:

Table 26 Details of the formulas for calculating the mortgage portfolio emissions with different data qualities

	Required information	Calculation formulas	Score
Option A	Number of buildings	$\sum Attribution\ Factor_b \text{ x } N^{o}.\ of\ buildings_b \text{ x } Emission\ factor_b$	Score 5
Option B	Type, surface and location	$\sum Attribution\ Factor_b \text{ x } Surface_b \text{ x } Emission\ factor_b$	Score 4
Option C	Type, surface, location and EPC	$\sum Attribution\ Factor_b \text{ x } Surface_b \text{ x } Emission\ factor_{EPC}$ *(See example described in Case Study 9)* *or* $\sum Attribution\ Factor_b \text{ x } Estimated\ Energy\ Consumption_{EPC} \text{ x } Emission\ factor_e$	Score 3

(b = real estate assets) (EPC = Energy Performance Certificates) (e = energy)

Source: Sectoral project

The emission factor varies according to the type of asset, its location, surface and energy efficiency certificate.

Annex C – Estimation methodology of emissions financed by the Entity from the environmental impact study (CEPREDE)

In line with the work undertaken by the Entity in collaboration with CEPREDE, for estimating the economic effects generated by the activity of Kutxabank, a classical approach has been used based on the activity multipliers implicit in the Input-Output Tables and which include the total activity level which ends up being generated in an economic system from an initial impact (in this case, the activity carried out by Kutxabank).

In the case of calculating the Carbon Footprint of the Entity's financing activity, the commonly accepted protocols (GHG Protocol) identify three scope levels which must be reported and which contain, direct (Scope 1) as well as indirect emissions (Scope 2 and 3):

- Scope 1: includes direct GHG emissions
- Scope 2: includes indirect GHG emissions associated to the generation of electricity acquired and consumed by the organisation or process
- Scope 3: finally, the third level includes other indirect emissions generated throughout the productive chain, from suppliers of goods and services, as well as from customers, and even from workers from the company in their work trips. Specifically, in the case of financial institutions, scope three must incorporate the emissions linked to the credit activity undertaken

Taking these general standards as a reference for calculating the Carbon Footprint, CEPREDE has extended the application, not only to all the greenhouse gases, but also to other relevant environmental factors such as the total of atmospheric emissions, the generation of hazardous and non-hazardous waste or water consumption.

In all cases, the activity data considered is the total value of the production linked to the Kutxabank Group activity, differentiating direct, as well as indirect and induced values, from the activity as well as from the intermediation effect; so that, for the case of GHGs, Scope 1 would correspond to direct emissions, Scope 2 would be indirect emissions in the electric energy production and distribution sectors, whereas Scope 3 emissions would be included, on the one hand to indirect and induced production effects from corporate activity, and on the other from the total effects of credit intermediation.

The factors (emission, generation and consumption) have been obtained from the general production data according to activity branches and the environmental accounts prepared by INE.

Emission Factor $_{g,s}$= Emisiones $_{g,s}$ / Production s (g = 11 Types of emissions)

Generation Factor $_{r,s}$= Waste $_{r,s}$ / Production $_{s}$ (r = 51 Types of waste)

Water Consumption Factor $_{s}$= Water Consumption $_{s}$ / Production $_{s}$

Finally, it is relevant to point out that the scope of factors included in the environmental impact conducted by CEPREDE is much broader than the one which exclusively considers the corporate activity of the Entity and which is included in the Non-Financial Information Statement of the Group. These slight methodological differences respond to the comparability exercise with the economic impact study, where both reports have to have a similar scope of factors.

Annex D – Glossary of terms

- AandC: Audit and Compliance Committee
- BREEAM: Building Research Establishment Environmental Assessment Methodology
- CEPREDE: Economic Forecasting Centre
- CFC: Chlorofluorocarbons
- C&E: climate and environmental
- CNMV: National Securities Market Commission
- CO2: Carbon dioxide
- COP 25: United Nations Climate Change Conference
- CSR: Corporate Social Responsibility
- DC: Data Centres
- DJSI: Dow Jones Sustainability Index
- EBA: European Banking Authority
- ECB: European Central Bank
- EMAS: Eco-Management and Audit Scheme
- EPC: Energy Efficiency Certificate
- ESG: ESG by its acronym in English, Environmental, Social and Good Governance Criteria
- ESRS: European Sustainability Reporting Standards
- EU: European Union
- FC: Financial Company
- FS: Financial Statements
- FSB: Financial Stability Board
- G20: International Forum of governors and presidents of central banks
- GAR: Green Asset Ratio
- GAV: Gross Added Value
- GBC: Green Bond Committee
- GDP: Gross Domestic Product
- GHG: Greenhouse Gases
- GHG Protocol: Greenhouse Gas Protocol
- HCFC: Hydrochlorofluorocarbons
- HR: Human Resources
- IAF: Internal Audit Function
- ICAAP: Internal Capital Adequacy Assessment Process
- IDAE: Institute for the Diversification and Saving of Energy
- IEA: International Energy Agency
- ILAAP: Internal Liquidity Adequacy Assessment Process
- IHOBE: Public Society of Environmental Management of the Basque Government
- INE: National Statistics Institute
- IPO: Initial Public Offering
- ISO: International Organization for Standardization
- KPI: Key Performance Indicators

- KRI: Key Risk Indicator
- LEED: Leadership in Energy & Environmental Design
- LNG: Liquefied Natural Gas
- LT: long term, period over 10 years
- MiFID: Markets in Financial Instruments Directive, European directive for regulating investment products and services markets
- M: Millions of euros
- MT: Medium Term, period between 3 and 10 years
- MWh: Megawatt hour
- NFIS: Non-Financial Information Statement
- NFRD: Non-Financial Reporting Directive
- NGFS: Network for Greening the Financial System
- Net Zero Emissions (NZE): GHG net zero emissions target
- NFC: Non-Financial Company
- OSI: on-site inspection (in situ inspection)
- PACTA: Paris Agreement Capital Transition Assessment
- PCAF: Partnership for Carbon Accounting Financials
- PEFC: Programme for the Endorsement of Forest Certification
- PIA: Principal Adverse Impacts
- PM: Particulate Matter
- PRR: Prudential Relevance Report
- RD: Royal Decree
- R+D+i: Research, Development and innovation
- SBTi: Science Based Targets
- SFDR: Sustainable Finance Disclosure Regulation
- SDG: Sustainable Development Goals
- SREP: Supervisory Review and Evaluation Process
- SRI: Socially Responsible Investment
- TCFD: Task Force on Climate-related Financial Disclosures
- Tn: Ton
- TR: Taxonomy Regulation
- TSO: Technical Sustainability Office
- UN: United Nations Organization
- UNESCO: United Nations Educational, Scientific and Cultural Organization
- UNPRI: Principles for Responsible Investment

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