



Climate report

July 2023

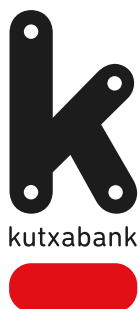
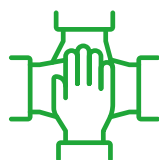


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1. Introduction to the report

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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 in 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.

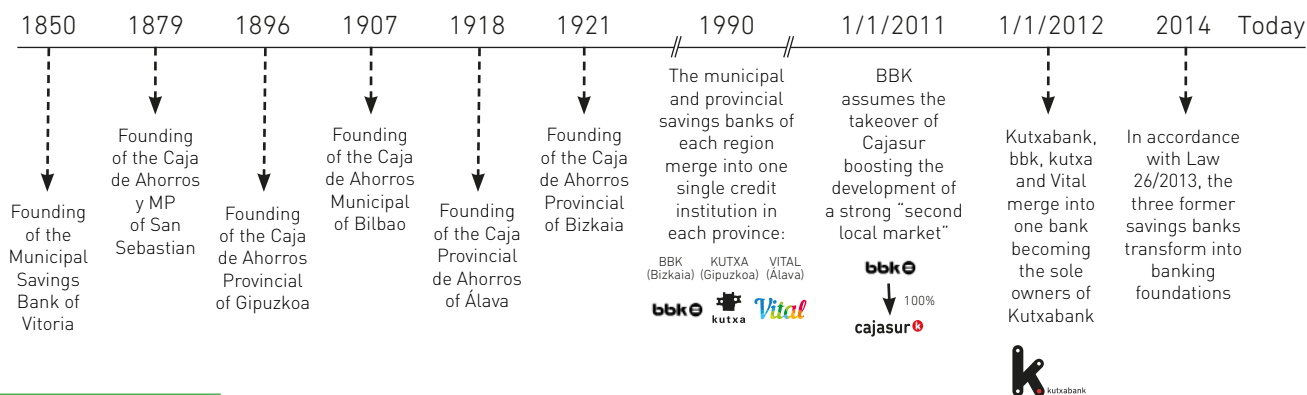


1.2. Kutxabank Group's commitment to Sustainability

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.

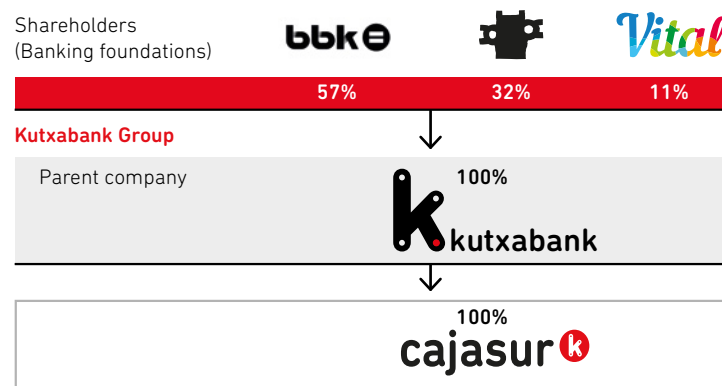
Illustration 1: Timeline of the Group, over 170 years of history



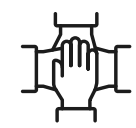
Source: Own elaboration

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



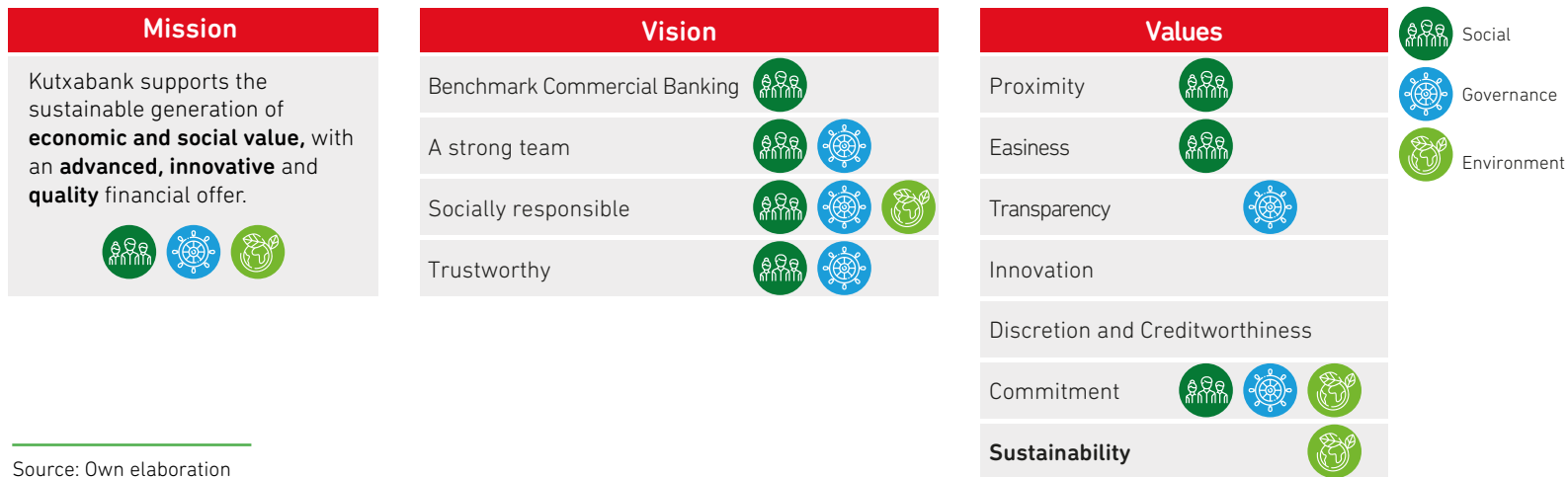
Source: Own elaboration



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



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)



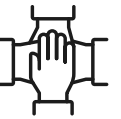
Source: United Nations (UN)



- First financial institution to issue a social bond in 2015
- First financial institution to subscribe a long-term agreement with an electric utility to supply 100% renewable energy in 2018
- In 2021 Kutxabank Gestión was the first asset manager in the Spanish 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
- Creating specialised areas within the Entity to promote the sustainable banking business model and managing climate and environmental risks, such as ESG Management or the Technical Climate Office. At the end of June 2023, a new Sustainability Area has been created reporting directly to the Presidency which combines the previous functions
- 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 issuance for EUR 500 million in 2021
- 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

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:

- Obtaining the ESG Risk Rating from Sustainalytics for the first time, in which the Entity has obtained the rating of Negligible Risk
- Updating the 2022-2024 Strategic Plan which incorporates climate-related and environmental risk KPIs and KRIs
- The sustainable financing objectives set for 2022 are substantially exceeded
- Formalising the Sustainable Financing Framework and launching by Kutxabank Gestión two new sustainable investment funds classified under Article 9 authorised by the CNMV
- Publishing the Intermediate Decarbonization Targets of the financing portfolio for priority sectors and portfolios
- Approving the Policy according to Sectors which seeks to limit the financing/investment in potentially damaging activities at an environmental or social level
- Preliminary carbon footprint calculation of the financing and investment portfolio using the PCAF (Partnership for Carbon Accounting Financials) methodology
- Formalising the Internal Climate and Environmental Stress Testing Framework and extending the sensitivity and climate and environmental stress test analyses to incorporate into the ICAAP
- Significant progress of the projects for adapting the Roadmap to the expectations of the Guide on Climate-Related and Environmental Risks
- Second transaction under the Green Bond Framework and drafting of the first Report on the Allocation of funds and Environmental Impact of Green Bonds
- Promoting and participating in sectoral projects for improving and reinforcing data collection on climate and



environmental matters

- Strengthening the information infrastructure to progress in meeting the regulatory reporting obligations in climate and environmental matters
- 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

1.3. Regulatory context

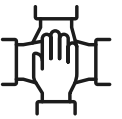
In recent years legislation on Sustainability is undergoing great regulatory activity, at a global, European as well as national level, in order to define the regulatory framework to encourage the transformation towards a sustainable economy and in which credit institutions must play a key role in channelling 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 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 company of the risks associated to climate change generated by the exposure of the latter from its activity. The content of this report will be developed through a Royal Decree, which is currently under process
- 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 as regards the manner and the 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**, as regards 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.

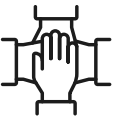
In addition, it publishes the second edition of this Climate Report in accordance with the new standards and requirements published on this matter, particularly those of the TCFD and those contained in the Draft RD currently in process to regulate and develop the content of the annual report provided 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 and the Draft RD developing it.

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 disclosures carried out on climate issues, 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.



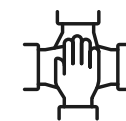


Illustration 5: Main TCFD pillars for action

Core elements of climate-related financial reporting recommendations

<p>Governance</p> <p>Governance of the organisation on climate-related risks and opportunities</p>	<p>Strategy</p> <p>The real and potential climate-related risks and opportunities for businesses, the strategy and financial planning of the organisation</p>
<p>Risk management</p> <p>The processes used by the organisation for identifying, assessing and managing climate-related risks</p>	<p>Metrics and targets</p> <p>The metrics and targets used to assess and manage relevant climate-related risks and opportunities</p>

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 as regards its strategy and management of climate-related and environmental opportunities and risks. In this regard, the chapters in this document are structured based on the four pillars for action identified by the TCFD.

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 provides the obligation for institutions subjected to drawing up an annual report in which a financial impact assessment is conducted on society of the risks associated to climate change generated by the exposure of this activity to the latter. It incorporates the minimum content for this report and indicates that it will be developed through a Royal Decree within two years.

The RD is currently being processed and pending final approval, albeit the recent call for elections on 23 July 2023 has paralysed this process until the new government formed can continue with the process. As a result, there is a high degree of uncertainty on the final date it enters into force and on its ultimate content.

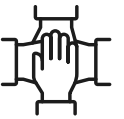
However, the Entity has decided, voluntarily, to respond in this report to what is requested in Art. 32 of Law 7/2021 and what has been developed so far by the current version of the Draft RD mentioned, bearing in mind that much of the planned information to be disclosed meets the disclosure requirements in climate-related material envisaged by the European Central Bank and other supervisory bodies. Likewise, it is consistent with other reporting standards such as the TFCF.

By so doing, the aim is to comply with the requirement of the Draft RD in its Single Transitory Provision as regards the obligation to disclose the report corresponding to 2022 by the subject companies: *“The companies and entities required by this royal decree pursuant to Article 2 may publish the information corresponding to 2022 referred to in Article 4 in a separate document, without this implying the need to approve an amendment of the annual accounts”.*

Illustration 6: Summary of the new Draft Royal Decree requirements for developing the content of the report provided in Art. 32 of Law 7/2021



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





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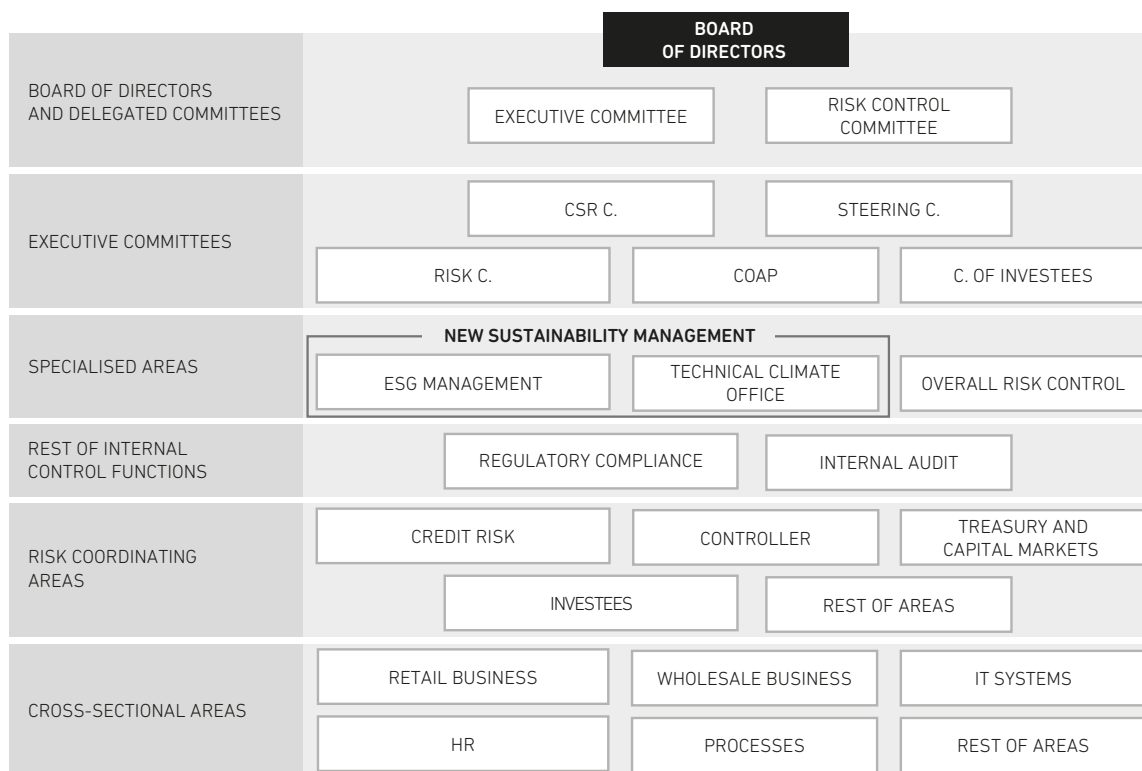
2. Governance and organisational structure model

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 is a brief overview of the main bodies and departments involved in this field:

Illustration 7: Governance and organisational structure model for defining the strategy and management of climate-related and environmental opportunities and risks



Source: Own elaboration



It is important to note the transversality 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.

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, form part of the Entity's ESG governance framework, which is developed and structured in line with the size and strategic profile thereof.

Illustration 8: ESG internal Governance framework in Kutxabank Group

- | | | |
|---|---|--|
| <ul style="list-style-type: none"> • Sustainability Policy • 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 • Code of Conduct | <ul style="list-style-type: none"> • Remuneration Policy Corporate Framework of Kutxabank Group • Linguistic Policy • 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 | <ul style="list-style-type: none"> • General Conflicts of Interest Policy • Policy of outsourcing services and functions • Governance and product supervision policy • Internal rules of conduct for 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 portfolio.

The 2022-2024 Strategic Plan, in the design and approval process, with the active participation of the Board of Directors of the Entity, 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 more specifically in its strategy and management model.

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.

Additionally, several frameworks and internal governance policies have also been updated, which include issues on ESG matters or climate and environmental risks. The renewal of the Corporate Framework of the Remuneration Policy of Kutxabank Group in February 2022, the Policy on the representation objective for the less represented gender in March 2022 or the Internal Governance Framework of Risk Management in December 2022.

2.1.1. Governing Bodies

As regards 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 layout and in force in Kutxabank for organising functions and responsibilities in terms of risk.

- Board of Directors: has 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 Board of Directors' Regulations 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

- Executive Committee: is responsible for carrying out or performing all those powers delegated to it by the Board of Directors (resolutions adopted by the executive committee shall be reported to the board of directors). By way of example, in 2022 it approved the Policy by Sectors and the Intermediate Decarbonization Targets of the financing portfolio of the Entity
- 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, it has approved new versions of the suitability assessment Policy and the evaluation Systems derived from it, of the Policy for selecting candidates for their appointment as members of the Board of Directors and the welcome and training Programme for the members of the Board of Directors. Furthermore, the Member Training Plan of 2022 and 2023, has incorporated knowledge, skills and experiences in terms of climate-related and environmental risks.

2.1.2. Executive bodies

As regards the executive bodies, the following are to be pointed out:

- Management Committee: which, inter alia, 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 and the intermediate Decarbonization Targets of the financing portfolio of the Entity. This Committee received regular information of the degree of progress of the Roadmap for adapting to the

ECB Guide on Climate-Related and Environmental Risks

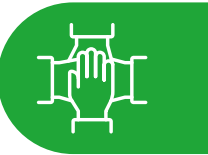
- Social Responsibility Committee: its main objective is to control and supervise the Corporate Social Responsibility of the Group, among its functions is validating the CSR Policy and Code and the Environmental Policy

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.

2.1.3. Internal reporting in terms of ESG

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

- Every six months, they receive information on the degree of progress of the Roadmap for adapting to the ECB Guide on Climate-Related and Environmental Risks
- They have the opportunity to learn about the contents of this Climate Report in detail, prior to its publication
- They receive timely detailed information on all the extraordinary supervisory actions implemented in the management of climate and environmental risks in which Kutxabank has participated (EBA stress test, thematic revision, on-site inspection...)
- The Risk Control Committee is promptly informed about regulatory and/or supervisory changes as regards climate and environmental risks
- 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 a timely basis, they receive information on the internal climate and environmental stress testing results

As the Entity strengthens the climate and environmental risk management practices it will also reinforce the reporting frequency and dynamics to its different governing and executive bodies.

2.2. Specialised areas

Due to the growing importance sustainability and climate and environmental aspects are having on corporate strategy, vision of the business model and on day-to-day decisions, the Entity has equipped itself over the last few years with specialised units which seek to respond to the opportunities and challenges in this field. In addition, what stands out is a growing provision of resources and means in these areas in order to address the different challenges identified in each field. The most relevant are outlined as follows:

New Sustainability Department:

At the end of June 2023, the Entity has set up a new Sustainability Department at a corporate level reporting directly to the President. This new area brings together all the main functions undertaken by the two specialist units of the Entity in this field:

- ESG Department

The Entity has a Corporate Social Responsibility (CSR) Department since the bank was constituted in 2012,

successor of the Social Project departments of the original Savings Banks. It is a firm commitment to sustainability, the Entity created the ESG Department in 2020, reinforcing the CSR Department

The ESG Department works on the development, promotion and coordination in the Entity of initiatives linked to the sustainability strategy and goals, as well as to the integral management of the aspects related to sustainable finance. This department reports to the Corporate Social Responsibility Committee

- Technical Climate Office

In 2021, the Entity created the Technical Climate Office, unit previously reporting to Financial Management, which in collaboration with the rest of the Group's units, cross-sectionally promotes the projects launched with regards to environmental issues and focusses, in particular, in the part relating to the development of taxonomy, the measuring of the exposure and impact of climate and environmental risks, climate stress testing, the compliance of regulatory reporting obligations and the supervisory and disclosure requirements within this field

Overall Risk Control

A 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 climate and environmental risks within the Entity, and its integration with the control frameworks of the different types of already existing risks. In this regard, it has coordinated the design, formalisation and implementation of a 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).



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:

- 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:
 - Supervision as second line of defense of the compliance of the EBA guides on climate and environmental risks
 - Supervision of all the sustainability obligations incorporated in 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: the primary purpose of the Internal Audit Function of the Group (hereinafter IAF) is to provide independent and objective insurance 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 (hereinafter AandCC), 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 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. Transversality throughout the entire organisation

As already stated above in this report, sustainability and the management of climate 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 and environmental risks, based



on the competencies of their areas of action, highlighting as an example in this matter the CSR Committee.

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.

Furthermore, transversality is materialized in the fact that all areas and departments of the Entity including in its vision and undertake in their work the principles of sustainable banking which form part of the overall strategic vision of the Group, as embodied in the different action plans of each one of the Work Groups which make up the 2022-2024 Strategic Plan.

In this context, sustainability is also present in the Annual Training Plans intended for the staff, including topics related to the maintenance of competencies on this matter. The human capital in Kutxabank and Cajasur Banco, including the members of their Boards of Directors received more than 22,000 hours of training on sustainability and management of climate and environmental risks during 2022. In addition, 93% of the Personal Banking managers have been certified in Sustainable Investments by the Barcelona School of Management.

