

2 0 2 2 R E P O R T



TASK FORCE
ON CLIMATE-RELATED
FINANCIAL
DISCLOSURES

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Introduction and general description of the report

0.1. INTRODUCTION

Climate change and the financial sector

Human activity is disrupting the environment at an unprecedented scale. Scientists agree that these changes are now unstoppable, so work and goals being set now aim to minimise these transformations and keep them under relative control. Phenomena such as particularly high temperatures, catastrophic storms, droughts, desertification, loss of species and biodiversity, fires, floods or rising sea levels are just some of the consequences of this climate change we are up against.

As a fundamental tool within the economic system, the financial sector is going to be deeply affected by this situation in two main ways:

- On the one hand, impacts of climate change can already be felt in the banking risks, in guarantee conditions and the collateral required for financing or investment profitability. These impacts will only worsen as time goes on.
- At the same time, adapting to the new environmental scenario and a more sustainable, decarbonised economy is going to mean transforming the economic model with significant financial implications, including the associated risks.

Specifically, from the risk perspective, climate change usually infers two types of risk:

- Physical: risks due to extreme weather events that directly affect the value of assets.

- Transition: risks and opportunities generated during the transition to a low-carbon economy, such as legal restrictions or changes in market trends.

LABORAL Kutxa is aware that the environmental challenges ahead are huge for the financial sector. At the same time, as a credit cooperative, it always strives for progress in society and works towards a fair and sustainable economic model. Right now, economic progress and fair distribution of wealth are intricately linked to protecting the environment and to the economic transformation required to meet climate-related and environmental challenges.

Although its cooperative stance has always focussed principally on social aspects, it is no stranger to environmental concerns. For instance, more than twenty years ago, it was the first financial entity in Spain to earn the ISO 14001 environmental certificate which guarantees appropriate management of its activity's direct impact.

Aim of this report

The TCFD (Task Force on Climate-Related Financial Disclosures) is a Financial Stability Board (FSB) work group which analyses the financial and transition risks associated with climate change. Its work is extremely important to help companies assess and correctly administer climate-related contingencies and thereby mitigate climate-related risks for its organisations.

In June 2017, the TCFD published a series of recommendations to help investors understand the impact of climate risks on the various companies and reduce the risk of financial shock to the economy due to climate change. This information is key for investors to be able to take more mature decisions regarding their investments and assess short-, medium- and long-term exposure.

LABORAL Kutxa decided to issue this second report following TCFD recommendations to demonstrate transparency and commitment to addressing our major challenges.

As explained above, LABORAL Kutxa's environmental commitment is long-standing. However, right now, it is necessary to ramp up the effort to turn the current economic model into something more sustainable.

At the same time, as a financial entity, environmental and climate change risks should also be incorporated given the magnitude of the impact of direct and transition risks on the economy.



Recipients

LABORAL Kutxa is issuing this report as a voluntary transparency exercise, presenting its climate risk policy and management to its customers, staff, regulators and society as a whole.

In the same way, the TCFD is a further step for LABORAL Kutxa within its sustainability commitment, thereby aligning it with the United Nations 2030 Agenda Sustainable Development Goals and Principles for Responsible Banking, of which LABORAL Kutxa is one of the 130 founding members.

Scope of the report

LABORAL Kutxa produced its first TCFD report in 2021, summarising the Bank's climate change management in areas such as governance, strategy, risk management and objectives and measures. However, in 2022, it has decided to go one further and issue this report based on the TCFD report playbook manual, drawn up by UNEP-FI alongside Ernst & Young and the Institute of International Finance (IIF). This manual can be used to compare the report against similar documents from other entities also following this guide, and also extend information from previous years and cover a greater scope.

Therefore, this new report shows progress on 2021. This second report also reflects the considerable boost LABORAL Kutxa has given to sustainability matters over the last year. This progress will be explained in greater detail throughout the report. However, LABORAL Kutxa intends to continue improving and going into greater depth regarding the information disseminated in the report through annual updates.