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

Since 2021 the variable remuneration applied in the Entity which affect executive directors, senior management, and the rest of the collective identified, incorporates components which contribute to encourage actions in terms of ESG. Thus, the model applicable in 2021 introduced among the parameters to take into account, a sustainable financing

indicator, which received a weight of 2% on the overall valuation to consider. In 2022, in line with the increasing significance given to ESG factors in the 2022-2024 Strategic Plan, the relative weight mentioned was increased to 5%. In 2023, in the weight of 5% assigned to the sustainability indicators, a new indicator has been incorporated corresponding to the external ESG risk management rating conducted by Sustainalytics.

In addition, a long-term complementary variable remuneration plan has been approved, linked to the 2022-2024 Strategic Plan, applicable to senior management members and the rest of the collective identified, linked to the evolution of the company value in a multiannual framework, which aligns it with the medium and long-term interests of the shareholders. Such plan takes into consideration several blocks of quantitative indicators, one of which includes metrics associated to sustainability and climate risk, with a weight on the overall valuation to consider of 10%.

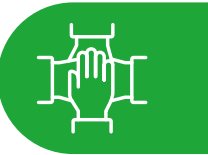
For their part, in 2022 the governing bodies of Cajasur Banco, Kutxabank Gestión, Kutxabank Seguros and Norbolsa approved the adhesion of their respective entities to said multiannual plan implemented by the parent company of the Group, additionally incorporating, in some cases, the specific indicators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

Conversely, at the beginning of 2022 the update of the Corporate Framework of the Remuneration Policy of



Kutxabank Group was approved, which incorporated recent regulatory changes in the prudential regulations framework, specific to the financial sector, in remuneration matters, including among these an express reference to climate and

environmental risks. In this same regard, the retribution policy frameworks of subsidiary financial companies subject to the prudential regulations on remunerations were updated in 2022.





3. Strategy

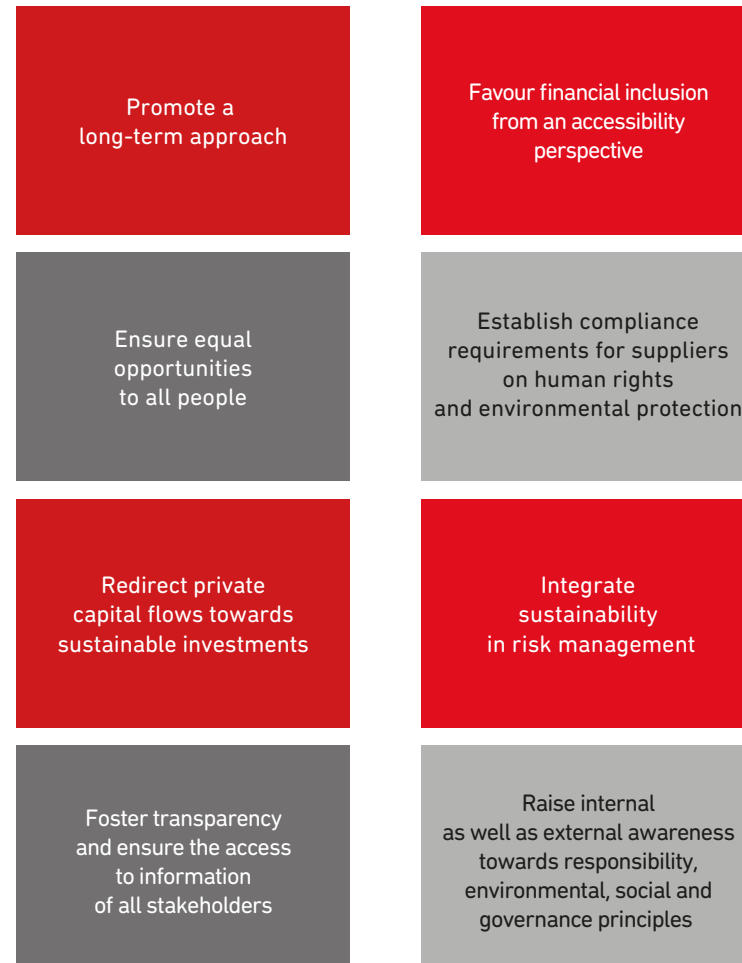
3. Strategy

Kutxabank Group has a mission, a vision and highly committed values to sustainability and the ESG factors, which are implemented through specific policies. With the aim of strengthening this environmental and social commitment, during 2021 the Entity updated its aforementioned Sustainability Policy, the latest version of which was finally approved by the Board of Directors in May of said year. In this respect, the four corporate objectives included in said Policy as regards the Group’s ESG vocation are outlined as follows:

1. **Advance in a sustainable business model**, trying to maximise the positive economic, social and environmental impact of the corporate as well as financial activity
2. **Establish and develop long-term commercial relations** with customers and suppliers, based on proximity, transparency and good practices
3. **Adapt the offer of products and services** in order to respond to the growing demand of increasingly more sustainable business models and lifestyles
4. Advance in the **incorporation of ESG aspects in the strategic decisions of the Entity**, in particular in the risks and opportunities arising from climate change

These objectives must be understood under the premises of the following general lines of action established by the Entity:

Illustration 9: Sustainability Policy – general lines of action



Source: Own elaboration



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

As a reflection of this corporate vocation, and with respect to the climate and environmental side, focal point of this Climate Report, this section of the document seeks to identify the main opportunities and risks related to climate change and their potential impacts in the strategy of the Entity. Additionally, it also incorporates the response and lines of action developed by the Group to strengthen and adapt its business model, seizing new opportunities and designing mitigation strategies of the risks identified.

3.1. Opportunities related to the fight against climate change

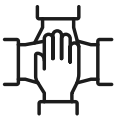
The fight against climate change is becoming one of the priority focal points of action of different stakeholders in the market in all sectors of the economy. In this respect, the efforts undertaken to mitigate and adapt to climate change are also helping to create many opportunities for organisations. 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.

In this respect, 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 Entity in general carries out and each one of the organisations in particular.

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

- Support the main stakeholders of the Entity in their decarbonization processes, as a key driver in the evolution towards a more sustainable productive model
- Increase the business and revenues through the channelling of sustainable financing (sustainable construction, green mobility, improving energy efficiency, etc...)
- Higher revenues by channelling private customer savings towards investment products, funds and plans which promote a positive contribution in the fight against climate change
- Increase and diversify the investor base with an appetite in green, social and sustainable bonds
- Positive impact at a reputational level derived from an adequate management of climate and environmental risks (positive sentiment for the different stakeholders of the Entity)
- Strengthening the internal management frameworks through more in-depth knowledge about the impact of climate and environmental risks
- Public commitment and transparency in reporting to the market
- Improve the operating costs associated to the energy consumption of renewable sources and less dependency on fossil fuels

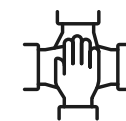
In particular, and within the framework of its collaboration as member of the Basque Ecodesign Center, the Entity has worked together with Ihobe (Public Company for Environmental Management of the Basque Government) in identifying the most relevant opportunities that the mitigation and adaptation of 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



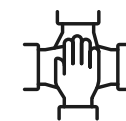
said opportunities. A summary table of the most relevant aspects in this regard is shown below:

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
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



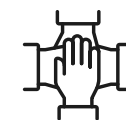
Sector	Potential opportunities	Time horizon
Sustainable mobility and transport	a) Electric vehicles and, on the long-term, hydrogen vehicles, as well as associated infrastructures (hydrogen fuelling stations, electric recharging stations)	ST – LT
	b) Impulse of leading value chain companies towards low-carbon 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
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 reuse and packaging waste for recycling (reverse vending machines, washing plants, sorting facilities...)	ST



Sector	Potential opportunities	Time horizon
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 industry and gas 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
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



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 seize these opportunities, the Group has recently approved its Sustainable Financing Framework which enables setting the general classification criteria for its operations according to their contribution level to the environmental and social sustainability of the environment.

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 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 10: Differentiating characteristics of Climate Change associated risks

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 a 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:

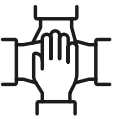
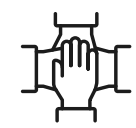


Table 2 Details of the transition risk subcategories

Regulatory and legal risks	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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



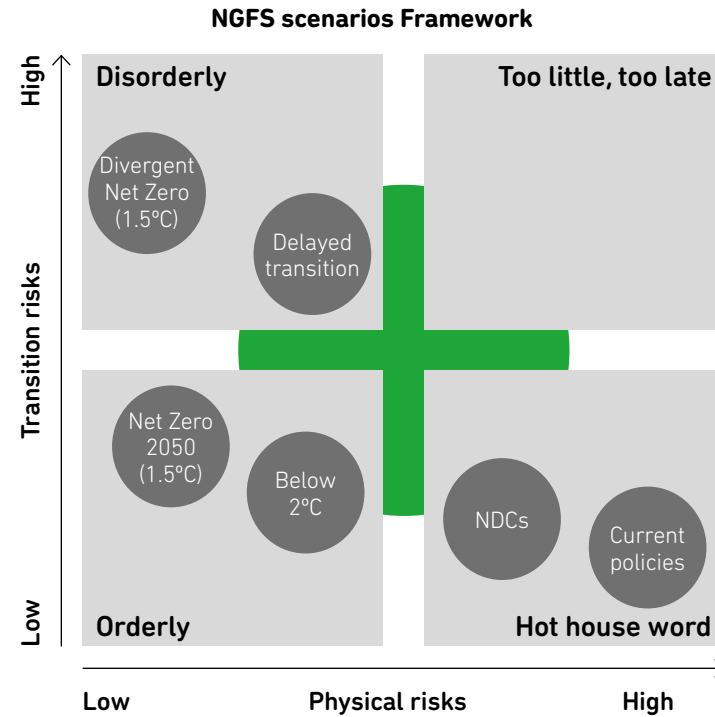
Source: Own elaboration

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.

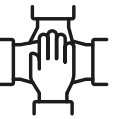
By way of illustration, the graph below shows six different hypothetical scenarios designed by the Network for Greening the Financial System (NGFS) to assess transition and physical risks in order to understand how climate change (physical risk) and climate policies and technological trends (transition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

Illustration 11: Climate scenarios proposed by the NGFS



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

Source: NFGS



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.

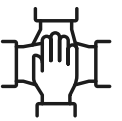
In this regard during the last few years the Entity has implemented different actions in order to mitigate the potential impact of climate and environmental risks in its business model and future sustainability. In particular, several of these aspects are advanced and will be addressed in further detail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

- The Entity has recently defined 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 to 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 expanded
- Working with the main counterparties on the incorporation of social and environmental performance indicators in contracts, which link the cost of financing to their fulfillment
- The indicators on climate and environmental risk which are going to be monitored in the Strategic Plan of the Entity have been expanded

By so doing, 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 different market players in the transition towards a more sustainable economy.

Lastly, and from the point of view of the financial impact of these risks, it should be noted that, in the opinion of the Board of Directors of the Entity, climate and environmental risks have not had, for the time being, a significant impact in the financial statements of 2021 and 2022.

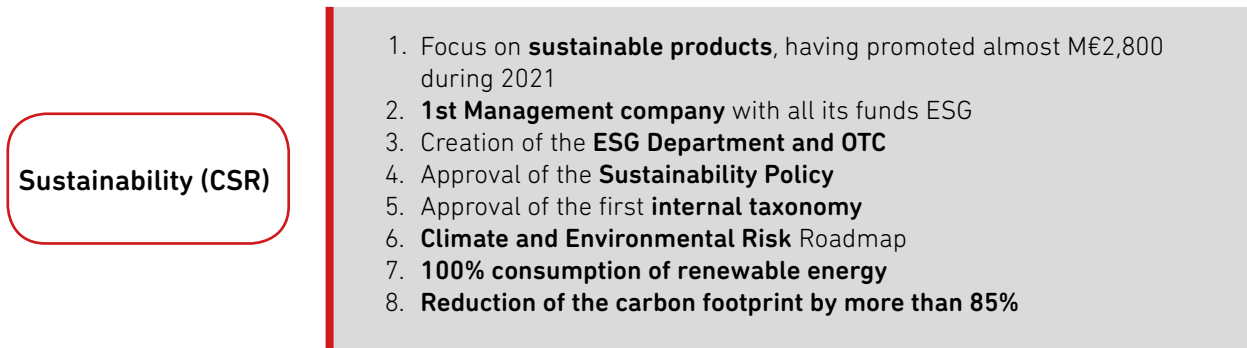


3.3. Strategic lines of action developed by the Entity and main advances in their implementation

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

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

Illustration 12: Main milestones achieved during Strategic Plan 2019-2021



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. Drawing up 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 the individual action plans.

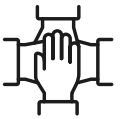


Illustration 13: Summary of the main lines of ESG actions for the 2022-2024 Strategic Plan



Source: Own elaboration

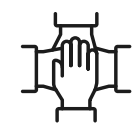
In addition, the Entity has set a series of high-level aspirations in this field for the 2022-2024 period:

Illustration 14: Aspiration and 2022-2024 Strategic Plan targets



* it only considers Kutxabank Gestión, including its Active Management Funds in the scope

Source: Own elaboration



The Entity has set itself the target to promote the granting of sustainable financing (based on criteria defined internally) for more than 5,000 million euros over the 3 years of the duration of the 2022-2024 Strategic Plan, develop the Sustainable Financing Framework and maintain a balance between its economic impact and environmental impact. Conversely, the Group has also set the ambition to define transition targets in order to advance in the Net Zero 2050 goal.

Additionally, during the first few months of 2023, the Entity has undertaken a revision and update of several key elements of its 2022-2024 Strategic Plan. In said update strategic decisions have been made as regards 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 and which are detailed comprehensively in section 5. Targets and metrics in this document. Such indicators consider aspects such as the incidence of physical and transition risks in the mortgage portfolio, corporate portfolio transition-related risk targets, Carbon Footprint reduction objective or indicators related to improving the energy efficiency in offices, among other aspects.

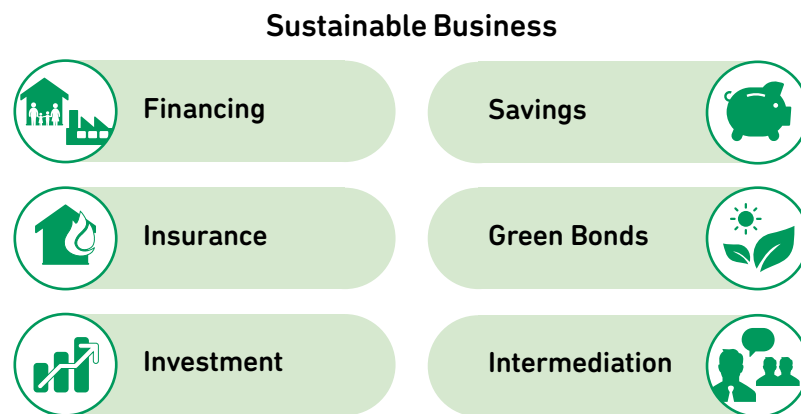
In this respect, and in line with the priorities and action plans set in the Strategic Plan, the Entity has advanced in the implementation of the following initiatives in order to continue developing its responsible banking model and support the company in the transition towards a decarbonized economy.

3.3.1 Development and promotion of a sustainable business modele

In the framework of the Kutxabank Group 2022-2024 Strategic Plan, the main key lines of action have been identified in terms of ESG, which continues being 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, inter alia, are financing and insurance in different areas, savings and investment products with a positive environmental impact, the issuance of green, social or sustainable bonds according to market standards, or intermediation in transactions such as the overall coordinator and entity placing the issuance of green, social or sustainable bonds in the capital market.

Illustration 15: 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*), albeit this regulation has fundamentally inspired the standards employed internally.

3.3.1.1 Sustainable Financing

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, the demanding regulatory guidelines being published on this matter as a horizon reference.

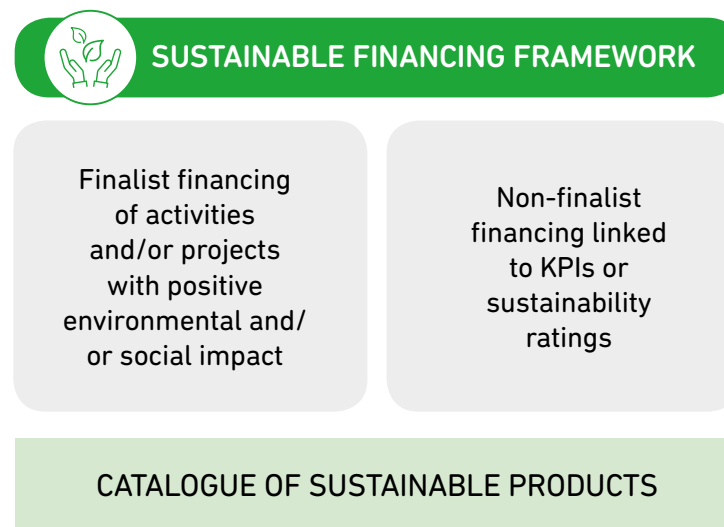
In so doing, and aspiring to meet these, by the end of the first semester of 2023, the Governing Bodies of the Entity have approved the Sustainable Financing Framework of Kutxabank Group. This framework will serve to reinforce the common internal categorization applicable to all areas of the Entity in its determination towards its strategy, product design, business generation, risk analysis, communication and reporting in terms of sustainability.

The Framework establishes the specific categories and criteria for classifying financial products and services as sustainable, reflecting the Entity's commitment and enabling all the teams to use a cross-sectional and homogeneous criterion to classify sustainable transactions.

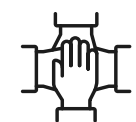
The selection criteria established are in line with the

Sustainable Development Goals (SDGs) defined in Agenda 2030 and the Paris Agreement. This framework will thereby enable the offer of sustainable products and services to evolve in order to respond to the growing demand of increasingly more sustainable business models and lifestyles. In order to develop the Frameworks, markets standards have been used as a benchmark such as those developed by the International Capital Markets Association (ICMA) and the Loan Market Association (LMA), as well as the definition of environmentally sustainable activities being developed by the European Commission (taxonomy). 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.