0.2. GENERAL DESCRIPTION OF THE REPORT

Governance	Strategy	Risk management	Indicators and goals
<p>A) The Board of Governors is the top governing body of the LABORAL Kutxa Group, in charge of defining the bank's strategy and carrying out both surveillance and supervision of the risks that it incurs. It has overall control of environmental and climate change management.</p> <p>Aspects regarding sustainability and climate change risks, their incorporation and analysis, are included in the functions of the Risk Committee, dependant on the Board of Governors.</p>	<p>A) An initial qualitative analysis has been performed. The main conclusions from this initial analysis are:</p> <ul style="list-style-type: none"> • That both risks and opportunities will appear in the medium- and particularly in the long-term. • In the short-term, the estimated financial impact seems to be limited, although possibly already relevant in certain sectors. 	<p>A) All specific aspects referring to the risks, their incorporation and assessment, also in relation to climate change, are tasks for the Risk Committee. In line with the ECB regulatory expectations, the best way of incorporating sustainability and climate change risks is to include them in traditional risk categories (credit, market, etc.).</p>	<p>A) Regarding direct environmental performance, the ISO 14001 certification provides a battery of indicators.</p> <p>The GAR (Green Asset Ratio) has been calculated.</p>
<p>B) In 2022, sustainability governance was implemented, including a Sustainability Committee comprising members from the Management Board, a Sustainability Team to implement the Road Map, and a Sustainability Office was set up to boost and coordinate sustainability initiatives. A quarterly report is sent to the Board of Governors which has the overall responsibility for risk control and the Group's general strategy.</p>	<p>B) The energy efficiency of the mortgaged property portfolio is very low. 31.1% of the property has energy ratings of F and G.</p> <p>After assessing the risks and opportunities of climate change, and its temporary outlook, the following lines of action have been identified: investment and financing products, insurance, training and improving data.</p>	<p>B) LABORAL Kutxa sets its risk appetite in its Risk Appetite Framework and updates it every year (Risk Appetite Statement, RAS).</p>	<p>B)</p> <p>Scope 1: 213 Scope 2: 0 Scope 3: 940</p> <p>Total emissions (Tn CO2): 1,153</p> <p>One outstanding challenge is to measure the carbon footprint of the investment and financing portfolios.</p>
	<p>C) Specific scenario analysis has not been run to improve the strategic resilience and explore climate vulnerabilities.</p> <p>As a result of the risks and opportunities analysis, it is considered that the strongest climate risks affecting the Entity involve transition to a low-carbon economy.</p>	<p>C) In 2022, three indicators relating to ESG risks were added to the risk appetite framework.</p> <ul style="list-style-type: none"> • Ratio of analysis sector risk to ESG risk. • Ratio of mortgage investment in homes with low energy ratings. • Ratio of mortgage investment in homes with high direct climate risk. 	<p>C) Strategic objectives for 2019-2022:</p> <ul style="list-style-type: none"> • 75% reduction in CO2 emissions. • 30% reduction in paper consumption. • Make 40% of purchases from local suppliers. <p>There is a Sustainability Management Plan and a 2022 Environmental Plan featuring commitments, actions and goals.</p>



Governance



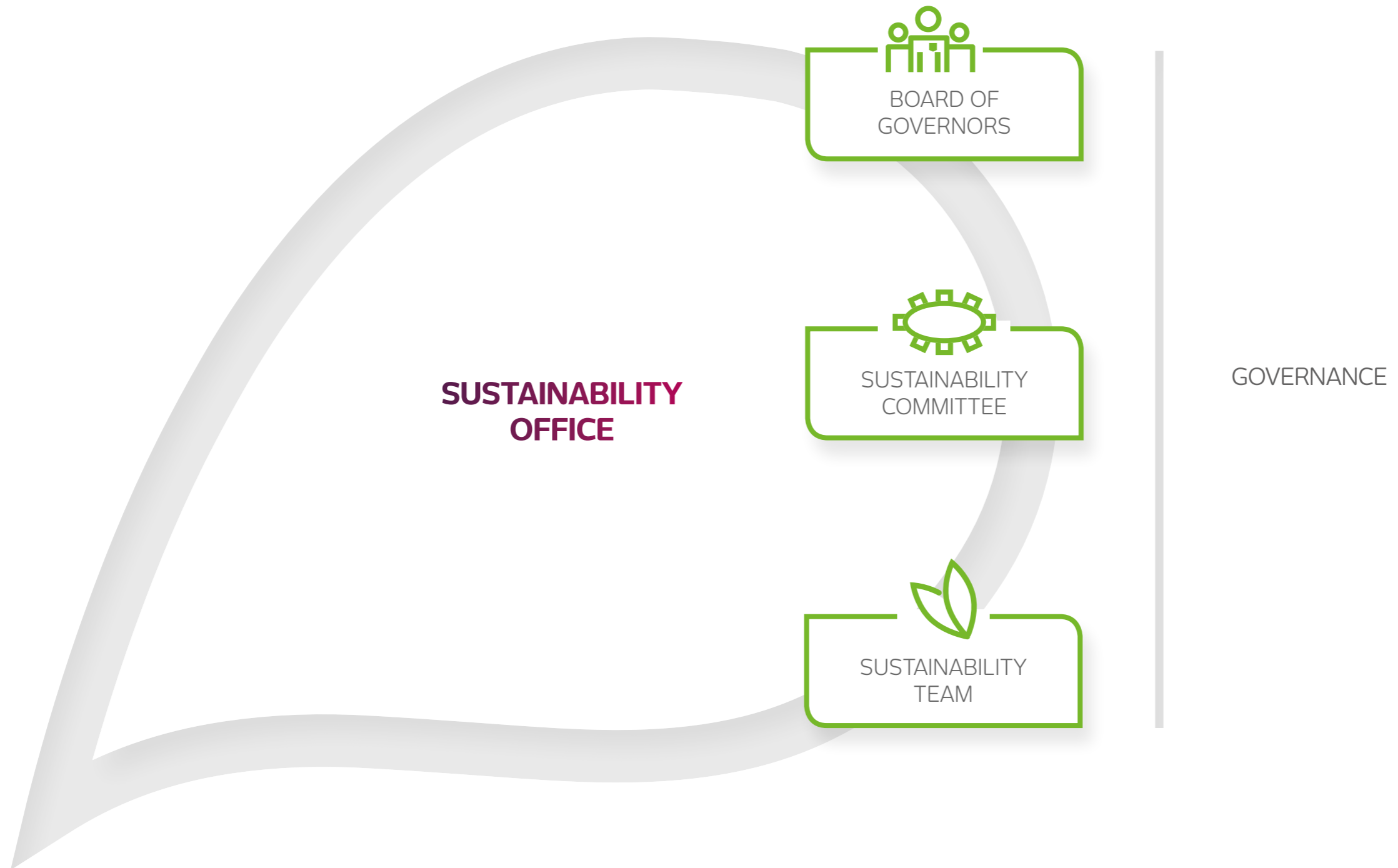
In early 2022, LABORAL Kutxa approved the Sustainability Policy, which aims to match the Entity's lines of action against the Principles for Responsible Banking and the 2030 Agenda Sustainable Development Goals. This policy defines and determines LABORAL Kutxa's basic principles in terms of sustainability. Therefore, in addition to social and governance matters, it also includes topics related to the environment and climate change required by the TCFD.

This Sustainability Policy has two fundamental goals. On the one hand, it stresses LABORAL Kutxa's commitment to working alongside and getting involved in society and its interest groups in the transition towards a sustainable economic model. On the other hand, it determines the principles that will govern the sustainability strategy in the long term. This aims both to create maximum value for society and the interest groups, and effectively manage the environmental, social and governance risks and opportunities.

To meet these goals, a governance model has been devised as described below. As a strategic element for LABORAL Kutxa, sustainability implies the very highest levels of its management. At the same time, as a cross-cutting theme, it affects each and every area.



To design and implement the LABORAL Kutxa Group's sustainability strategy, and incorporate the risks and opportunities of climate change, sustainability governance has been implemented that can be summarised in the following picture.



1.1. BOARD OF GOVERNORS

This is the top governing body at LABORAL Kutxa, which represents the Entity, defining its strategy and carrying out both surveillance and supervision of the risks that it incurs.

In the field of sustainability, it is ultimately responsible for approving the Sustainability Policy proposed by the Sustainability Committee, and any future modifications to it. In addition, it should receive the necessary information, from various bodies, to carry out appropriate monitoring of the sustainability strategy's implementation and its associated risks. Therefore, the top government body at LABORAL Kutxa is responsible for environmental and climate change management.

Among other aspects, the sustainability strategy includes:

- Brand and strategy (green ambition)
- Risk and capital management model.

- Communication policy with customers and investors.
- Redesign of the business processes.
- Investment decisions.
- Adapting the existing catalogue of products and services and devising new aspects.
- Organisational model (training and assimilation of new principles and operative models).

The Board of Governors will ultimately guarantee meeting any obligations imposed by the standard on this matter, and the Sustainability Policy. At the same time, it will adopt the necessary measures, in the event that the Sustainability Policy is not being applied properly. To do this, the Entity should have sufficient means to carry out its obligations in terms of sustainability. The Board of Governors will be informed at all times, by the rest of the Entity's area, about any circumstances that affect compliance.

To guarantee compliance with the strategy, the policies, the standard-based requirements, the supervisory expectations and the annual plan will receive depositions at least quarterly and it will approve the Sustainability Plan within the Management Plan.

The functions and responsibilities of the Board of Governors in the field of sustainability are:

- Define the sustainability strategy and the risk appetite.
- Manage the strategic positioning of LABORAL Kutxa in terms of sustainability.
- Approve the new sustainability policies, and LABORAL Kutxa's policies that have been modified to include sustainability.
- Modify the sustainability governance structure (set up committees, assign functions and responsibilities).
- Supervise implementation of the road-map in matters of sustainability.