Illustration 16: High level outline of the Sustainable Financing Framework



Source: Own elaboration

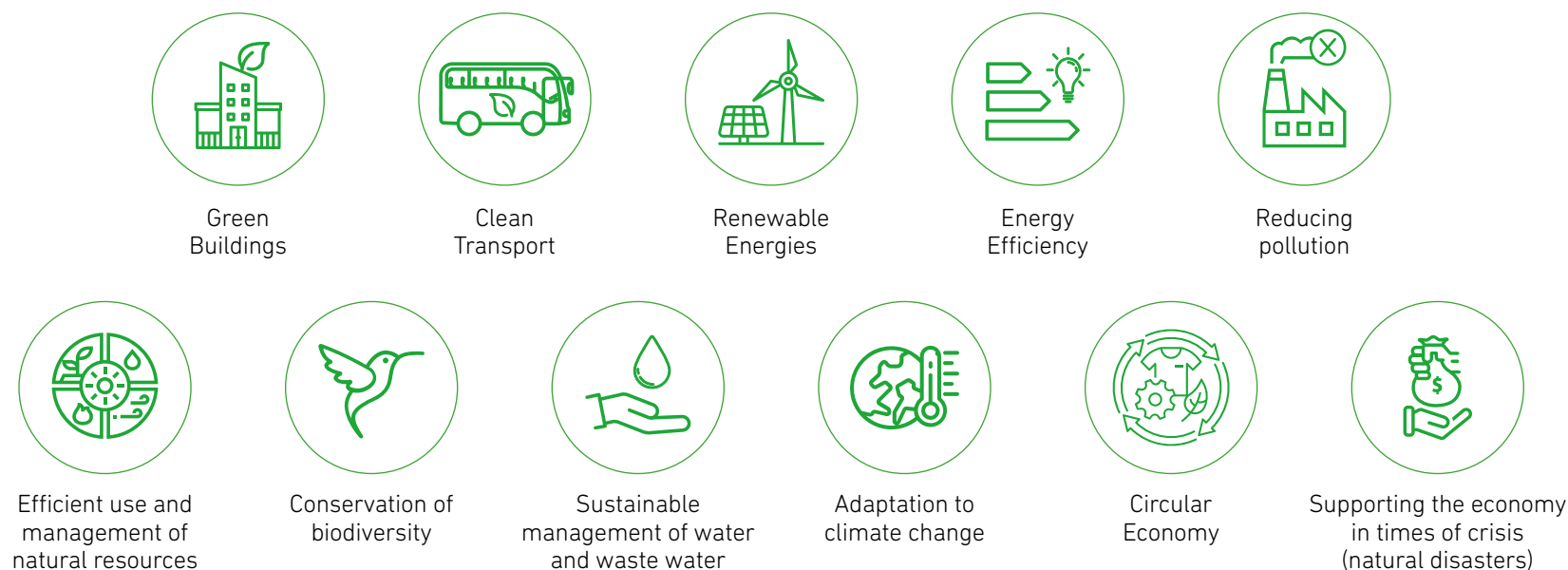


In this regard, Kutxabank’s approach to the origination of sustainable financing essentially follows the formats below:

- **Finalist financing:** provides capital for 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. By way of example, in the environmental field, the following categories have been identified:

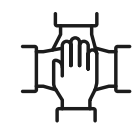
Illustration 17: Examples of finalist financing



Source: Own elaboration

- **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 included in the Entity’s catalogue of products such 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 Sustainable Financing Framework, the Entity has continued in 2022 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 2,384 million euros to sustainable financing during the year, 5.5% more than in 2021, exceeding the expectations set for the year. The financial offer has evolved, classified as sustainable pursuant to the internal criteria defined above, including different lines of business and products which positively contribute to the environment or to the surrounding society. In the retail area, in 2022 Kutxabank has allocated a total of 853 million euros to finance energy efficient housing on behalf of the Bank's private customers, through the so-called "Green" Mortgage, which is 27% of the new mortgage production versus 26% in the previous year. This type of loan offers special financing conditions for buildings with the highest energy certifications (EPC A or B), as well as protection by means of "Green Insurance", the number of new policies has reached 2,000 with a premium volume of over 1.8 million euros.

Of note is the strong growth of consumer financing in the form of loans particularly aimed at low emission and

hybrid vehicle purchasing or the renovations/restorations of housing or buildings to favour improved energy efficiency, the use of renewable energies and CO₂¹ emission reduction. A figure of 16.6 million euros was achieved in this area in 2022, more than double the amount in 2021.

During this year and with the aim of favouring the energy rehabilitation of housing, in addition, a new product has been developed specifically adapted to global intervention processes to improve the energy efficiency of buildings. The new 'Energy Efficiency Loan' will make it possible to finance from the advance payment of the subsidy to the full budget of the renovations undertaken supporting in turn the channelling of the Next Generation Funds.

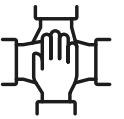
In this regard, additionally, in the first semester of 2023, Kutxabank has concluded several agreements with rehabilitation agents such as EFFIC, Mugabi Servicios Integrales de Rehabilitación or Agentia R+ who will provide advice and access to financing for owners' associations and private owners who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

Conversely the specialised divisions in Kutxabank Group companies and institutions have approved transactions for a value of more than 1,514 million euros in incorporated investments, pursuant to Entity criteria, in green, social and sustainable² economy, exceeding those formalised the previous year by more than 30%.

Among the transactions with a known purpose, in climate and environmental terms, projects have been favoured, among others, for generating and incorporating renewable

¹ 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>

² 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 1,514 million euros in 2022 are distributed into 869 million, 124 and 521, respectively.



energies, for activities committed to sustainable mobility, or which promote social, protected and energy efficient housing. In particular, and as regards this latter sector, in 2022 more than 575 million have been authorised for the promotion of housing with the highest energy efficiency (EPC with letter A or B, in line with the internal criteria defined by the Entity). Conversely, 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. To a lesser extent, loans have also been formalised with the commitment from the customer to allocate the funds to eligible funds in accordance with their own internal Sustainable Financing Framework audited by a third party. The total volume of these transactions has reached 831 million euros in the year of which 731 million have had a positive environmental impact (the impact of the remaining 100 million is exclusively social).

By so doing, Kutxabank, in addition to contributing to the strengthening of the financial structure of large business groups such as CEPSA, Enagás, FCC, Red Eléctrica de España, Acciona or Telefónica, it has supported their transition to a low-carbon economy and towards a sustainable business model by incorporating ESG criteria in the financing.

Cajasur Banco continues to encourage projects which are encompassed in the green and sustainable economy through the Agricultural Service of the Entity, having formalised a total amount of more than 18 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 17 years.

The more than 30,000 million euros of customer investments, at the end of 2022, 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 asset manager with the most ESG funds in the market and in 2021 has been considered the first management company to have all its active management investment funds with the sustainable category in accordance with Article 8 of Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (SFDR) which classifies those funds promoting environmental and/or social characteristics in their investment processes. Fineco has, on its part, 4 funds classified in this article, to which a new multiple sub-fund has been added, and in which 4 of the 6 existing sub-funds are also included under article 8.

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 the SFDR regulation: funds which not only promote but which explicitly pursue sustainability targets with a direct impact on one or several of the SDGs.

As regards 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 will be implemented to the provision schemes assigned to Baskepensiones, EPSV 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, conversely, 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 (EPC 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 EPC A or B, the customer will receive an extra bonus in a single payment.

3.3.1.3 Green bonds: framework and issuances

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 the strategic sustainable development priorities of Kutxabank, and contributes to its commitments and targets in terms of mitigating climate change and 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.

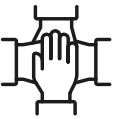
The amount of the bonds will be allocated to new or existing green projects, reflected in loans, investments or projects with the balance sheet of Kutxabank. The initiatives must meet the technical screening criteria defined by EU green taxonomy, and will contribute to one or more of the six European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

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, the first Annual Green Bond Monitoring Report is drafted in 2022.

The report includes a brief general overview of Kutxabank's Green Bond Framework, and 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.

Lastly, it must be taken into account that this allocation and impact report has been subject to a limited verification conducted by an independent third party.

This report shows that more than three quarters of the funds obtained through the Green Bonds were allocated to efficient construction projects (84%), followed by renewable energies (15%) and clean transport (1%).

The main environmental impacts associated to the reference period have been calculated in terms of GHG emissions, in CO₂eq units. The highest level of savings achieved is associated to the Green Buildings category with 87% achieved through Residential Mortgages and 13% connected with Loans to Developers. Another significant part of the savings come from clean transport.

The report also provides information on energy indicators in relation to renewable energy projects and green buildings, on which further details are provided in section 5. Targets and metrics of this report.

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 (SDG 11) and Communities and Climate Action (SDG 13).

In June 2023, further confirming its commitment to these objectives, Kutxabank has carried out its second issuance of green bonds in senior non-preferred format for an amount of 500 million euros, and a amortisation tenor of 4 years with an early redemption option on the third year.

Bonds were rated by the international agencies Moody's, Fitch and DBRS with a rating of Baa2/BBB+/BBBH, which place it among the best in the sector for this type of instruments. In addition, with it, Kutxabank reinforces the compliance with the objectives set by the Single Resolution Board. Kutxabank has the lowest MREL requirement of the Spanish financial system, which shows the supervisor's confidence in the capacities of the financial group in terms of resolvability and its solvency.

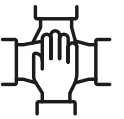
3.3.1.4 Responsible intermediation

As regards Kutxabank Group's participation in capital markets, through its specialist subsidiary Norbolsa, work has continued in coordinating social, green, and sustainable issues of several counterparties.

Thus, in 2022 Norbolsa was the global coordinator of the VI issuance of sustainable bonds of 600 million euros of the Basque Government. It has also participated as placement entity of green Commercial paper programmes (for 100 million euros) and connected to sustainability (for 2,050 million euros) of large business corporations in the country: Holaluz, Tubacex, Elecnor, Pikolín, el Corte Inglés or Barceló. During the first months of 2023, Norbolsa has continued its intensive activity in terms of sustainability and has again acted as global coordinator of the VII sustainable issuance of the Basque Government which was launched in the month of February for an amount of 700 million euros.

3.3.2 Advances in classification 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.



Along these lines, in June 2020 the Official Journal of the EU published the Regulation on Taxonomy (RT) which defines and identifies sustainable economic activities from an environmental viewpoint (“taxonomy adjusted activities”), in accordance with the technical screening 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 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 2023 Kutxabank published its Statement of Non-Financial Information (SNFI) for 2022, its second reporting in compliance with the disclosure requirements linked to EU Taxonomy and provided in Regulation EU 2021/2178.

Of the total of assets (67,912 million euros) and in mandatory version, the Entity has estimated to present 45% of eligible assets (32,627 million euros), where approximately 90% correspond to home loans guaranteed with residential real estate, its core business. The same ratio, calculated taking into account only the assets within the scope of GAR (55,742 million euros), would amount to close to 60% approximately.

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). Conversely, there are other assets which, albeit form part of the denominator, as of yet there is no regulation on their eligibility and alignment and, therefore, cannot be considered in the numerator. As a consequence, the potentially eligible portfolio in no case reaches 100%. In Kutxabank, in fact, it is reduced almost to half (54% over the total balance).³

³ The potentially eligible portfolio includes Financial Corporations (FC) and Non-Financial Corporations (NFC) subject to the Non-Financial Reporting Directive (NFRD), Homes (residential mortgage portfolio, improvement loans and automobile loans), granted and finalist exposures of Local Administrations. The eligibility ratio presented, 48%, is based, in the case of balances which come from NFC and FC, in Turnover ratios reported by customers pursuant to the taxonomy regulation. The CapEx based ratio amounts to 49%. Further information in the Kutxabank Group 2022 Non-Financial Information Statement.

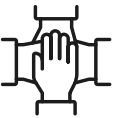
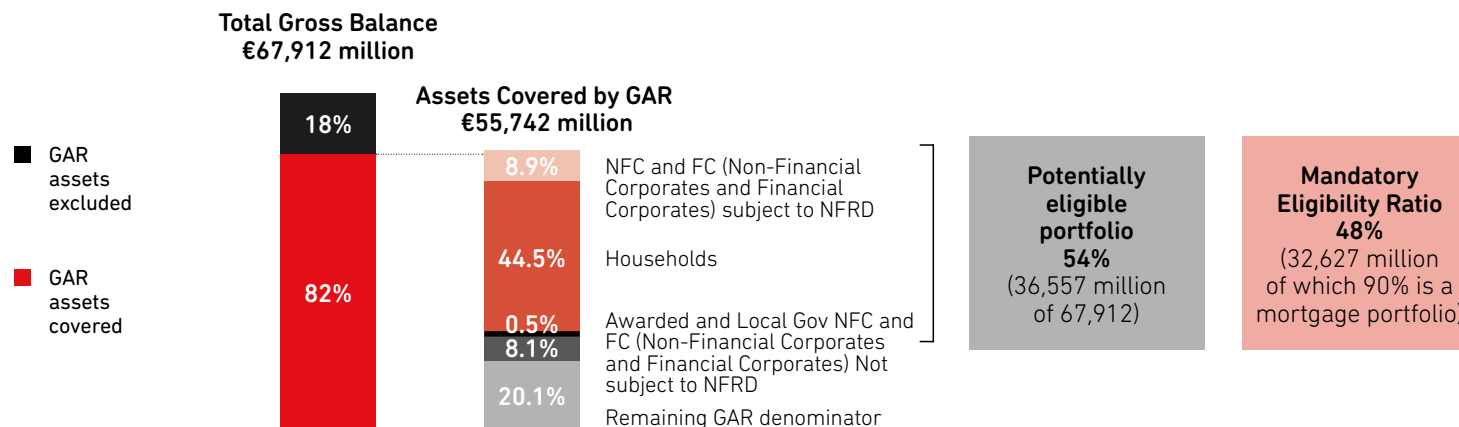


Illustration 18: Calculation of the GAR 2022 eligibility ratio in the reporting framework on taxonomy



Source: Own elaboration and Statement of Non-financial Information 2022

From 2024, the scope of reporting for financial companies will not only cover the eligibility of assets (which is only envisaged if the underlying activity of the financing is regulated by taxonomy or not) but also their alignment (since this also involves assessing whether they comply or not to the technical criteria established by the TR in order to be able to consider them as environmentally sustainable). Conversely, it should be noted that the Group has also responded to the requirements of Regulation EU 2019/2088, on sustainability-related disclosures in the financial services sector (SFDR). SFDR progresses according to schedule, with different milestones which Entities must meet within approximately two years.

In particular, progress is being made in the tasks related to the adaptation of reporting contained in the sustainability annex, Investment Funds as well as Delegated Portfolios, Pension Funds and ESPVs, as well as the contents shown on the website of the Entity in relation to this matter.



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, such as instruments 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: Sectors 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 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 which collaborate in developing a sustainable and low-emission economy. Conversely, 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 so doing, sectors have been identified whose activities may incorporate negative consequences from the environmental or social viewpoint and which, therefore, should be treated differentially by the Group when allocating investments.

In addition, as regards managing 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 Reducing the Carbon Footprint of the Entity's corporate activity

Kutxabank Group remains committed to developing a proactive attitude in protecting the environment, preventing pollution and environmental degradation, beyond just meeting current legislation. Seeking to minimise energy consumptions and the materials necessary for implementing its activity, as well as responsibly managing the wastes



generated in so doing, contributing to a circular economy. All the areas are involved in environmental management and therefore in achieving such challenge, but special note should be given to the technical areas and general services, which analyse and assess the measures implemented, once the impact on the environmental setting has also been considered. Close contact is maintained from the Kutxabank ESG Department with all the areas of the organisation, whose functions may have an increased incidence in environmental issues, directly or indirectly.

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

- Promote the implementation of efficiency measures
- Promote the reduction of waste generated
- Implement sustainability criteria in product purchasing and outsourcing services
- Sustainable bank office

Additionally, in the past 2019-2021 Strategic Plan, objectives were established regarding environmental management, highlighting Carbon Footprint reduction and sustainable energy consumption, inter alia. On the one hand, the financial Group has managed to reduce more than 85% of the CO2 emissions, and on the other, all of Kutxabank Group's electricity consumption comes from a solar plant thanks to the 10-year contract signed with the electricity company. In 2022 the Corporate Carbon Footprint has reduced by 4% as regards 2021 (given the room for improvement has been reducing after implementing the initiatives described above). Conversely, the Entity has continued managing the forests it owns. It is now 100 years since the purchasing of mountain land commenced for reforestation. During 2022, 83 hectares have been restored, in which 100,000 trees have been

planted using the new selection of species criteria according to their CO2 absorption.

In 2023 Kutxabank Group plans to reforest approximately 43.5 hectares with species of Sequoia, by means of a sustainable forestry management plan. Thanks to this action, the absorption of 20,031.44 tons of CO2eq is estimated in the next 50 years, from the year the planting is done until the end of the permanence period of such undertaking.

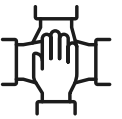
Kutxabank has recalculated the estimates of all the undertakings and forests it has managed throughout its history in order for such calculations to be consistent with the methodology of the Basque Government published in March 2022. Thus, according to the new estimate, the carbon absorbed in the existing forests and undertakings is 243,772.18 tons of CO2eq.

This methodology is based on the *CO2 Absorption calculator ex ante of the Autonomous Community of the Basque Country*, drawn up for Ilobe by NEIKER-Tecnalia, which allows estimating the carbon dioxide absorptions associated to biomass and soils, the different uses of the ACBC (forestry, arable and perennial crops and pastures), thus allowing a better management of carbon resources, in particular, carbon sinks.

In this respect, more information is provided in section 5. Targets and Metrics in this document, which also incorporates details on methodological aspects.

Conversely, during the last year the project for conducting energy audits has continued in all of the offices of the Central Services buildings, confirming the important energy efficiency reduction work performed as regards the previous assessment, conducted in 2016.

Actions have continued in reducing energy consumption by defining a time schedule optimisation system of the central



services buildings, the technological renovation process of DPCs (Data Processing Centres), and the renovation of the climate equipment in the central services buildings.

In short, the Entity continues with the reduction strategy of its environmental impact, maintaining a Carbon Neutral Footprint, optimising energy consumptions and the materials necessary for undertaking its activity, and the responsible management of waste generated in its performance, contributing to a circular economy.

3.3.5 Assessing the Carbon Footprint of financing and investing activity

Complementing the above, the Entity has also advanced significantly during the last few months in assessing 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 to which the Entity has recently become a member).

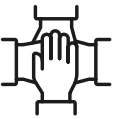
In this respect, the methodology developed combines the calculation of emissions on the basis of the real data of the counterparties, if they have been published, with sectoral measures by NACE based on the international standards mentioned above such as PCAF and the revenue level or size of the customer.

Additionally, the Entity has also formed part of another sectoral project for collecting the data of emissions published by its main counterparties, having been internally revised by it.

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 or compliance of the regulatory reporting obligations.

Ultimately, 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.



3.3.6 Portfolio alignment and definition of Intermediate Decarbonization Targets

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 respect, 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 actor in the transition process towards a low-emission economy based on sustainable growth.

In this context, in December 2022, the Group’s Governing Bodies approved the following preliminary intermediate decarbonization targets for its financing portfolio (without considering the investment portfolio, inter alia):

Illustration 20: Intermediate Decarbonization Targets

SECTOR/ PORTFOLIO	REFERENCE SCENARIO	SCOPE OF EMISSIONS	METRICS	BASE YEAR 2021	TARGET 2030	% REDUCTION (2021-2030)
Mortgage Portfolio	NZE 2050 (IEA) & CRREM 1,5°C	1+2	kgCO2eq/m ²	49.3	44.4	-10%
Energy	NZE 2050 (IEA) 1,5°C	1	kgCO2eq/MWH	193.4	135.0	-30%
Oil and Gas	NZE 2050 (IEA) 1,5°C	1+2+3	ktCO2eq/€M	7.2	5.0	-30%

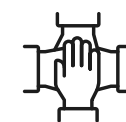
* kt refers to thousands of tons

** The decarbonization targets set have been calculated by means of the Sectoral Decarbonization Approach (SDA) of the Science Based Targets Initiative (SBTi)

*** Additionally, in order to set the reduction percentages, the decarbonization targets set by the Entity’s main counterparties are considered in each sector analysed

*** These targets are set on a preliminary basis with the information available at the time they were done and remain subject to possible changes as further knowledge is acquired and further market information is obtained. In addition, a substantial change in the decarbonization targets of the Entity’s main counterparties may involve the need to review the targets set by the former

Source: Own elaboration



In this respect, the Entity has set preliminary decarbonization targets in the Oil and Gas and Energy sectors (a reduction of 30% of emissions intensity by 2030) and has also set the preliminary targets in the mortgage portfolio (a reduction of 10% in emissions intensity in its residential guarantees portfolio for the same time horizon).

This is first approximation, subject to review, and which allows the Entity to commence exploring and familiarize itself with the alignment methodologies of its portfolios. The Entity has used the Sectoral Decarbonization Approach (SDA) methodology by Science Based Targets Initiative (SBTi) in order to set its targets. The methodology developed has also been defined based on a sectoral project with the support of an external supplier.