- Supervise internal inspections concerning identification, measurement and management of risks derived from sustainability.
- Approve the non-financial information disclosure reports.
- Manage and make decisions on choosing certifications and memberships.
- Transparent reporting inside and outside the entity on its sustainability commitment and any progress made.

The specific aspects referring to sustainability and climate change risks, their integration and analysis, are included in the functions of the Risk Committee, dependant on the Board of Governors. As well as being a recent field of action, the sustainability risks present some differential characteristics that make them particularly complex to evaluate. The Group intends to move forward progressively in its knowledge and appropriate integration.

The diagram demonstrating how this risk is managed and checked within the organisation in the different divisions is based on three lines of defence, where the responsible areas manage the environmental, climate and sustainability risks, under the perspectives of differentiated responsibilities:

- Line 1. The various responsible areas, and the Sustainability Office.
- Line 2. Overall Risk Control, working with Standard Compliance.
- Line 3. Internal audit.

The Risk Committee receives a quarterly report on the indicators set for climate risks.

Two members of the Board of Governors, including the president, completed a Sustainable Finance Management Development Programme with specific modules on climate risks. In May 2022, all members of the Board of Governors took 5 hours of training provided by AFI: Sustainability Training focused on Risks for the Board.

The members of the Board of Governors are not paid for their work, because there is no link between this payment and management of climate risks.

1.2. MANAGEMENT

SUSTAINABILITY COMMITTEE

The Sustainability Committee is a specialised body of the LABORAL Kutxa Board of Directors, whose functions include steering implementation of a sustainability strategy.

The Sustainability Committee is responsible for guaranteeing the performance of the strategy and the management plans set by the Board of Governors. To do this, it will monitor on-going actions and apply necessary measures to adapt the Entity to the sustainable finance positioning set in the strategy.

The Sustainability Committee includes all members of the Board of Directors, the top management body at LABORAL Kutxa, and two people from the Sustainability Office. In addition, the Committee will invite anyone from the Entity who is implicated in direct management of aspects relating to sustainability that might emerge at any time.

The main action areas for the Sustainability Committee are as follows:

- Propose the LABORAL Kutxa sustainability strategy to the Board of Governors.
- Implement the roadmap defined to incorporate sustainability into LABORAL Kutxa's activity.
- Facilitate coordination between the various committees and areas to develop the roadmap properly.
- Determine milestones and goals on the different fields mentioned in the roadmap by defining key performance indicators and monitoring them.
- Tie in the Sustainability Policy with monitoring of events and market trends.
- Draw up action plans.
- Monitor the threats, opportunities and relevant external milestones.
- Monitor the market's best sustainability practices.
- Identify international initiatives and standards that best fit the message LABORAL Kutxa wishes to put across to its interest groups and the action proposal on them.
- Identify and develop a proposal to comply with future applicable regulatory requirements on sustainability and the work of LABORAL Kutxa.
- Encourage continuous improvement in terms of incorporating sustainability.
- Propose new development opportunities for LABORAL Kutxa in terms of sustainability linked to financial and insurance work.
- Propose to modify or supervise policies in the field of sustainability.
- Define informed guidelines to the Board of Governors on any question raised in this field.

Ordinary meetings will be held 4 times a year. However, extraordinary Committee meetings can be held when deemed appropriate.

Everyone in the Sustainability Committee has been set sustainability objectives bound to their variable salary. These objectives refer to meeting goals set in the Sustainability Management Plan, including any referring to incorporating sustainability and climate change risks.

SUSTAINABILITY TEAM

A Sustainability Team has been set up for the purpose of developing a roadmap to include sustainability in LABORAL Kutxa's financial activity in the short-term. It oversees implementing the Sustainability Policy in everyday work. This policy was approved by the Board of Governors and is run by the Sustainability Committee.

This team is made up of managers from various areas within LABORAL Kutxa such as Business, Standard Compliance, Risk Support, Overall Risk Control or Communication, plus the Sustainability Office.

These are the functions assigned to it:

- Propose possible new actions to be set up within the sustainability strategy, and lines of the Management Plan.
- Report on the corresponding progress in terms of implementing the Sustainability Plan in the team meetings.
- Provide the indicators or KPIs when reporting to the Sustainability Committee and Board of Governors.
- Delegated by the Sustainability Committee, it will make sure that the necessary actions are run.
- Specific work groups shall set up cross-discipline projects.

The Sustainability Team meets at least 4 times a year.