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 (Oil and Gas and Energy)
- The most recently available emissions intensity data of the counterparties have been used, assuming the base year is 2021 (for most of the cases)
- Selection of scenario NZE 1.5°C of the International Energy Agency (IEA) for defining and setting the decarbonization targets

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 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, as regularly as it considers proper, 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 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.

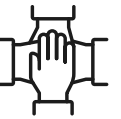
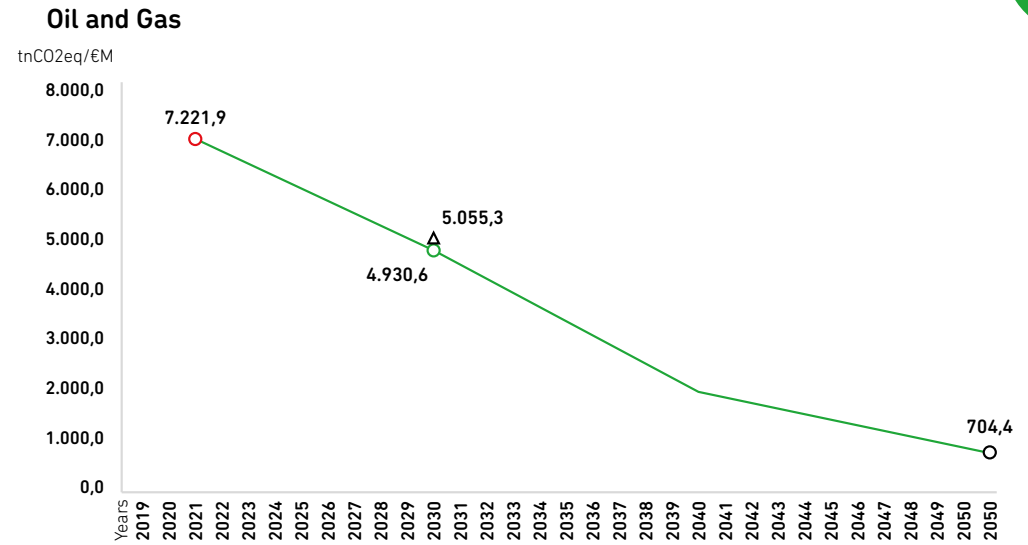
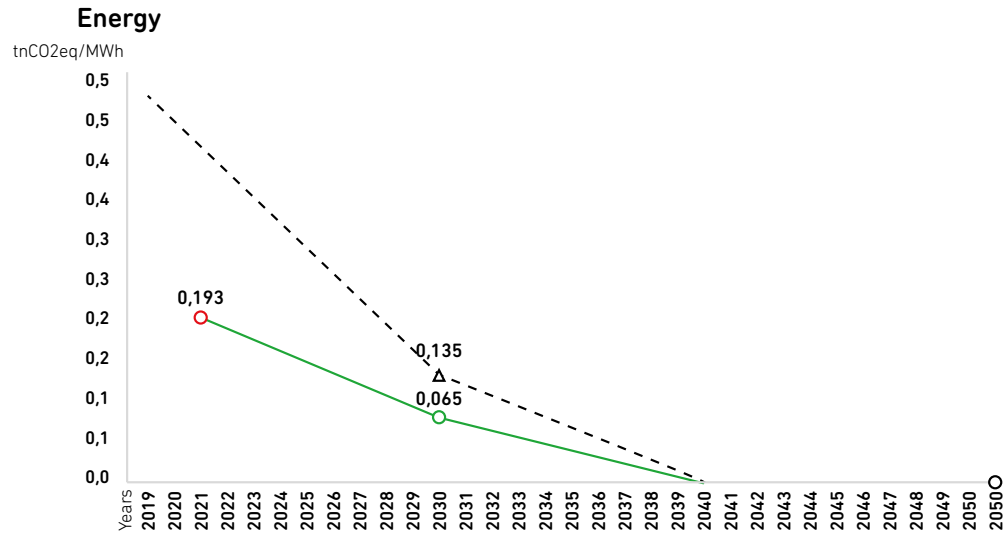
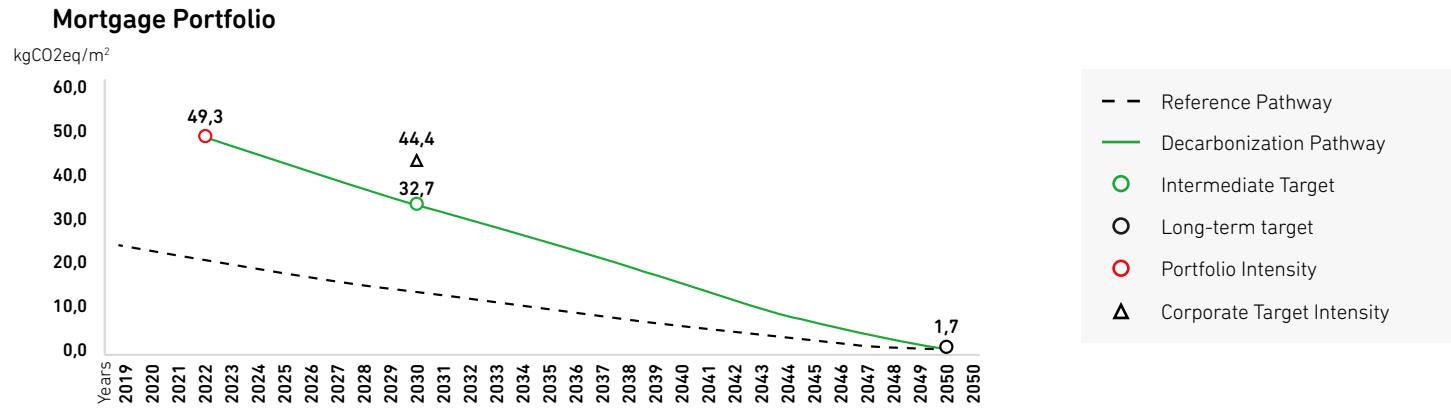
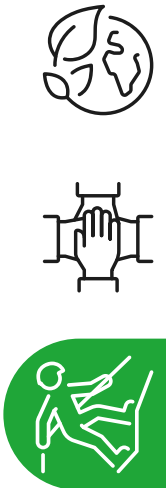


Illustration 21: Alignment metrics analysis of the Entity's main portfolios



Source: Own elaboration



The target of the Entity is to define the transition objectives to progress towards Net Zero 2050. To do this, it is working with its counterparties in order to support them in their decarbonization plans, and thereby achieve the alignment of the portfolio which will enable the reduction of the Entity's Carbon Footprint exponentially over time. The Entity's support translates into promoting sustainable financial products and setting sustainability KPIs in corporate loans which promote their compliance, inter alia.

Some reflections on the level of alignment of the sectors and the decarbonization targets set:

- **Mortgage Portfolio:** the decarbonization target defined is based on science. The corporate commitment is substantiated on an internal projection of the expected development of the portfolio composition, based on calculating estimations with PCAF and promoting "green" mortgages; as well as, an improvement on the energy mix of the market in which the Entity operates, which is expected to significantly reduce emissions. However, it is relevant to point out that the improvement of the average intensity of the mortgage portfolio is significantly complex to reduce due to the average energy efficiency of the housing stock in Spain and the turnover ratio of these assets in the balances of the entities
- **Energy:** the decarbonization target defined is based on science. The companies financed by the Entity have a very high commitment to sustainability and whose decarbonization plans include both commitments for 2030 and 2050, with a starting emissions intensity better than the average analysed. The corporate goal defined for 2030 considers the commitments published by the counterparties
- **Oil and Gas:** the companies financed by the Entity are large and competitive, their decarbonization plans include

both commitments for 2030 and 2050, consequently their decarbonization pathway is expected to be faster than the sector average. The corporate goal defined for 2030 considers the commitments published by the counterparties

In this respect, the Group will continue working on different actions with its main counterparties in order to promote the compliance of the decarbonization targets set and will extend the definition of targets to more sectors and portfolios in the coming years.

3.3.7 Obtaining ESG Risk Rating from Sustainalytics

In 2022, the Entity has decided, for the first time, to apply for the ESG Risk Rating from Morningstar Sustainalytics. This supplier has been selected among different options, since it is 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 15,300 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.

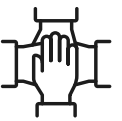


Illustration 22: Sustainalytics ESG Risk Rating Report Summary

Kutxabank SA. Thrifts and Mortgages. Spain

ESG Risk Rating

9.2

Last full Update
Nov 16, 2022

-15.4

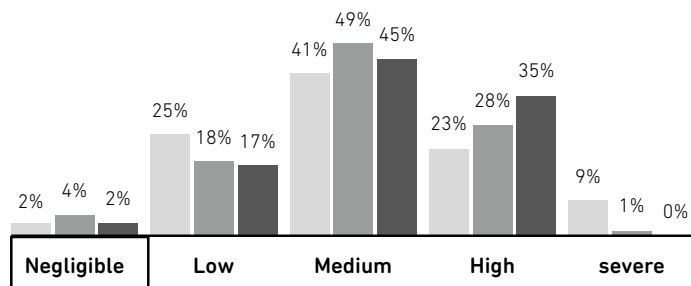
Momentum



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 (1 st =lowest risk)	PERCENTILE (1st = Top Score)
Global Universe	164/15343	2nd
Banks INDUSTRY	30/988	4th
Thrifts and Mortgages SUBINDUSTRY	2/99	2nd

Source: Sustainalytics

3.3.8 Roadmap for Climate and Environmental Risks

ECB Guide on climate and environmental risks

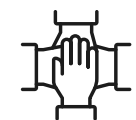
In November 2020, the ECB published the first edition of its Guide on Climate-Related and Environmental Risks, in which it established its expectations as regards the way in which financial institutions must integrate these risks into their management frameworks. Generally speaking, such expectations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

In relation to the business models and strategy:

1. Entities are expected to know the impact of climate-related and environmental risks on the corporate setting in 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 managing the responsibility of 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 cushions and,

in this case, include these factors in their liquidity risk management and calibration of the liquidity cushions

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 due account of the European Commission guidelines on non-financial reporting

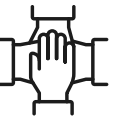
Kutxabank Group Roadmap

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 assigning 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 subfactors 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 first edition of the Entity's Climate Report and including qualitative and quantitative information required by current regulations in the IPR

3.3.9. Other initiatives and action plans to outline

Purchases from local suppliers and monitoring sustainable procurement policies

Kutxabank is an entity which primarily works locally, and in which one of the priorities is generating a positive economic, social and environmental impact in its environment, and for

this reason, it works primarily with local suppliers, providing in turn social value and wealth in its area of activity (committed to Km 0 policies). In this respect, the Entity is working to reach sustainable purchasing policy agreements with stocks and services suppliers.

Conversely, 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, inter alia. 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.

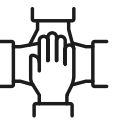
Alternatively, priority is given to the purchase of office furniture from suppliers who use wood from sustainable forests by means of PEFC certification and ecodesign products in order to minimise their environmental impact.

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

In addition, 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 justifying and keeping 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.

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

Furthermore, Kutxabank is 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 fabric.

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 fabric. 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 the 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.

Conversely, in May 2023 the Management Committee approved the adherence 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 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. The Entity has recently adhered to PCAF.

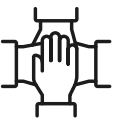
In this context, the Entity is analysing and assessing its adherence to other initiatives of a varied nature which will enable it to advance in its commitments in terms of sustainability and the transition towards a low-emission economy.

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 in order to incorporate them into its internal systems in order to implement them into the different commercial and management processes and comply with the different reporting obligations.

Of the most relevant information compiled the following aspects are highlighted, inter alia:

- 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)
- Emissions scope 1, 2, and 3 of the Entity's main counterparties
- Energy Audit on the own-use property assets (branch offices and central services buildings) of the Group



These improved reporting procedures have 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 as regards the latest practices in obtaining and estimating relevant climate data.



Sustainability action plan of the Group subsidiaries

In addition to everything described as regards 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. In this respect, some of the most relevant milestones achieved by each of the main subsidiaries during the last few years are outlined below.

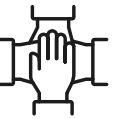


Illustration 23: Focus on the sustainability of the main financial subsidiaries of Kutxabank Group



- Adhesion to the UN **"Principles for Responsible Investment"** (UNPRI) in 2017. In the 2021 Audit a **rating of 4/5 in the main categories** (Strategy, Equities and Fixed Income)
- **Leader** in the implementation of the SFDR regulation (disclosure in terms of SRI):
 - **First and only entity to catalogue all actively commercialized funds as art. 8**
 - Launching of **two ned art. 9 funds** (Equities and Fixed Income)
 - **Catalogued also as art. 8** during 2023 all the managed portfolios (**Baskepensiones + KB Pensiones**)
- **Pioneers in launching solidarity funds, Kutxabank Solidario in 2005** (0.70% allocated to the banking foundations + Gureak + Lantegi Batuak)
- **Active participation in disclosing Sustainable Investing into society** (participation in events, academic paper, university master's degree)



- Adhesion to the UN **"Principles for Responsible Investment"** (UNPRI) – 2016 and Annual Audit with an **"A" rating** (Strategy & Governance")
- Publication of Fineco's **Corporate Social Responsibility and Sustainability Report**
- Updating of the **ESG Policy applicable to 100% of the managed assets, with more than 50% promoting ESG characteristics**
- Adaptation of **customers' suitability assessment procedure** in terms of advice including the assessment of their **sustainability preferences** and adaptation of the reporting framework
- Establishing **partnerships with leading third-party management companies in sustainable finances** such as Robeco, Schroders, Blackrock or Amundi
- Organization of the **"ESG Investment and Finance Summer Programme"** with Deusto Business School
- Provision of 4 funds catalogued in **article 8** authorised by the CNMV (in addition to a new one in sub-funds) which is **47% of the total funds managed**



- **Steady progress** in the different lines of work of the **Sustainability Roadmap**
- Implementation **of the climate risk management in 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.)
- **Compliance with the requirements established by applicable regulations in order to catalogue individual pension funds pursuant to article 8 of the Disclosure Regulation**



- **Overall coordinator of the issuance of sustainable funds VI and VII** of the Basque Government – bn€600 and bn€700, respectively
- Entity **allocator of green promissory notes programme** Holaluz (bn€100) and Entity allocator of promissory notes programme associated to sustainability: Tubacex (bn€200), Elecnor (bn€400), Pikolín (bn€50), El Corte Inglés (bn€1.2), Barceló (bn€200)
- **SRI portfolios with ESG rating > 70%**



Source: Own elaboration



kutxabank

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 line, 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 outline 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, albeit climate and environmental risks do not constitute a risk typology per se, for a correct management thereof, Kutxabank Group bases itself on management cycle phases of traditional risks.

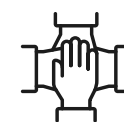


Illustration 24: Phases of the risk management cycle



Source: Own elaboration

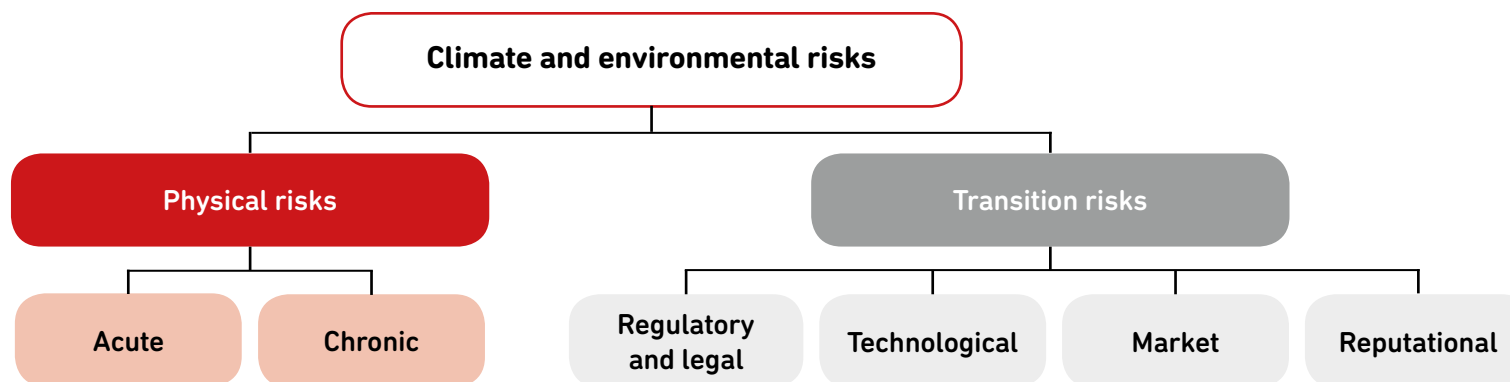
The following sections provide a top-level description on how to manage climate and environmental risks in each of the phases defined.

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: Climate and environmental risk categories



Source: Own elaboration

Identification of the risk subfactors

In a first step, Overall Risk Control has identified a list of climate and environmental risk subfactors 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) to impact its economic value, either on the short, medium, or long-term.

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

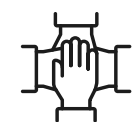


Table 3 Overview table of the climate and environmental risk subfactors identified

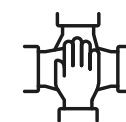
	Physical Risks		Transition Risks				Total
	Acute	Chronic	Regulatory and legal	Technological	Market	Reputational	
Climate	1	2	2	-	-	-	5
Environmental	-	3	-	-	-	-	3
Climate & Environmental	-	-	3	3	2	2	10
Total	1	5	5	3	2	2	18

Source: Own elaboration

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

Table 4 Climate and environmental risk factors identified by Kutxabank Group

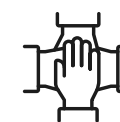
UNDERLYING C&E RISK FACTORS		
PHYSICAL RISKS		
Risk factor	Nature	Sub-risk
C&ER-F01 – GENERAL TEMPERATURE RISES with impacts of a chronic nature (rising sea and/ or river levels, alteration of biodiversity with an impact on the habitability and productivity of specific areas)	Climate	Chronic
C&ER-F02 – 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



UNDERLYING C&E RISK FACTORS		
TRANSITION RISKS		
Risk factor	Nature	Sub-risk
C&ER-T09 – Investment in unprofitable or directly unsuccessful climate and/or environmental transition TECHNOLOGICAL PROJECTS	Climate & Environmental	Technological
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 sub-factors identified and 70 risk sub-categories provided in the Group’s corporate risk typology, trying to identify the combinations which could lead to a materialization of each risk sub-category for reasons associated to climate and environmental risk sub-factors.

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

This analysis has led to a list of 103 correspondences between climate and environmental risk subfactors 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 sections and the 19 main risk categories of the Group.

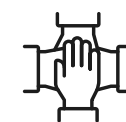
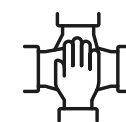


Table 5 Matrix of climate and environmental risk sub-categories and main risk categories

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						
	Liquidity Risk	x	x	x	x	x	
	Market Risks		x	x	x	x	x
OPERATIONAL RISKS	Operational Risk	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				
	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	x

Source: Own elaboration



Identification of the transmission channels

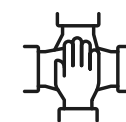
Lastly, identification of the possible transmission materialization/channels of the physical and transition risk factors to the main risk categories is conducted, below is a summary of the most relevant.

Table 6 Identification of climate and environmental risks

Underlying risk factor	Materialization pathway / Transmission channels (Potential financial impact)	Associated risk category
PHYSICAL RISKS		
Chronic		
GENERAL INCREASE IN TEMPERATURES 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 Deterioration in the economic situation of borrowers	Credit risk
	Negative impact on the effective value of the Entity's liquidity cushion: 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	Market risk
	Loss in the value of financial assets in markets	
	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
	Increase of accidents in the branch of non-life insurance (car, home, economic activities, reinsurance...)	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	Concentration risk	



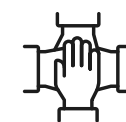
Underlying risk factor	Materialization pathway / Transmission channels (Potential financial impact)	Associated risk category
PERMANENT CHANGES IN RAINFALL	Deterioration in the economic situation of borrowers	Credit risk
	Negative impact on the effective value of the Entity's liquidity cushion: Negative 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, reinsurance...)	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	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 internal funds	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



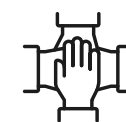
Underlying risk factor	Materialization pathway / Transmission channels (Potential financial impact)	Associated risk category
Acute		
INCREASE IN THE FREQUENCY OF EXTREME WEATHER EVENTS (storms, hurricanes, hail, heat waves, droughts, etc.) with impacts of an acute nature (floods, devastation, lack of 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 cushion. 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 assessment cuts 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	
	Discontinuities in the systems as a result of the physical deterioration caused in technological assets	Operational risk
	Discontinuities in the business as a result of the unavailability	
	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, reinsurance...)	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 value 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	Concentration risk	



Underlying risk factor	Materialization 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 a guarantee for mortgages	Credit risk
	Losses in economic value as a result of a deterioration of the mortgage market or of its commercial position	Banking business risk
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 cushion. 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	
	Deterioration of the valuation of investee companies	Investee company risk
	Deterioration in the results obtained by investee companies	
The emergence of regulations which require undertaking substantial investments to improve its ENERGY EFFICIENCY	Loss in economic value as a result of an investment level concentrated in activity sectors particularly exposed to climate and environmental risk	Concentration risk
	Sanctions and/or unfavourable rulings as a result of non-compliance or infringement of regulations	Regulation 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	Sanctions and/or unfavourable rulings as a result of infringing regulations connected to the provision of investment services	Regulatory compliance risk



Underlying risk factor	Materialization 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 which 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	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	Concentration risk
Lack of reliable data for preparing statistical models	Underestimating or overestimating expected levels of loss	Model risk
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	Concentration risk



Underlying risk factor	Materialization pathway/ Transmission channels (Potential financial impact)	Associated risk category
Loss of appeal of investment products	Difficulties / increasing price of access to wholesale financial 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

Once the identification process of the climate and environmental risks has been completed, which has provided climate and environmental risk subfactors, 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)

The following show the conclusions of the materiality analysis conducted:

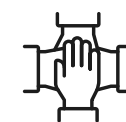


Table 7 Qualitative assesment of materiality on the short, medium and long term

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	
CREDIT RISKS	Credit Risk	●	●	●	○	○	●
	Counterparty Risk						
	Sovereign Risk						
FINANCIAL RISKS	RETI						
	RETC						
	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	○	○	○	○	○	○

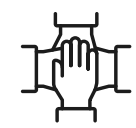
No impact has been identified ○ VERY LOW ● LOW ● MEDIUM ● HIGH ● VERY HIGH



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							
	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							
	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 probabilities of occurrence are analysed and the potential severity of each one of the correspondences identified between the subfactors of climate and environmental risks and the main risk categories, the estimated feasible impacts are added and the results are compared with a master materiality 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). Albeit with a lower materiality level, feasible impacts have also been identified on credit risk associated to technological transition risks and market transition risks.

As regards 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, due to the estimated feasible impacts presenting low probabilities of occurrence, and/or reduced severity levels, or combinations of both parameters. 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 risks, some feasible impacts have been identified associated to a possible materialization of physical risks, but their probability of occurrence would be low and severity limited
- As regards regulatory compliance risk and reputational risk, possible feasible impacts have been identified derived from non-compliance of environmental regulations, 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

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 Conclusions of materiality analyses conducted on products

Impact of climate and environmental risks (C%E) on Products	Physical Risks			Transition Risks		
	Short Term	Medium Term	Long Term	Short Term	Medium Term	Long Term
Residential mortgages	○	●	●	○	●	●
Loans to developer	●	●	●			
Loans to companies – Fixed asset	○	●	●	○	●	●
Investment and pension funds				○	○	●
Customer deposits				○	○	●
Insurance	●	●	●			

No impact has been identified ○ VERY LOW ● LOW ● MEDIUM ● HIGH ● VERY HIGH

Source: Own elaboration

In this case, no high or very high materiality levels have been identified, for any of the referred time horizons. 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), and for company loans for the acquisition of fixed assets (as these are long-term transactions which may be affected by the impacts of

C&E risks on the business model of certain economic activity sectors). For the rest of the products analysed, low or very low materiality levels have been estimated. In short, the conclusions obtained from the analyses conducted as regards 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 with little capacity to significantly impact the solvency and/or liquidity levels of the Group
- In the short term (up to 3 years), it is estimated that the level of materiality of climate and environmental risks will be low and will not have a significant impact on the Group's solvency and/or liquidity levels.
- 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 envisaged, 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 as regards their hypothetical occurrence.

The measurement of this type of underlying risk factors allows valuing the resistance capacity of the Entity as regards 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, 10% of the portfolio corresponds to financing with Public Administrations and 19% is granted to legal persons, with a relatively low representativity level in those sectors which may be considered as more contaminating
- Moreover, it is also worth noting the risk profile and financial power of the Entity, with the lowest non-performing loans ratio in the sector and is the most solvent competitor in the sector

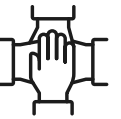
By so doing, the exposure of Kutxabank to transition risks in its wholesale portfolio is reduced, whereas the exposure to physical risks of the mortgage portfolio could be higher, albeit the probability of occurrence is lower, particularly in the short and medium term.

Therefore, a summary of the different initiatives in which the Entity has been working with regards to measuring 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 company financing portfolio. In addition, an analysis of the climate and environmental risks in the Equities and Private Fixed Income portfolios is also being performed.

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 synthetic 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

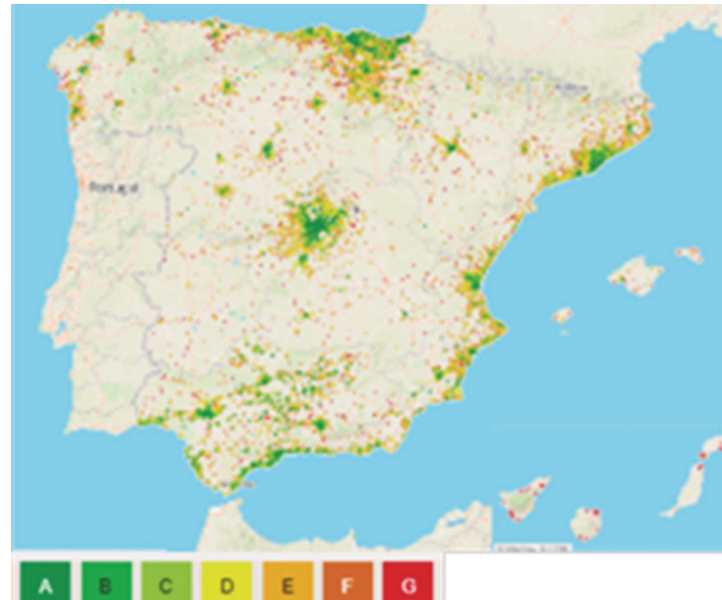
In order to measure the exposure level to the transition risks in this portfolio, it is understood that the property with worse energy ratings based on Energy Performance Certificates (EPC) could undergo potential value losses due to the need to adapt to new more efficient energy systems or to the worsening 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 capturing 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

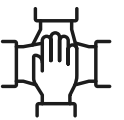
public registers or has developed several approach models for estimating it and the methodology of which has been audited by an external independent auditor

- 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 Kutxabank's mortgage portfolio



Source: Own elaboration and market supplier (information referring to 2021)



At the end of December 2022, Kutxabank’s mortgage portfolio only had 18% of guarantees with F or G consumption Energy Performance Certificates. In addition, in line with what has already been mentioned above in this document, 27% of the new mortgage loans formalized during 2022 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
A	6%
B	5%
C	3%
D	8%
E	60%
F	8%
G	10%
TOTAL	100%

Source: Own elaboration

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

Table 10 Distribution of the Foreclosed assets portfolio according to Energy Performance Certificates

EPC Rating Level of Consumption	% distribution on balance in €M
A	1%
B	1%
C	7%
D	10%
E	66%
F	6%
G	9%
TOTAL	100%

Source: Own elaboration

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

Conversely, 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 synthetic indicator of climate and environmental risks for corporations.

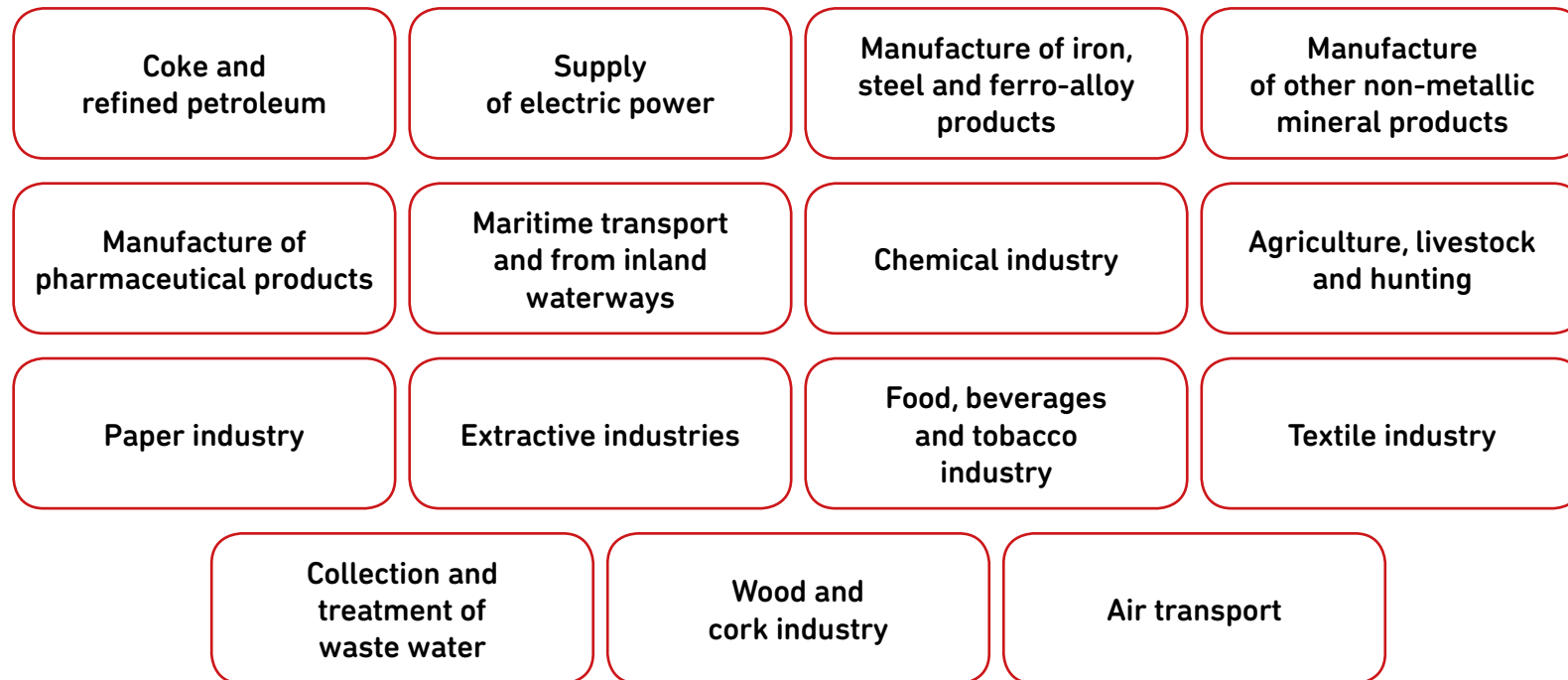
The indicator allows those sectors with the most damaging environmental impact to be identified according to 5 variables: Greenhouse Gas emissions, other gases, generation of hazardous and non-hazardous waste and



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 mitigator 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. For a more extensive analysis, the synthetic 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.

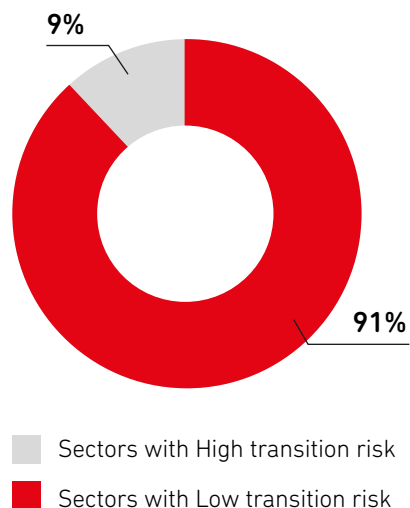
Illustration 27: Details of sectors with a potentially high climate and environmental transition risk (based on the internal synthetic indicator)



Source: Own elaboration

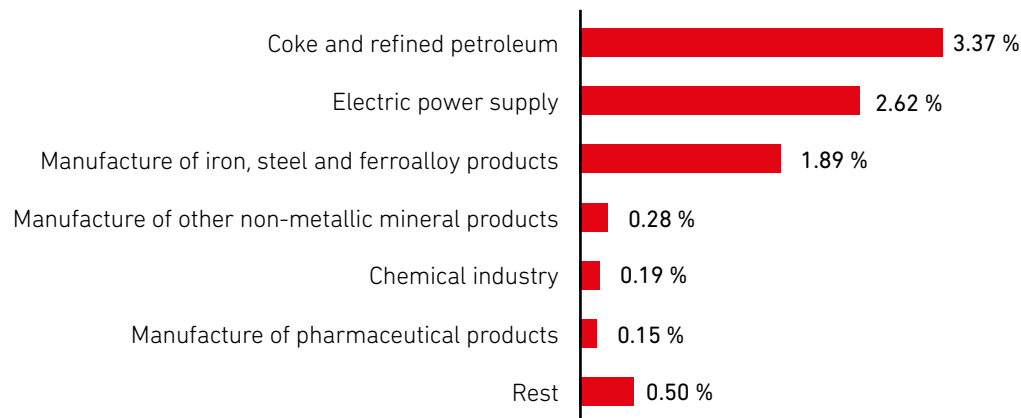


Illustration 28: Exposure level of the portfolio in corporate finance as of 31 December in sectors with the highest transition risk according to the synthetic indicator



Source: Own elaboration

In this respect, 9% of the Entity's companies 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 3%.



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

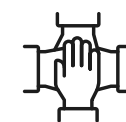


Table 11 Weight of interest income and fees of the sectors with the highest transition risk according to the synthetic indicator in the Entity's portfolio as of December 31, 2022

Activity Sector	% Total income	% Total fees
Coke and refined petroleum	0.80%	0.06%
Manufactur of iron, steel and ferro-alloy products	0.58%	0.13%
Supply of electric power	0.44%	0.48%
Agriculture, livestock and hunting	0.28%	0.08%
Food, beverages and tobacco industry	0.26%	0.06%
Collection and treatment of waste water	0.26%	0.12%
Manufacture of other non-metallic mineral products	0.08%	0.04%
Rest	0.22%	0.22%
Total	2.92%	1.19%

* This is the information which is reported in the SREP with data on 31 December 2022.

** These details include all the CNAEs/activities in each sector although some activities have been deleted in the synthetic 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 greater transition risk according to the synthetic indicator amount approximately to 2.9% of the total income from interest of the corporate portfolio, and 1.2% of the total income from fees.

It is notable that a significant percentage of the financing granted in these sectors corresponds to reference players at a sectoral level which 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.

In addition, the Entity has also designed specific mitigation strategies for mitigating these risks by means of different lines of action, inter alia:

- Promoting the incorporation of improvement indicators for the environmental and social performance of counterparties in the financing transactions
- Measuring the volume of CO2 emissions being financed in these sectors
- Setting decarbonization and alignment targets of portfolios for the most relevant sectors (Energy and Oil and Gas)
- 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 2022 has no risk and/or direct exposure via-à-vis the 20 most polluting companies in the world. However, it is currently extending such analysis in order to incorporate complementary information in case it is deemed necessary.

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

The Entity has designed a synthetic indicator in order to measure its exposure level to the five 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
- Seismic Risk: possible human, environmental, economic and material losses caused as a result of an earthquake

The Entity obtains the incidence of each one of the 5 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.

In this respect, through the collaborative project with a key market supplier, the Entity has a tool which allows it to view the potential physical risks to which the Kutxabank mortgage portfolio is exposed with high level of detail at a provincial, regional, municipal level, etc.

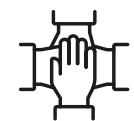


Illustration 29: Illustrative example of the physical risks of the Kutxabank mortgage portfolio

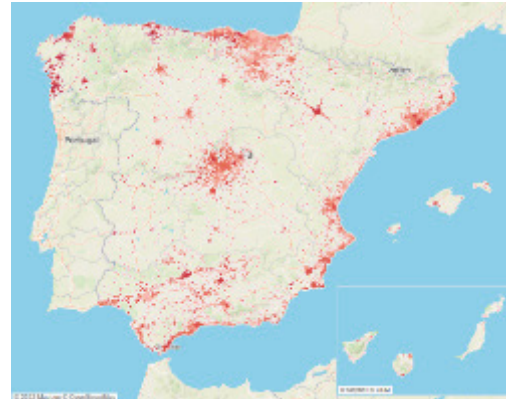
Seismic Risk



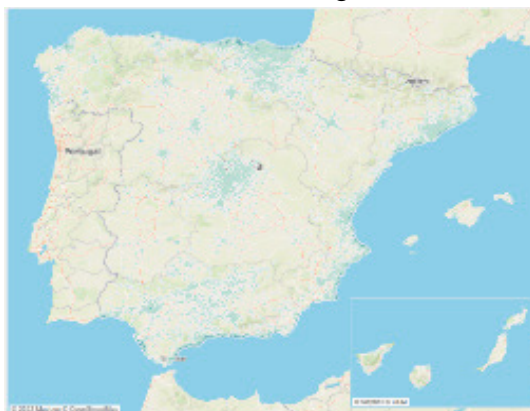
Desertification Risk



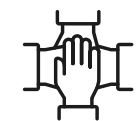
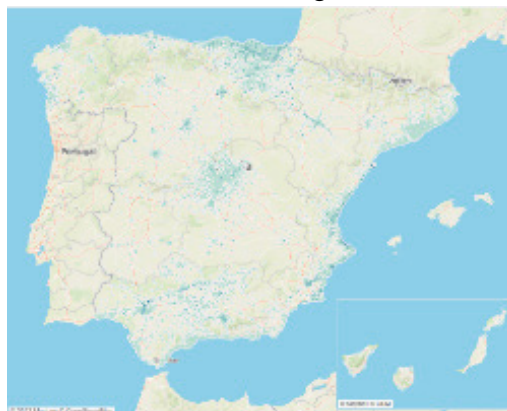
Fire Risk



Coastal Flooding Risk



River Flooding Risk



Source: Own elaboration and by market supplier (information referring to 2021)

From the analysis of the synthetic 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 seismic and desertification risks in some sites located in the south of the Peninsula.