SUSTAINABILITY OFFICE

A Sustainability Office has been set up to steer and coordinate sustainability initiatives within the LABORAL Kutxa Group. Its functions are as follows:

- Provide an overall outlook, coherence and sense to the various sustainability initiatives, in line with the LABORAL Kutxa strategy.
 - Help define the general lines of the annual Management Plan and the Master Plan in the medium term.
 - Propose new lines of action and objectives.
 - Steer, monitor and coordinate the work groups and the sustainability team, and also implement the roadmap and the annual Management Plan.
- Service, awareness-raising and support for the different areas to help them meet the objectives and incorporate sustainability across the board in policies, processes, products and services.
 - Coordinate with the Risk Area to control and monitor sustainability risks.
 - Technical Secretariat of the Sustainability Committee.
 - Internal and external communication on sustainability.
 - Disclosure / Reporting on sustainability, plus internal communication.
 - Prospecting and surveillance on sustainability.

Subsequently, in the third section regarding Risk Management, the role of the Risk Committee will be developed further alongside LABORAL Kutxa's different lines of defence.



Setting up the necessary measures to slow down climate change and thereby strive towards a sustainable economic model is generating risks and opportunities, which have come to the attention of supervisors, regulators, central banks and other interest groups. Consequently, many firms are expanding their work schedules to include analysis of financial risks and opportunities associated with environmental sustainability. Furthermore, it has been demonstrated that sustainability-related challenges will bring about unprecedented changes for all organisations as they adapt to new standards.

Aware of the transformation in this area, LABORAL Kutxa has also analysed both the risks and the opportunities derived from climate change and the transition to a sustainable economy.

As mentioned previously, there are two types of risks relating to climate change that affect companies: direct risks and transition risks. Regarding the transition risks, the following sections are usually highlighted:

- Legal
- Technology
- Market
- Reputation

Regarding physical risks, there is also the following classification:

- Acute
- Chronic

Firstly, it should be highlighted that the ISO 14001 environmental certification, audited by AENOR and held by LABORAL Kutxa since 2001, includes an analysis of risks and opportunities associated with its direct impact on the environment. This analysis does not consider financial or investment work, but the direct impact as a consumer of raw materials and generator of waste. As mentioned, this analysis takes place annually and considers both the various life cycle aspects and the normal and emergency situations. This analysis has not identified any aspect with a very high level. Within the high level, the most relevant, due to size, are:

- Consumption of paper, coolant gas and toner.
- Staff mobility.
- Development of sustainable products.

In any case, the main field of application for the TCFD refers to the entities' investment and financial activity, so the next sections will prioritise these aspects.

2.1. RISKS AND OPPORTUNITIES OF CLIMATE CHANGE

Based on the aforementioned physical and transition risks, LABORAL Kutxa has run an initial analysis both of the risks and the opportunities of climate change and of transforming the production model derived from it, using the general criteria described below.

These opportunities and risks have different time frames, so various periods have been determined for each opportunity or risk: short-term (S/T): 0-2 years; medium-term (M/T): 2-5 years; long-term (L/T): over 5 years.



OPPORTUNITIES

Over the next few years, the key sectors are going to require enormous investment to achieve decarbonisation and climate neutrality. That is where the financial entities will play a key role, as different areas or business opportunities emerge or are strengthened. We have identified the following as the most relevant:

Renewable energy

Energy transition is one of the mainstays of decarbonisation. Currently, energy production using fossil fuels such as coal, oil or gas is one of the main causes of CO2 emissions. In this way, several opportunities have been detected in this sector:

SHORT-TERM

- **Changes in consumer preferences** (individuals or companies) towards clean energy, due to greater environmental awareness-raising, such as a rise in energy costs from fossil fuels (due to the greater cost of extracting the fuel, geopolitical conflicts, etc.). As far as consumers are concerned, this can mean:
 - Contracting electrical distributors who work with renewable energy sources.
 - Self-consumption, energy communities, solar cooperatives...
- **Support /public subsidies** (such as the Next Generation funds) related to renewable energies.

MEDIUM-TERM

- **Greater potential of solar energy** as climate change brings an increase in sunny days.
- Proliferation of projects that encourage **green hydrogen**.

LONG-TERM

- **Exhaustion or non-competitive costs of fossil fuels;** which would make renewable energy the only alternative.

Sustainable mobility

Mobility is another major cause of CO2 emissions. We need a more sustainable way of travelling to achieve climate neutrality. In this aspect, many forms of mobility that do not emit (or minimise) these gases are going to require major investments.