Table 12 Distribution of the mortgage portfolio according to physical risk sensitivity as of December 31, 2022

Level of Physical Risks (according to synthetic indicator)	% distribution by balance
High	0.3%
Medium High	6.0%
Medium	0.0%
Medium Low	43.0%
Low	50.8%

Source: Own elaboration

At present, the Entity is undertaking a revision and sophistication process of the methodology used for preparing the synthetic indicator and expects to be able to continue progressing in the measurement of the physical risks in other portfolios such as the portfolio in companies. 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 level of exposure of the equity portfolio
As regards its equity portfolio, the Entity has performed a detailed analysis of the sustainability level of its main

investees, combining internal taxonomy criteria, external sustainability ratings and the expert analysis of the managers:

- First of all, the entire portfolio is cross-checked with internal taxonomy, which categorizes the companies in the portfolio according to the CNAE of the main activity
- Secondly, it has resorted to the assessment work of an independent third party, Experian, which assigns a rating to the companies in the portfolio in terms of sustainability
- Lastly, the Investees Area performs an Expert Analysis, incorporating qualitative and individualized information of the companies which make up the portfolio

Illustration 30: Results of the expert analysis on the investees portfolio distribution in environmental and social parameters as of 31 December 2022

Environmental			Social	
Green	Rest	Transition	Social	Rest
88.5%	2.9%	8.7%	97.8%	2.2%

Source: Own elaboration

In light of the above, it should be noted that the current Equity portfolio of the Entity receives a Green rating close to 90% in environmental terms and practically 100% in the social category.

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



- The best wind power producer in the world 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



- 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



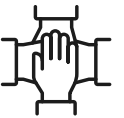


- CAF is undertaking relevant positions in order to **enlarge its value offer in sustainable mobility and contribute to decarbonization**. CAF is **number one in sustainable urban mobility**, with a value proposition no other player can equal (subways, trams, and LRVs, low and zero emission buses)
- 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 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, emphasis is also placed on the participation in Torre Iberdrola and San Mamés Barria, buildings which meet LEED Green Building Rating System certification, shown by their high level of sustainability and energy efficiency.

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

As regards the fixed income portfolio, the Entity has developed an expert analysis of the sustainability level of its portfolio, where it is important to emphasize that 89% of it is made up of Public Debt, therefore only 11% pertains to private sector emissions.

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 is also ranked 16th in the world ranking in the degree of SDG compliance, it has a low environmental risk, since this country is actively encouraging policies for the transition towards a low-emission economy providing firm support to renewable energies.

As regards private fixed income, the Entity concentrates more than 76% of its investment in 9 large companies, included in the Dow Jones Sustainability Index (DJSI) or which have positive EDG ratings based on the sustainability rating developed by an expert market supplier.

Additionally, it should be noted that on December 2022, this portfolio has a participation in green, social or sustainable bonds for a total amount of 113.8 million euros. Of this amount, 22.5 million correspond to green issues made by public and private institutions (Banco Santander, Naturgy, Apple), 73.9 million are associates to sustainability-related issues (of which 81% are in the public debt portfolio) and 17.4 million 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 which had already reached 222 million euros at the end of the first quarter 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 stress testing and sensitivity analysis

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 as regards transition risks into the portfolio of companies in its ICAAP in 2020. Additionally, in the 2021 edition, it complemented this exercise with a scenario on physical risks for the mortgage portfolio. Furthermore, in the 2022 edition it continued developing and expanding this analysis as well as having incorporated stress tests in this respect in the 2022-2024 Strategic Plan.

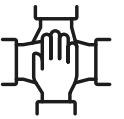
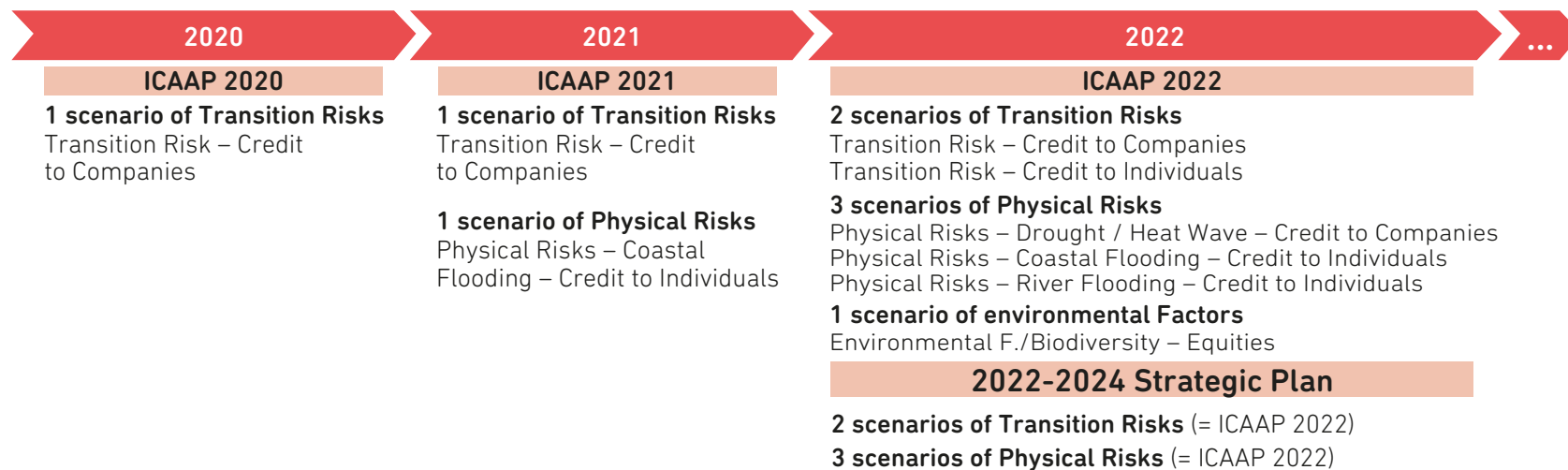


Illustration 31: Evolution of the climate stress tests included in the various planning exercises (until the first quarter of 2022)



Source: Own elaboration

Additionally, during the last quarter of 2022 the Entity has very significantly driven forward its climate stress testing capacities by means of drafting and approving the Internal Climate and Environmental Stress Testing Framework in December 2022 and expanding and refining the stress tests drawn up, which are summarised below in this document.

4.3.2.1 Internal Climate and Environmental Stress Testing Framework

In the first version of the Internal Climate and Environmental Stress Testing Framework of the Entity (approved by the Steering Committee in December 2022), it 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.

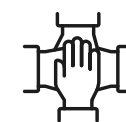


Table 14 Summary of the most relevant characteristics of the climate and environmental stress tests

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 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

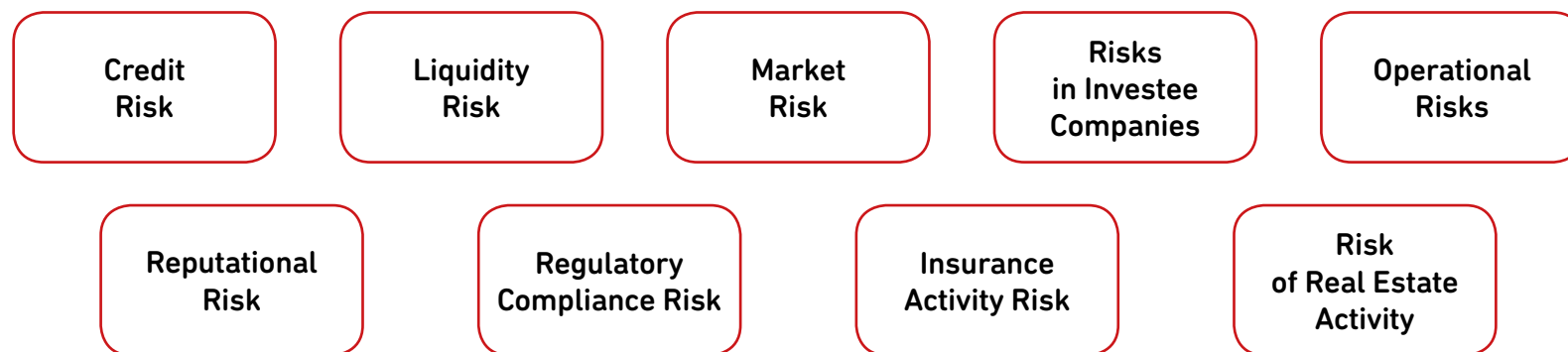
Source: Internal Climate and Environmental Stress Testing



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 in relation to climate and environmental risks and which, therefore, should be incorporated into the stress tests to define:

Illustration 32: Risk Categories incorporated into the internal Climate and Environmental Stress Testing Framework



Source: Internal Climate and Environmental Stress Testing Framework

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

Additionally, it should be noted 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.

As regards 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 Strategic Planning and the Technical Climate Office. 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 the 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 Technical Climate Office). As regards 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 2022

In the second half of 2022, the Entity has conducted a new internal climate 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
- 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

In this respect, credit, as well as liquidity, market, investee, regulatory compliance, reputational and insurance activity risk impacts have been compiled. The key aspects and results of this analysis have been included in the 2023 edition of ICAAP.

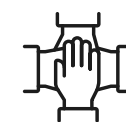


Table 15: Tests conducted in the Internal Climate and Environmental Stress Testing of Kutxabank Group at the end of 2022

Typology	Portfolios	Events		Time horizon	Type of test
Credit risk	Wholesaler (without guarantee)	Transition risk	Orderly Disorderly Hot House	Long term	Scenario (according to ECB climate ST)
	Wholesale (without guarantee)	Physical risk	Drought	Short term	Scenario (according to ECB climate ST)
	Retail (with guarantee)	Transition risk	Orderly Disorderly Hot House	Long term	Scenario (according to ECB climate ST)
	Retail (with guarantee)	Physical risk	Coastal Fl. River Fl. Fire	Short term	Scenario (IPCC + ECB climate ST)
Market risk	Private FR	Transition risk	Orderly Disorderly Hot House	Short term (Disorderly) Long term	Scenario (according to ECB climate ST)



Typology	Portfolios	Events		Time horizon	Type of test
Risk in investee companies	Main investee companies	Transition risk		Short term	External and internal scenario and 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 asset admissibil.	Short term	Sensitivity analysis
		Transition Risk / Physical Risk	Rating drop	Short term	Sensitivity analysis
Risk of regulatory compliance		Transition risk		Short term	Sensitivity analysis
		Transition risk	Theoretical greenwashing	Short term	Sensitivity analysis
Reputational Risk		Transition risk	Theoretical greenwashing	Short term	Sensitivity analysis
Insurance activity risk	Home Risk Insurance	Physical risk		Short term	Sensitivity analysis
	Private FI + Public Debt	Transition risk		Short term	PACTA / CLIMAFIN

Source: Own elaboration

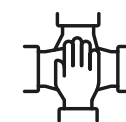


Based on the internal stress testing analyses developed by the Entity, it may be concluded that the low level of exposure of the Group’s business model to potential climate and environmental risks and the composition and distribution of its financing and investment portfolio, will enable it to easily 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 2022

Risk	Stress test	Impacto s/Ratio CET1
Credit	Transition - Companies: Orderly Scenario (LT)	25-50 pbs
	Transition - Companies: Disorderly Scenario (LT)	50-100 pbs
	Transition - Companies: Hot House Scenario (LT)	50-100 pbs
	Transition - Mortgages: Orderly Scenario (LT)	<5 pbs
	Transition - Mortgages: Disorderly Scenario (LT)	<5pbs
	Transition - Mortgages: Hot House Scenario (LT)	<5 pbs
	Physical – Mortgages: River flooding	<5 pbs
	Physical - Mortgages: Coastal flooding	<5 pbs
	Physical - Mortgages: Fires	5-10 pbs
	Physical - Companies: Drought / Heat Wave	10-25 pbs
Market	Transition - Companies: Orderly Scenario (LT)	<5 pbs
	Transition - Companies: Disorderly Scenario (ST)	<5 pbs
	Transition - Companies: Disorderly Scenario (LT)	<5 pbs
	Transition - Companies: Hot House Scenario (LT)	<5 pbs



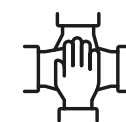
Risk	Stress test	Impacto s/Ratio CET1
Investees	Transition – Investee of energy sector A	<5 pbs
	Transition – Investee of energy sector B	<5 pbs
	Environmental – Investee of energy sector B	25-50 pbs
Liquidity	Collateral cuts	n.a.
	Inadmissibility of collaterals	n.a.
	Drop in rating	5-10 pbs
Compliance	Non-compliance of energy standards	10-25 pbs
	Sanction for regulatory non-compliance	10-25 pbs
Reputational	Outflow of deposits	n.a.
Insurance	Physical - Home	<5pbs
	Transition – Investment portfolio	<5 pbs

Source: Own elaboration

In this respect, the following conclusions are highlighted:

- The Entity has a reduced exposure to the financing of companies, 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 which 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 medium-low energy efficiency (albeit 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 (among other impacts)

- 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 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 (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

In any case, 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 developed by the ECB

Complementary to the above, 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 which measures the capacity of the Entity to analyse the bank's resilience as regards to climate risks
2. Analyse 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:

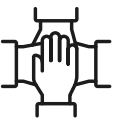
- **Orderly scenario:** transition and physical risks are moderate, since the climate policies are introduced gradually and on time and decrease the effects
 - **Disorderly scenario:** the necessary climate policies are introduced late and differently between countries and sectors, which causes the risks 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.

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 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.

As the Group comes to have reliable and representative risk indicators available of climate and environmental risks, its Risk Appetite Framework will incorporate those which are more useful in terms of management, including thresholds for these indicators.

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

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.

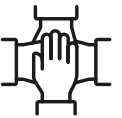
In this respect, the policies establish physical and transition risks as two underlying risk factors for credit risk and which therefore must be considered in the valuation of the guarantees provided as well as the analysis of the business model due to the impact it may have on the development of the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

The admission procedures include the requirement of compiling documentation and data in terms of physical and transition risk (Energy Performance Certificates, sustainability indicator of external suppliers, compliance indicators of sustainability targets, etc.). In turn, in line with the new fundamental principle mentioned, incentives are being progressively added for companies to introduce improvement objectives for climate risk indicators which mitigate transition risk.

The Credit Risk Department, in meeting the different milestones established according to the Roadmap defined by the Entity, continues its work in interpreting these data in order to formally and robustly integrate them into the management of credit risk as an underlying factor as categorized in the Risk map of the Entity.

The primary lines of work being implemented are as follows:

- Continue updating the credit risk admission procedure guides in order to integrate new processes and controls arising from the integration of climate and environmental risks
- Design the assessment to conduct of the impact of these risks into the in the admission and monitoring phases of credit risk management



In addition, and as an early exercise of integrating it into the management process, the Price Management Framework of the Entity includes certain incremental impacts on the risk cost of each transaction associated to those sectors or guarantees which are potentially more exposed to climate and environmental risks.

4.4.2 Investee company risk

In line with what is analysed above, the Investee Area, based on the commitment acquired by Kutxabank Group, and in order to assess the portfolio in environmental and social terms, conducts an analysis and categorization every year on the sustainability of the total amount of the portfolio under its management by using different assessment approaches. In turn, it participates in the Sector Policy implemented by Kutxabank Group in environmental and social matters, which attempts to respond to part of the supervisory expectations included in the ECB Guide on Climate and Environmental Risks of November 2020 and in compliance with the commitments acquired by the Entity in its Roadmap for adapting to it.

Currently, the department is working on implementing a Climate Risk indicator in Investee Companies (in line with what will be seen below in this document), which will be incorporated into the Policy Guide in the Risk of Investee Companies the update of which is expected for the end of 2023, together with the inclusion of environmental criteria in the procedure for Assessing the Equity Portfolio. In addition, in the Internal Climate and Environmental Stress Testing Framework, several stress tests have also been conducted as regards the specific impact in certain counterparties.

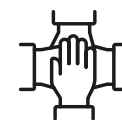
4.4.3 Market Risk

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.

Climate and environmental risks, 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 (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.

In the case of physical risks, these would impact directly through exposure of financial assets issued by institutions affected by these risks. In the case of transition risks and despite materialising indirectly through market risk factors, these movements would be transferred to the valuation of the financial instruments gradually and over a longer period of time.

In line with the commitment made by the Group, and in order to assess the quality and impact of the portfolio of financial instruments, which are susceptible of generating Market Risk, in environmental and social terms, the following work has been undertaken:



- Analysis and categorization in the sustainability of all the management portfolios related to market areas using different assessment approaches
- 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

Additionally, and as a complement to the work carried out, Kutxabank Group is engaged in the updating of different manuals and procedures related to Market Risk in order to include and integrate climate risks into the Market Risk management framework. This will be the cornerstone around which the indicators and controls will be centred to deploy a robust monitoring framework for the climate risks associated to market risk.

4.4.4 Liquidity Risk

The Group has conducted an analysis of the role of climate risks within the Liquidity Risk Management Framework by identifying the main risk factors and materialization pathways of this type of risk, in addition to taking the first steps to approach the design of integrating climate risk elements into the Liquidity Risk Management Framework.

The last internal climate and environmental stress testing exercise conducted by the Entity has included an analysis of the effect the occurrence which the climate and environmental factors considered have on the main liquidity indicators. Conducting these types of exercises may assist in obtaining information and conclusions which help to design indicators and other Liquidity Risk control elements derived from the occurrence of climate risk factors.

In this respect, the Entity expects to conduct a new update of the Guide on Liquidity Risk Management Policies throughout 2023 in order to deploy the incorporation of the integration

aspects of climate risks into the Liquidity Risk Management Policy.

Lastly, it should be noted that these same reflections have been incorporated in the 2023 edition of the ILAAP of the Entity.

4.4.5. Operational Risk

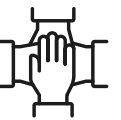
The Internal Governance Framework of the Kutxabank Group Risk Management, defines operational risk as the possibility that the Group may incur losses of economic value caused by faults, errors, insufficiency or inadequacies in its processes, systems or staff, as well as a result of external events. Operational 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 line with what was already mentioned before, the Corporate Risk Map of Kutxabank Group contains the underlying risk factors for each operational risk category and sub-category. Among such underlying risk factors, are climate and environmental risks, for which a qualitative materiality assessment is incorporated and materialization pathways are identified.

Currently, among the lines of work on which the operational risk analysis is focussing on, the following are highlighted:

- Identify and incorporate climate and environmental transition risk factors related to the operational sub-risk of customers, business products and practices



- Identify and incorporate climate and environmental risk factors associated with Greenwashing to operational risks

4.4.6 Reputational Risk

The Entity considers that climate and environmental risks may affect the perception of the Entity’s reputation among its 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 synthetic 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 risks and their impact on reputational risk.

Currently, the Regulatory Compliance and Control team of the Group is engaged in developing and improving the entire Compliance supervision and control model in order to integrate the continuous regulatory changes in terms of ESG, but in relation to climate and environmental factors, to note is the review being conducted on the reputational risk model with the purpose of improving the current methodology.

4.5 Monitoring

Once the mention of climate and environmental risks has been incorporated into the General Management Policies of the Risk Appetite Framework, in the action plan of the Entity in order to manage these lies the task of including a series of indicators in the Corporate Balanced Scorecard of Risks for monitoring. This tool aims to provide quarterly updated information which will allow a judgement to be made on the evolution of the Entity’s global risk.

Currently, the Entity is in the process of analysing and compiling key information in order to determine what indicators are more relevant for the proper management of climate and environmental risks. Once the key indicators are defined and furnished the key reporting dynamics will be complemented to the governing and executive bodies of the Entity in order to facilitate decision-making in terms of climate and environmental risks.

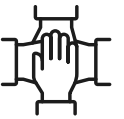
First of all, and until it has sufficient perspective and information, these risks will be monitored by the Entity recurrently, in order to subsequently include the indicators which are deemed pertinent in the Risk Appetite Framework of Kutxabank Group.

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 in terms of ESG of this document, the governing and executive bodies of the Entity (inter alia, 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.