SHORT-TERM

- **Private electric vehicles (cars, motorbikes, trucks and personal mobility device (PMD)):**
 - More charging points in car parks, petrol stations, etc.
 - Public grants/subsidies.
 - Changes in personal preferences.
 - Proliferation of low emission areas (LEZ) that positively discriminate vehicles with lower greenhouse gas emissions (GGE).
 - **Bikes:**
 - Better infrastructures (bike lanes, bike racks, etc.).
 - Electrification (electric bikes).
 - **Electric buses:**
 - Generalised use as city transport. Trena/metroa.
 - **Rail/metro Boost.**
- #### LONG-TERM
- **Bus powered by green hydrogen:**
 - For longer journeys.
 - **Electric planes**



Green homes

The residential sector is going to be vastly transformed to achieve climate neutrality. Homes have poor energy efficiency in Spain, and more specifically in the Basque Country and Navarre. Consequently, over the next few years, construction and refurbishment of efficient homes will provide an opportunity.

SHORT-TERM

- **Lower costs** due to energy saving for families living in efficient homes.
- **Public grants/subsidies** (such as Next Generation funds) intended for private individuals and communities of home-owners to restore homes and buildings that improve efficiency.

MEDIUM-TERM

- **Tax incentives** from the administration for owners of efficient homes.
- **Penalties and costs** such as: the possibility of only selling or renting efficient homes.



Sustainable agriculture

It is estimated that sustainable/organic farming will expand for the following reasons:

SHORT-TERM

- **Changes in customer preferences** towards sustainable/organic produce for environmental reasons and because they are considered healthier.
- **Common Agricultural Policy (CAP) grants and subsidies** for farms that use sustainable production methods.

LONG-TERM

- **Better productivity** due to less exhaustion of the earth.

RISKS

In addition to these business opportunities, there are also risks for financial entities, associated with climate change and decarbonisation of the economy. These risks have been accentuated over the last few years and banks must now include them in their risk appetite frameworks. These risks can be divided into physical risks or transition risks.

PHYSICAL RISKS

Physical risks are caused by weather phenomena derived from climate change that might lead to losses of company assets. In the case of the financial entities, this risk must be measured from several perspectives:

- Its own physical assets: central headquarters, territorial offices and branches.
- Assets used as guarantees: mortgaged buildings.
- Adjudications and promotions.
- The physical assets of the financed companies, as deterioration could mean that loans are not repaid.
- The physical assets of the suppliers which might bring the supply of services or products to a halt.
- Higher costs for the insurance companies.

Physical risks are divided into:

Acute risks (s/t)

These are physical risks derived from extreme one-off weather phenomena. This category will include heat waves, floods, wildfires, hail, tornadoes and cyclones.

Chronic risks (m/t)

These are structural changes to the climate, considered to be stable and long-lasting. This would include water stress, rising average temperatures throughout the planet, rising sea levels, destruction of biodiversity, etc.

Transition risks

These risks emerge from modifications endured by society and the production model due to climate change. In other words, these are the transformations required to complete the transition to a low-carbon economy. There are several variants within the transition risks:



Transition risks

Market

- Changes in the customer and consumer preferences towards products or services from companies or sectors in line with sustainability and mitigation of climate change. (S/T)
- Financial entities miss out on financial operations because they are not capable of demonstrating the sustainability of the financing. (S/T)

Reputation

- Changes in image or recognition for companies or sectors that might be in the financial entities' portfolios due to pursuing activities that are not considered sustainable or that are suspected of greenwashing.
 - This implies risks for companies/sectors, with a substantially greater risk of not repaying loans (S/T)
 - Loss of prestige for the image of the actual financial entities financing these companies/sectors. (S/T)

Legislation and standards

- Changes in regulations to reduce the CO2 emissions (due to international treaties such as the Sustainable Development Goals (SDG), the Paris Agreement, the European Green Deal, etc.) that might lead to difficulties for emission-heavy companies. This might mean they have to reduce their production; they might not be prepared and suddenly have to invest large quantities of money. (M/T)
- Impediments to sell or rent homes with low energy efficiency. (M/T)
- Changes in regulations that imply potential sanctions on the actual financial entities for not complying with the various requirements such as publication of the different KPIs, information related to sustainability or CO2 emissions for its loan portfolio. (M/T)

Technology

- Companies or sectors that are left behind by technological innovations and require major investments to adapt. (M/T)

Liquidity

- Less investor appetite for emissions that are not sustainable. (S/T)

Finally, a first qualitative analysis has been performed that will be extended as data becomes progressively available. The main conclusions from this initial analysis are:

- Both the risks and the opportunities will be more relevant in the medium-term.
- In the short-term, the estimated financial impact seems to be limited, although it may already be relevant in certain sectors.

The results of this analysis have been included in the Sustainability Management Plan for 2022 and will be considered when designing the Sustainability Master Plan in the medium term.

2.2. IMPACT ON THE BUSINESS, THE STRATEGY AND THE FINANCIAL PLANNING

2.2.1 Inpaktuen identifikazioa eta kuantifikazioa

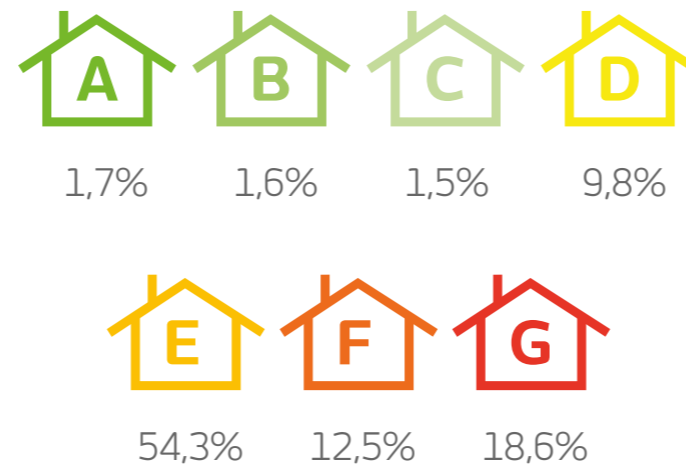
The main challenge when identifying and quantifying risks and opportunities associated with climate change comes from lack of data. On the one hand, as this is a new aspect of risk management, there is no knowledge or clear reference on how to incorporate them within traditional models and methodologies. At the same time, the necessary data should be generated and obtained to be able to measure the risks properly.

In 2021, LABORAL Kutxa took part in a sector-based project to obtain the energy rating and risks associated with the mortgage portfolio. In the case of LABORAL Kutxa, the mortgage portfolio represents a very high percentage of

the loan portfolio (approximately two thirds), so the materiality of analysing the risks associated with this underlying condition is very high. The sector-based project worked with the Rating Agency, that provided information on the energy ratings for mortgaged homes, estimation models for any cases where they were not available, and an analysis of the physical risks associated with each location.

The result of the energy rating analysis for the guarantee portfolio, for any operations where it was possible to quantify it (over 65%) was as follows:

Energy qualification due to consumption:



It is seen that the energy efficiency of the mortgaged buildings as a whole is very low. 31.1% of the buildings were given the two worst energy ratings. These figures are consistent with the market and the age of the properties. Particularly considering that the main market for LABORAL Kutxa is the Basque Country and Navarre, that present the greatest average age of property in Spain.

In any case, these figures present clear risks and opportunities. In terms of risks, these guarantees face higher energy costs, the need to make investments in energy adaptations and at a value, as collateral, that is potentially lower than other more efficient homes. In terms of opportunities, these buildings should be improved and might require financing to do so.

At the same time, analysis is run on climate risks associated with the physical location of the buildings. The risks analysed and the results obtained are:

- River flooding with high and frequent probability: 3.3%
- Sea flooding with medium or occasional probability: 0.9%
- Very high desertification: 1.7%
- Very high seismic: 0.1%
- Wildfires - frequency of over 500: 1%

The Sustainability Report has been measuring the risk exposure, corresponding to assets related to carbon emissions, where this concept includes risks related to industry that produces or supplies energy from fossil fuels, excluding any relating to renewable energy sources. This therefore includes the companies involved in production and supply of conventional energy, oil, gas and coal mining.

Exposure to fossil fuels at 31/12 in thousand €	2020	2021
Exposure to Credit risk		
Circulating risk	35,621.4	61,103
Structural risk balances, and endorsements	6,799.7	8,280
Shares in wholesale risk	0	0
Total exposure	42,421.1	69,383

It is seen that LABORAL Kutxa’s exposure to the climate risk incidence in these industries is modest (<0.3%).

According to the GRI standard, an annual materiality analysis is carried out to produce the Sustainability Report. The various interest groups are consulted to draw up the materiality study: staff, customers or suppliers. For example, a summary of the Report is sent to more than 600,000 customers, plus a questionnaire. Traditionally, the interest groups have given average importance to the aspects related to environmental

management and support for the transition to a sustainable, green economy.

The 2022 study included a new element for the rating: including social, environmental and climate change risks in our financial risk models. The result of the enquiry among customers and staff (almost 1,250 answers) shows that they do not particularly value this aspect, making it one of the 3 elements, out of a total of 18, with the lowest scores.

2.2.2 Impact management

After evaluating the risks and opportunities of climate change, and their time frame, several lines of action have been identified. LABORAL Kutxa's strategy in sustainability and incorporating the risks of climate change has been turned into a Management Plan across all areas. The main initiatives are given below:

PRODUCTS

As a financial entity, LABORAL Kutxa offers its customers investment, financing and insurance products. As it already has sustainable products, over 2022 new products have been adapted or designed that help customers reduce the impact of their activity and adapt to climate change.