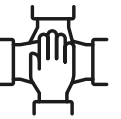
External reporting on climate and environmental risks

Conversely, during the last few years, the Group has been providing the market information 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 C&E 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
- In the Prudential Relevance Information (PRI) 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, as regards 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 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 as regards 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
- Energy consumption of the corporate activity
- Scope emissions 1, 2 and 3 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 of 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 section 3.5.2 Mobilisation of Sustainable Business in this document:

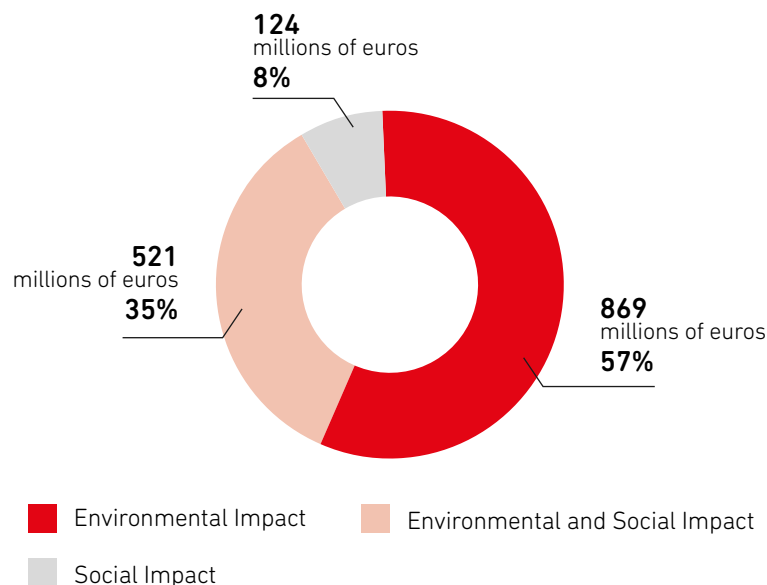
SUSTAINABLE FINANCING:

- The Entity **has financed close to 2,384 million euros in terms of sustainable economy during 2022, 5.5% more than in 2021**, 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 finances:

- **853 million euros granted to the financing of green mortgages** (with EPC A or B), which is 27% of the total of the new production in this segment. This type of loan offers special financing conditions for property with the highest energy certifications, as well as protection through the **"Green Insurance"**, the volume of new policies of which has reached almost 2,000 (an interannual growth of 2.5%) with a premium volume of over 1.8 million euros
- **16.6 million euros** have been allocated, more than twice of the previous year, to **consumer lending** for buying electric or hybrid vehicles or for undertaking reforms/renovations of housing or buildings which favour energy efficiency improvements, the use of renewable energies and the reduction of CO2 emissions
- The **specialized divisions in companies** and institutions have formalised **transactions for more than 1,514 million euros** in investments included, in accordance with the Entity's in-house criteria, within the green, social and sustainable economy, which is a 31% increase with regard to 2021



Illustration 33: Breakdown of the sustainable financing amount granted to Companies and Institutions (1,514 million euros)

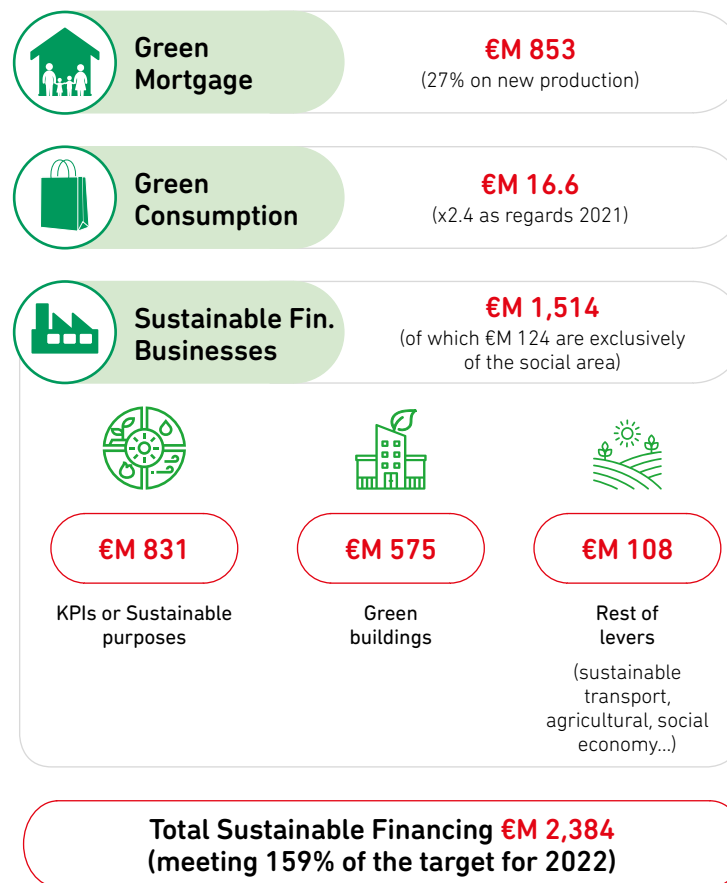


Source: Own elaboration

- In particular, progress continues in **incorporating ESG clauses into financing contracts**, with **831 million euros** granted in the year, from a total of 1,514, of which 731 have an environmental impact. 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, 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

A summary table is shown below containing the marketing of green and sustainable financing products during 2022 and their growth as regards to the data of the previous year:

Illustration 34: Sustainable Financing during 2022



* Classification of sustainable products based on internal criteria

Source: Own elaboration



In this respect, it should be noted that the Group has by far exceeded the green and sustainable financing figure set as a target for 2022, exceeding it by 159%.

RESPONSIBLE INVESTMENT AND SAVINGS:

- As regards asset management under **Socially Responsible Investment (SRI) criteria**, the Group management companies (Kutxabank Gestión and Fineco) manage **more of the 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 managing company 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 2022 the gross volume of such funds amounted to 14,687 million, almost 80% of the total assets under management
- 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, have formalised their adaptation to the requirements of article 8 of the SFDR Regulation. The balance deposited here on the 31 December 2022, amounts to 1,450 million euros. In addition, with effective date on 1 July 2023, the formal adaptation of article 8 will be 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 2022, the volume of ESPVs which entered into the category of article 8 amounted to 5,466 million euros

- For its part, **Fineco** has 4 investment funds catalogued in article 8 to which a new fund with multiple sub-funds is added in 2022 in which 4 of the 6 existing sub-funds also fall into such article. The gross volume on 31 December 2022 finally amounted to 2,014 million euros, 47% of the total funds managed

GREEN BOND ISSUANCES

- In 2021 Kutxabank successfully made its **first** senior non-preferred **green debt issuance** for an amount of 500 million euros, with a redemption period of 6 years or cancellable in the fifth year. In 2022, verified by an independent third party, it published the **first Report of Green Bonds** which reflects the allocation of funds made and the environmental impacts achieved in the period between 14 October 2021 and 30 June 2022. This report shows that more than three quarters of the 500 million euros of the Green Bonds of October 2021 were allocated to efficient construction projects (84%), followed by renewable energies (15%) and clean transport (1%). For the Renewable Energies and Clean Transport categories, the assignment of Green Bonds, have been allocated to finance one single project. For its part, 100% of the Clean Transport funds have been allocated to promote the development of hybrid transport. In Green Buildings, almost three quarters of the financing was allocated to residential mortgages (72%). The rest (28%) has been for loans to developers.

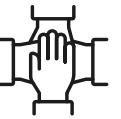
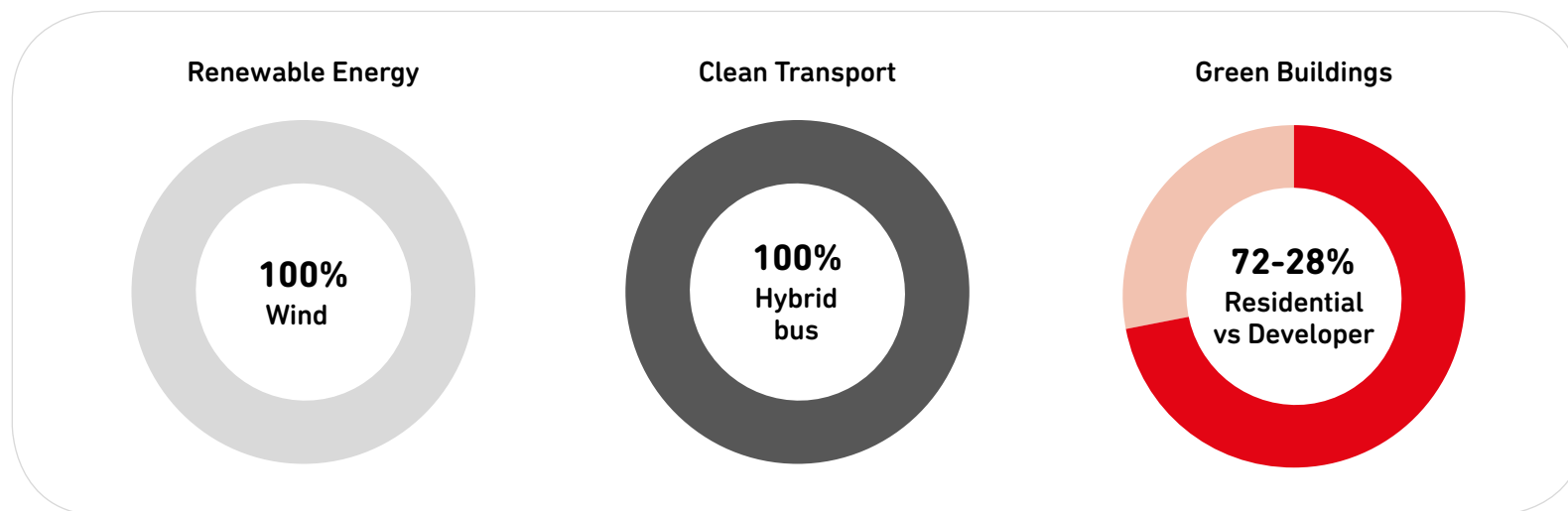
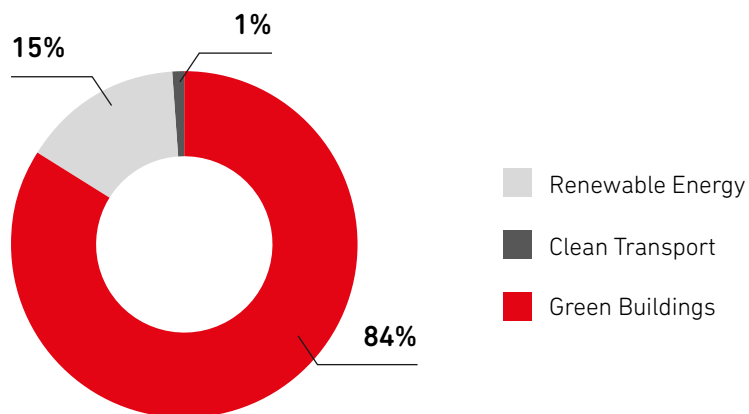


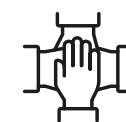
Illustration 35: Allocation of Green Bonds by categories



Source: Own elaboration

The main environmental impacts associated to the reference period have been calculated in terms of savings in GHG emissions, in units of CO₂eq. The highest level of savings

achieved is associated with the Green Buildings category with a total saving of 4,689 t CO₂eq. Of these savings, 4,073 tCO₂eq (87%) are achieved through Residential Mortgages,






the estimating the remaining 616 tCO₂eq savings (13%) being linked to Loans to Developers. As regards Clean Transport, savings in CO₂ emissions and savings in PM and other pollutant gases have been estimated separately. In terms of CO₂ emissions, the hybrid bus project will bring about savings of 19.1 tCO₂eq. The corresponding value in the savings of PM emissions is 0.005 tPM_{2.5} and the aggregate of the other pollutants calculated (CO, NO_x, HC, NO_x and NO₂) is 10.6t.

The report also provides information on energy indicators. The Renewable Energies project, connected to the promotion of wind energy, will help to contribute to the total renewable

capacity installed by approximately 66.95 MW. These energy generation sources are associated to zero GHG emissions, therefore considering the existing energy mix, this will enable a saving in emissions. For the Green Buildings category, the energy savings associated to new buildings has been estimated at a total of 21,974 MWh for the reference period, as well as the promotion of 2,187 category A emissions certificated, and 2,181 linked to energy consumption.

Illustration 36: Environmental impacts of the assets allocated

	Subcategory		Installed capacity (MW)						
	Wind		66.95						
	Subcategory		Emission savings (tCO ₂ eq)	Reduction of emissions from other atmospheric pollutants (t)					
	Hybrid		19.1	PM	CO	NOX	HC	NO	NO ₂
				0.005	2.0	5.5	0.021	2.5	0.573
	Subcategory		Reduction of energy consumption (MWh)	Reduction of GHG emissions (tCO ₂ eq)					
	Residential mortgages		19,151	4,073					
	Loans to developers		2,823	616					
	Total		21,974	4,689					

Source: Own elaboration



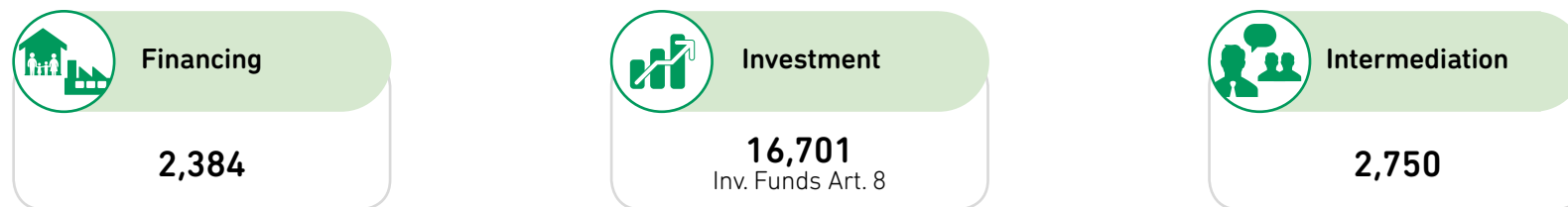
- In addition, it should be stressed once again that in June 2023 Kutxabank has issued green bonds in the senior non-preferred format for an amount of 500 million euros, and a redemption period of 4 years with the option of early repayment in the third year

RESPONSIBLE INTERMEDIATION

- As regards Kutxabank Group’s participation in capital markets, through its specialized subsidiary Norbolsa, work has continued in coordinating social, green and sustainable issues. Thus, in 2022 **Norbolsa was the global coordinator of a sustainable issuance of 600**

- million euros from the Basque Government** and has also participated as a placement entity for green promissory notes programmes and linked to the sustainability of large business corporations in the country for a total amount of 2,150 million.
- During the initial months of 2023, Norbolsa has continued with its intensive activity in terms of sustainability and has again acted as global coordinator of the VII sustainable issuance of the Basque Government which was carried out in the month of February for an amount of 700 million euros.

Illustration 37: Mobilisation of Sustainable Funds in Kutxabank Group in 2022 (in millions of euros)



21,835 million euros in 2022

And in 2021 an issuance of 500 million in green bonds to which a new issuance of another 500 million is added in 2023

Having entered into the category indicated in 2023, investment does not include: 1) the investment fund balances managed by KB Gestión classified in 2023 in article 9 as indicated in the section above; 2) the balances of pension plans and EPSV managed by KB Gestión which have been or will be classified in article 8 during 2023 as indicated in the section above; 3) the intermediation in the VII issuance of the Basque Government

Source: Own elaboration



5.2. 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 17 Evolution of the corporate activity consumption of Kutxabank Group

CONSUMPTION OF CORPORATE ACTIVITY						
	2018	2019	2020	2021	2022	Variation**
Total paper consumption (kg)	517,085	482,939	397,515	415,479	349,978	-16%
Total paper consumption (kg) per employee	93.74	87.46	74.09	79.82	69.68	-13%
Consumption of toner (kg)	6,187	6,470	5,409	5,854	5,577	-5%
Consumption of toner / employee	1.12	1.17	1.01	1.12	1.11	-1%
Energy consumption (GJ)*	151,523	142,130	128,503	124,999	118,230	-5%
Energy intensity (GJ/person)	26.23	24.56	22.65	22.74	22.12	-3%
Water consumption (m³)	33,872	43,962	38,865	43,810	36,449	-17%

*Includes electric power, natural gas and diesel

**Variation of 2022 as regards 2021

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 quarter of 2023.

Conversely, the latest four-yearly audit the Entity has conducted on all its facilities has revealed significant conclusions as regards the positive data derived from its sustainability policy, such as the 16% reduction in energy consumption.

A key factor in such improvement has been the supply of completely green energy. It should be recalled 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 data processing facilities (data center).



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.

In addition, in 2019 Kutxabank also launched a three-year plan to encourage decreasing paper consumption, preventable in many cases thanks to new technologies. These measures implemented have encouraged the reduction of paper consumption by around 1 million sheets and 1.2 million envelopes in just one year. 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.

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

One of the most significant effects of the proactive attitude of Kutxabank Group in protecting the environment is reducing the intensity of greenhouse gases which 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.

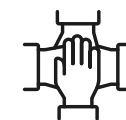
The calculations of greenhouse gas emissions are provided in CO2 equivalent tons, which already include the rest of the greenhouse gases from the combustion of the different sources of energy used in Kutxabank. Such greenhouse gases are primarily CO2, NO2 and CH4.

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

Table 18 Intensity of emissions from the activity of Kutxabank and Cajasur Banco

EMISSION INTENSITIES KUTXABANK AND CAJASUR	2020	2021	2022
Scope 1	867.66	753.04	580.50
Scope 2	0	0	0
Scope 3	414.21	380.38	512.72
Emissions generated (scope 1, 2 and 3) tnCO ₂ e	1,281.87	1,133.42	1,093.22
No. People Kutxabank and Cajasur	5,365	5,205	5,023
Emission intensities of greenhouse gases (tnCO ₂ e/person)	0.24	0.22	0.22

Source: Own elaboration



- Scope¹⁴: 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 albeit 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 3⁵: 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) and which have reduced considerably in the last few years due to the Covid-19 pandemic which has limited mobility

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 5.4 Emissions of the financing and investment portfolio in this document.

Further detail on the methodology used for calculating emissions is included in the Non-Financial Information Statement of the Entity published on its Corporate Website.

5.4. 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 measures 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 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.

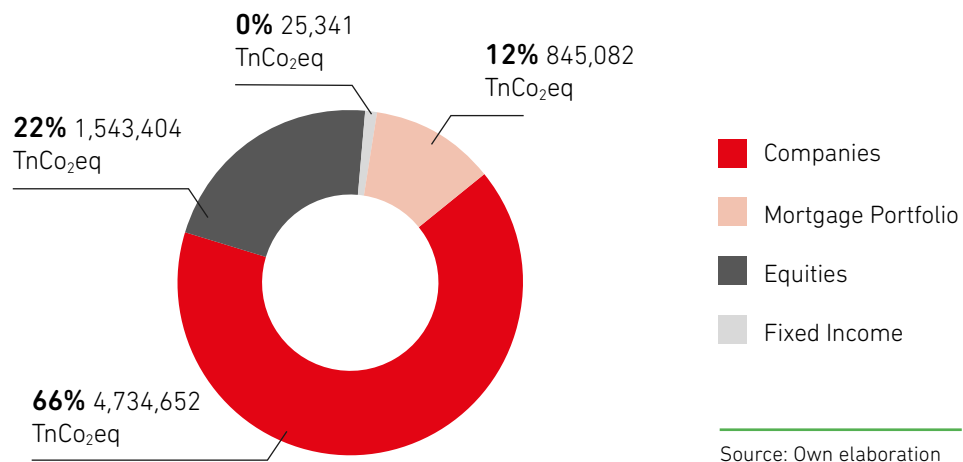
In this respect, on 31 December 2022, the emissions of the Group's most significant portfolios were calculated, which represent more than 60% of the total assets and which amounts to 7.1 million tons of CO₂eq.



⁴ 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.

⁵ Calculations made according to emission factors reported by DEFRA: Guidelines to Defra-GHG Conversion Factors for Company Reporting.

Illustration 38: Distribution of the Entity's CO2eq emissions according to portfolios



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 19 Mortgage Portfolio Emissions

EPC	Balance in €M	Emissions (tons CO ₂ eq Scope 1 and 2)	% of the total emissions of the portfolio	Intensity (KgCO ₂ eq/m ²)
A	1,990	8,239	1%	9.08
B	1,331	8,929	1%	13.07
C	881	10,453	1%	19.68
D	2,889	60,202	7%	32.69
E	18,669	556,402	66%	51.95
F	2,220	93,260	11%	74.85
G	1,742	107,597	13%	91.01
Total	29,722	845,082	100%	48.57

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 Performance Certificate

Source: Own elaboration



As is reasonable, emissions intensity (kgCO₂eq/m²) in guarantees with less efficient EPC are significantly 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 company financing portfolio, of the private fixed income and equities portfolio are shown together, in the table below:

Table 20 Emissions of the corporate finance, private fixed income and equity portfolio

Portfolio	Balance in €M	Scope 1 TnCO ₂ eq	Scope 2 TnCO ₂ eq	Scope 3 TnCO ₂ eq	Total TnCO ₂ eq	Intensity in TnCO ₂ eq/€M
Portfolio of companies	8,513	534,309	118,263	4,082,080	4,734,652	556.18
Equities	1,543	139,560	16,396	1,387,448	1,543,404	999.98
Private Fixed Income	136	4,626	1,619	19,096	25,341	186.93
Total	10,192	678,495	136,278	5,488,624	6,303,397	618.92

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 2022 in EBA Pillar 3

Source: Own elaboration

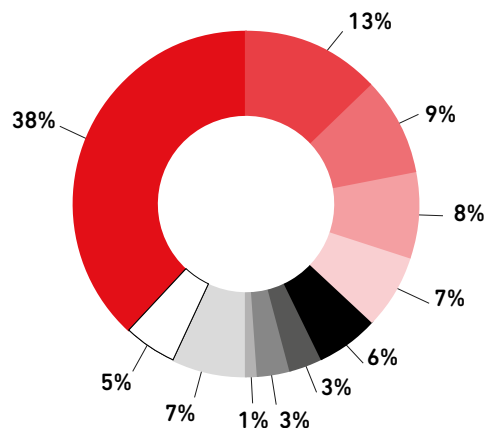
The total emissions of these portfolios vary according to the amount of the exposure and the distribution of the exposure between the different activity sectors. In this respect after a joint analysis of the portfolio of companies, equities and private fixed income, there is a noticeable difference of the

impact between the different sectors. By way of example, the Coke and refined petroleum sector accounts for only 6% of the portfolio but generates 59% of the total emissions. By contrast, the Real Estate Activities sector has a weight of 9% and accounts for only 0.1% of the total emissions.

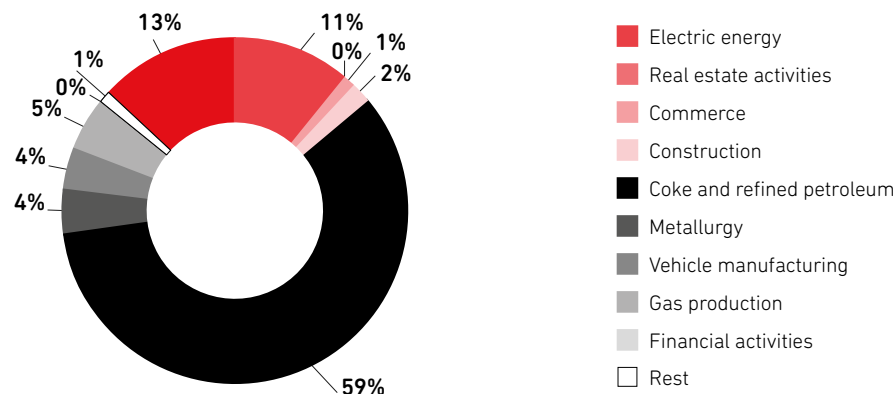


Illustration 39: Details of the weight of each sector in the total portfolio and in emissions generated

Outstanding capital by sectors



Emissions generated by sectors



- Electric energy
- Real estate activities
- Commerce
- Construction
- Coke and refined petroleum
- Metallurgy
- Vehicle manufacturing
- Gas production
- Financial activities
- Rest

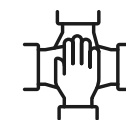
Source: Own elaboration

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. In this process, 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 2.95.

Table 21 Average scores achieved in the portfolios in which emissions have been calculated

Portfolio	Average score
Mortgage portfolio	3.00
Companies portfolio	3.06
Private Fixed Income	4.08
Equities	1.27
Total	2.95

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, 34% of the portfolio scored 1, 59% scored 4 and 7% scored 5. A score of 1 means 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), the real data of emissions do not exist 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, 6% scores 4 and 72% scores 5. The Equities portfolio scores 1 for 91% of the portfolio, whereas the remaining 9% 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.




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.

5.5. Decarbonization targets

In line with what has already been addressed 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 portfolio of companies.

In this context, the Governing Bodies of Kutxabank Group have recently approved setting intermediate decarbonization targets for its credit portfolio of the residential mortgage business and the Energy and Oil and Gas sectors, with reductions of 10%, 30% and 30%, respectively:

Illustration 40: Intermediate sectoral decarbonization targets

SECTOR / PORTFOLIO		% REDUCTION (2021-2030)
	Mortgage Portfolio	-10%
	Energy	-30%
	Oil and Gas	-30%

Source: Own elaboration



This is a first approach, subject to review, and allows the Entity to commence exploring and familiarizing itself with the alignment methodologies of the portfolio. In addition, it combines the alignment of the portfolios based on the reference pathways drawn from the International Energy Agency (IEA), in order to meet the Paris Agreement targets with the reduction goals of the main counterparties of the Entity in each one of the sectors analysed. In this respect, the Entity has used information related to the intermediate decarbonization targets set by its main counterparties in defining the targets of its financing portfolio and will conduct regular monitoring of its evolution.

The Group will implement different actions with its main counterparties in order to encourage meeting the decarbonization targets set and will extend the definition of targets to more sectors and portfolios over the coming years.

5.6. 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 as regards climate, deployed at a portfolio level, 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 executive bodies of the Entity have been incorporated into the regular monitoring carried out on it.

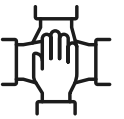
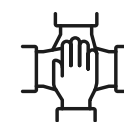


Illustration 41: Deployment of climate indicators

Portfolios / Indicators	Current value	Target	Reference	Monitoring
Mortgage				
% Green mortgages acc./production (vol.)	26,9% (Dec 22)	> 20%	2022-2024	Quarterly
% Mortgages with EPC Consumption F or G (vol. portfolio)	18% (Dec 22)	< 25%	Long Term	Annual
% Mortgages in areas with High or Medium High portfolio risk (vol. portfolio)	6% (Dec 22)	<10%	Long Term	Annual
Companies				
% Exposure to High or Medium High risk sectors (vol. portfolio)	9% (Dec 22)	< 15%	Long Term	Annual
Developer				
No. of Developments with EPC Consumption A	>70% (2022)	>70%	2022-2024	Annual
Equities portfolio				
% Investment in "transition" / Computable Own Resources (OR)	3% (Dec 22)	<10%	Long Term	Annual



Carbon Footprint Indicators	Current Situation		Reference	Monitoring
Corporate Carbon Footprint				
Maintaining the balance between the economic and environmental impact	Accomplished	✓	Long Term	Annual
Reducing the carbon footprint calculated of up to 86% during the 2019-2024 period	Ongoing	⦿	2019-2024	Annual
Maintaining consumption of 100% renewable energy	Accomplished	✓	Long Term	Annual
Financed Carbon Footprint				
Reducing 10% in the residential mortgage portfolio	In process of implementation	⦿	2030	Annual
Reducing 30% in the Energy sector	In process of implementation	⦿	2030	Annual
Reducing 30% in the Oil&Gas sector	In process of implementation	⦿	2030	Annual



Other relevant indicators	Current Situation		Reference	Monitoring
Maintaining the Sustainability score equal to or less than "Low"	NEGLIGIBLE RISK	✓	Long Term	Annual
Office climate Renewal Plan: renovation 25 offices / year	Ongoing	⦿	2023-2024	Annual
Energy efficiency: 12 work projects in offices per year	Ongoing	⦿	2023-2024	Annual
Fitting remote control systems in offices: 100 offices / year	Ongoing	⦿	2023-2024	Annual

Source: Own elaboration

In this respect, the Entity will assess the inclusion of new indicators or modifying these, 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.

5.7. 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. Thus, 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 and compare it with the positive economic impact it generates. In line with what is contained in the 2022-2024 Strategic Plan, the Entity aspires to maintain a balance between its economic impact and its environmental impact, which enables it to promote the sustainable growth of the economic network.

As regards the results of this year for 2022 of note is 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 generate 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). During the last year, this economic and social impact has grown due to the significant credit activity of the Entity, and has done so to a greater extent than the environmental impact, increasing its positive externalities.

Therefore, Kutxabank contributes in generating wealth to a greater extent than its environmental impact, thereby promoting the sustainable development of the environments in which it operates.

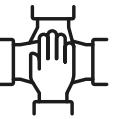
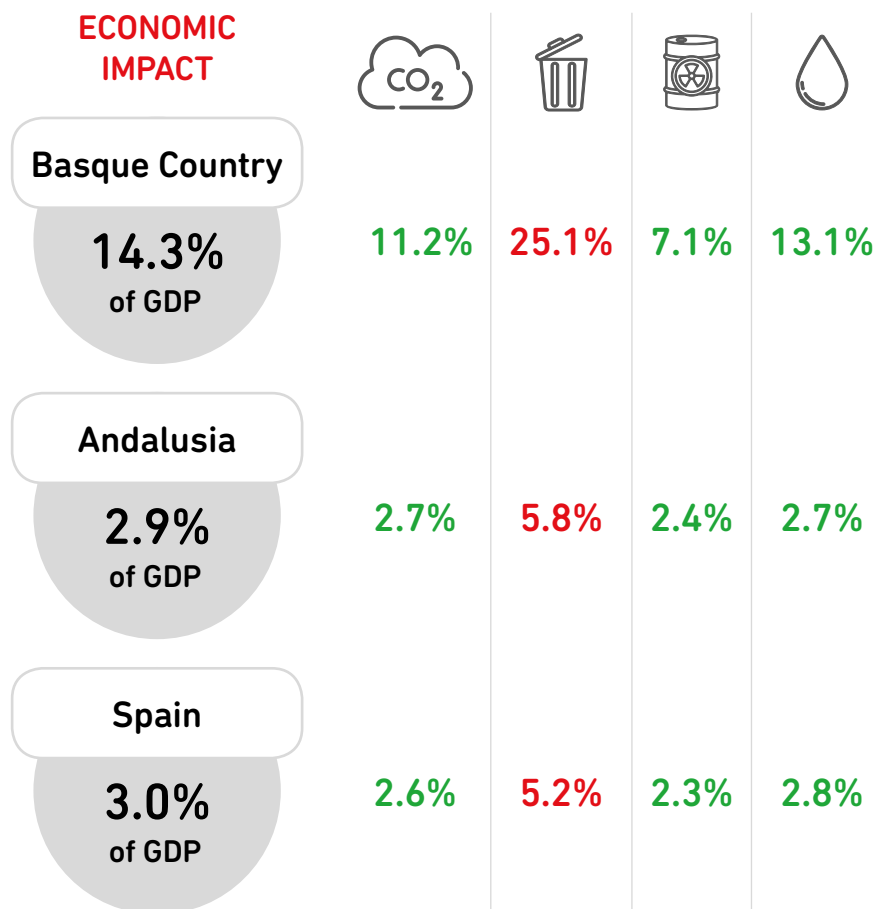




Illustration 42: Positive externalities of the Entity's activity as of 31 December 2022

Result: economy versus environment



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.

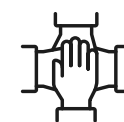
 Greenhouse gases

 Hazardous waste

 Non-hazardous waste

 Water

Source: Ceprede and own elaboration





6. Final remarks on the resilience of the business model of the Entity with regard to climate change

6. Final remarks on the resilience of the business model of the Entity with regard to climate change

The TCFD recommends organisations to describe how resilient their business strategy and 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 as regards promoting and marketing sustainable products which 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, Sectors Policy, measuring the carbon footprint...).

In addition, the business model of the Entity, particularly as regards 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 as regards 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 is worth noting 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 managing its business (credit risk policies, price policies, extending and developing the internal stress testing exercises, etc).





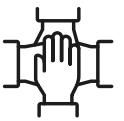
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Annexes

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

Table 22 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 of the board of directors on climate-related risks and opportunities	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 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 2°C or less	Section 3.3.6
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 y 5
	b) Disclose Scope 1, Scope 2 and, if applicable, Scope 3 of greenhouse gas (GHG) emissions and related risks	Sections 5.3 and 5.4
	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

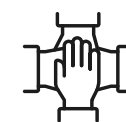


Table 23 Correlation table of the Climate Report with the recommendations of the draft Royal Decree developing the content of the report in accordance with art. 32 of Law 7/2021

Element of the Climate Law	Recommendations 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 y 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	Recommendations of the Climate Law	Climate Report Chapter
<p>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</p>	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 y 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
<p>Strategy: strategic approach for managing transition risks and physical risks, as well as climate-related opportunities</p>	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 impact 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
<p>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</p>	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 adaptive 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 when historical information will be 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 5.3 and 5.4
	d) The targets addressed for the metrics mentioned in the previous sections, defining the period of time 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) If there is a 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 development of the content of the report pursuant to art.32 of Law 7/2021 and own elaboration

Anexo B – Methodology for calculating emissions of the financing and investment portfolio of the Entity

In order to calculate emissions, the Entity uses the template from a sectoral project prepared by an expert supplier in ESG solutions. The template has been prepared following PCAF 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 of emissions with the best possible quality, so that the counterparties publish real data on emissions these are used; failing this, the emissions are calculated by means of sectoral averages provided by PCAF⁶. 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. In so doing, the percentages of the total emissions which correspond to the Entity are reached.

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 to calculate the decarbonization targets following the SBTi methodology and using the IEA reference pathways.

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



⁶All 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

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

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

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

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 classes. 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. The

methodology used for calculating financing or investments in companies (similar for both cases since only the attribution factor numerator is changed) and the methodology used for mortgage loans are shown below. 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.

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

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

(c = corporate loans)

Source: Sectoral project

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

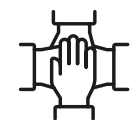
The data collected by the financial institution, together with the information provided by the external databases, allows the emissions of corporate loans to be calculated.

Table 24 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	$\sum Outstanding\ capital_c \times \frac{GHG_c\ Emissions}{Assets_s}$	Score 5
	Company revenue	$\sum Attribution\ Factor_c \times Revenue_c \times \frac{GHG_c\ Emissions}{Revenue_s}$	Score 4
Option B	Non-verified reported emissions	$\sum Attribution\ Factor_c \times Non-verified\ Emissions_c$	Score 2
	Verified reported emissions	$\sum Attribution\ Factor_c \times Verified\ Emissions_c$	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 mortgage guarantees

$$Attribution\ Factor = \frac{Outstanding\ Capital_b}{Asset\ value\ at\ origination_b}$$

(b = property assets)

Source: Sectoral project

The calculation methodology has used 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 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. The reference formulas for calculating these are shown in detail below:



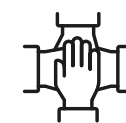
Table 25 Details of the formulas for calculating the mortgage portfolio emissions with different data qualities

	Information required	Calculation formulas	Score
Option A	Number of buildings	$\sum Attribution\ Factor_b \times N^{\circ}\ of\ buildings_b \times Emission\ factor_b$	Score 5
Option B	Type, surface and location	$\sum Attribution\ Factor_b \times Surface_b \times Emission\ factor_b$	Score 4
Option C	Type, surface, location and EPC	$\sum Attribution\ Factor_b \times Surface_b \times Emission\ factor_{EPC}$ <i>(See example described in Case Study 9)</i> or $\sum Attribution\ Factor_b \times Consumption\ of\ energy\ estimated_{EPC} \times Emission\ factor_{e,C}$	Score 3

(b = property 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 Performance Certificates.



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 developed 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.

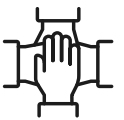
The factors (emission, generation and consumption) have been obtained from the general production data according to activity branches and the environmental accounts prepared by INE.

Emission Factor $_{g,s}$ = Emissions $_{g,s}$ / 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 $_s$

Ultimately, 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

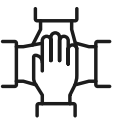
- AandC: Audit and Compliance Committee
- BREEAM: Building Research Establishment Environmental Assessment Methodology
- C&E: climate and environmental
- CEPREDE: Economic Forecasting Centre
- CFC: Chlorofluorocarbons
- CNMV: National Securities Market Commission
- CO2: Carbon dioxide
- COP 25: United Nations Climate Change Conference
- CSR: Corporate Social Responsibility
- DJSI: Dow Jones Sustainability Index
- DPC: Data Center
- EBA: European Banking Authority
- ECB: European Central Bank
- EMAS: Eco-Management and Audit Scheme
- EPC: Energy Performance Certificates
- ESG: Environmental, Social and Good Governance criteria
- EU: European Union
- FC: Financial Corporation
- FS: Financial Statements
- FSB: Financial Stability Board
- G20: International Forum of governors and presidents of central banks

- GAR: Green Asset Ratio
- GBC: Green Bond Committee
- GDP: Gross Domestic Product
- GHG Protocol: Greenhouse Gas Protocol
- GHG: Greenhouse Gases
- GVA: Gross Value Added
- 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
- IHOBE: Public Society of Environmental Management of the Basque Government
- ILAAP: Internal Liquidity Adequacy Assessment Process
- INE: National Statistics Institute
- IPO: Initial Public Offering
- ISO: International Organization for Standardization
- ISRI: Socially Responsible Investment
- KPI: Key Performance Indicator
- KRI: Key Risk Indicator
- LEED: Leadership in Energy & Environmental Design



- LNG: Liquefied Natural Gas
- LT: long term, period over 10 years
- M: Millions of euros
- MiFID: Markets in Financial Instruments Directive
- MT: Medium Term, period between 3 and 10 years
- MWh: Megawatt hour
- Net Zero Emissions (NZE): GHG net zero emissions target
- NFC: Non-Financial Corporation
- NFIS: Non-Financial Information Statement
- NGFS: Network for Greening the Financial System
- OSI: on-site 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: Pilar III Report
- R+D+i: Research, Development and innovation
- RD: Royal Decree
- SBTi: Science Based Targets Initiative
- SDG: Sustainable Development Goals
- SFDR: Sustainable Finance Disclosure Regulation
- SREP: Supervisory Review and Evaluation Process
- ST: Short term, period less than 3 years
- TCFD: Task Force on Climate-related Financial Disclosures
- TCO: Technical Climate Office
- Tn: Tons
- TR: Taxonomy Regulation
- UN: United Nations Organization
- UNESCO: United Nations Educational, Scientific and Cultural Organization
- UNPRI: UN Principles for Responsible Investment





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