Investment

One fundamental element to refocus the economic model in a more sustainable direction is to channel the financial flows towards investments that encompass environmental, social and corporate governance aspects (ESG). Incorporating ESG factors also implies a reduction of risks associated with these aspects.

LABORAL Kutxa has had an investment fund, called Konpromiso, for many years. This fund uses sustainability criteria for corporate governance, regarding the environment and social criteria to include the securities in the portfolio, including its CO2 emission policies. At the same time, this excludes securities that might have a negative environmental impact, such as mining.

LABORAL Kutxa is working to increase its socially-responsible investment products. It is thereby adapting its entire investment fund portfolio, provision plans and pension plans to articles 8 and 9 of the new SFDR European regulations.

Financing

As a banking entity, LABORAL Kutxa plays a fundamental role in boosting the transition to a sustainable and low-carbon economy, by awarding loans and credit.

As mentioned previously, the weighting of the mortgage portfolio is very high on the balance sheet. This property portfolio also has a very low energy rating. Along this line, a new product has been launched concerning energy refurbishment for communities of property and homeowners. This consists of a pack that facilitates housing blocks and that consists not only of offering financing but also insurance, managing subsidies, the actual rehabilitation project and the project management; all with the help of a simulator.

In this respect, LABORAL Kutxa has specific financing lines. This includes setting up LABORAL Next in 2021. This service aims to help the Entity's customers access the Next Generation EU European funds, where sustainability has a significant weighting.

Finally, the 2022 Management Plan considers the design and launch of a catalogue of sustainable products and financing.

Insurance

Lagun Aro, the LABORAL Kutxa group insurance company, is going to design a range of sustainable insurance products. It aims to provide incentives for the transition towards a more sustainable economic model by means of insurance solutions with an ethical slant for homes, electric cars or personal mobility vehicles.

At the same time, within insurance, it will strengthen cover for incidents derived from extreme climate events, one of the consequences of climate change. It is appropriate to remember the main role of insurance which is to anticipate, cover and alleviate the consequences of the appearance of climate risks.

PEOPLE

One of the main axes of the 2022 Sustainability Management Plan relates to skills training. The aim is to train workers, mainly Cooperative members, in the skills for this new, strategic field for LABORAL Kutxa.

To do so, a roadmap has been drawn up for sustainability training, which analyses the appropriate needs, both for managers and the rest of the staff. As a result of this analysis, a range of training initiatives has been planned within the LABORAL Kutxa Training Plan:

- 5 hours of training for the Board of Governors on risk-focussed sustainability.
- 6 hours of training for management: board of directors and department heads, focussing on climate and environmental risk.
- Awareness-raising training for all persons.

- 5 hours of training on sustainability and environmental risks for persons certified as MIFID financial advisers.
- Specific training for teams: risk analysts, company administrators, risk control or cash flow.

DATABASES

The key to integration, measurement and analysis of the climate risks lies in the availability of data and information. This is one of the main challenges in the financial sector when addressing the challenge of integrating sustainability in their business and particularly regarding climate risks.

LABORAL Kutxa is working on adapting its systems to obtain and use information on sustainability on its investments and customers. Consequently, some of the steps taken are:

- A Sustainable Financing Manual has been created, based on various international standards, which indicates the characteristics to be met by loans and credits awarded by LABORAL Kutxa to be considered sustainable.

- The most relevant operations approved by the Entity are examined by the Sustainability Office that, with the approval of the Sustainability Committee and the Board of Governors, classifies these operations according to the criteria in the Manual, avoiding any possible duplication.
- At the same time, the reporting processes are being adapted to be able to automate how all this information on sustainable financing is obtained, considering much of the entity's assessment.
- On the other hand, the system to register mortgage loans has been adapted to collect information on energy ratings for mortgaged homes. The type of fuel used by financed vehicles will also be registered.
- In addition, the systems have been adapted to respond to the information dissemination requirements demanded by articles 8 of the Taxonomy Regulation. In this way, it was possible to calculate the Green Asset Ratio (GAR), publishing it alongside the Sustainability Report/Non-Financial Information Statement.

On the other hand, a collaborative focus is maintained for data collection. So, in the same way as it took part in the aforementioned project on energy rating mortgage guarantees and associated risks, it is also participating in another two sector-based projects:

- Taxonomy applied to financial entities that make it possible to classify the financing operations with common criteria.
- Greenhouse gas emissions (GGE) calculator, to define a common calculator to measure emissions in Scope 1, Scope 2 and Scope 3, when customers do not provide data, or that are useful as a contrast against the emissions published by clients.

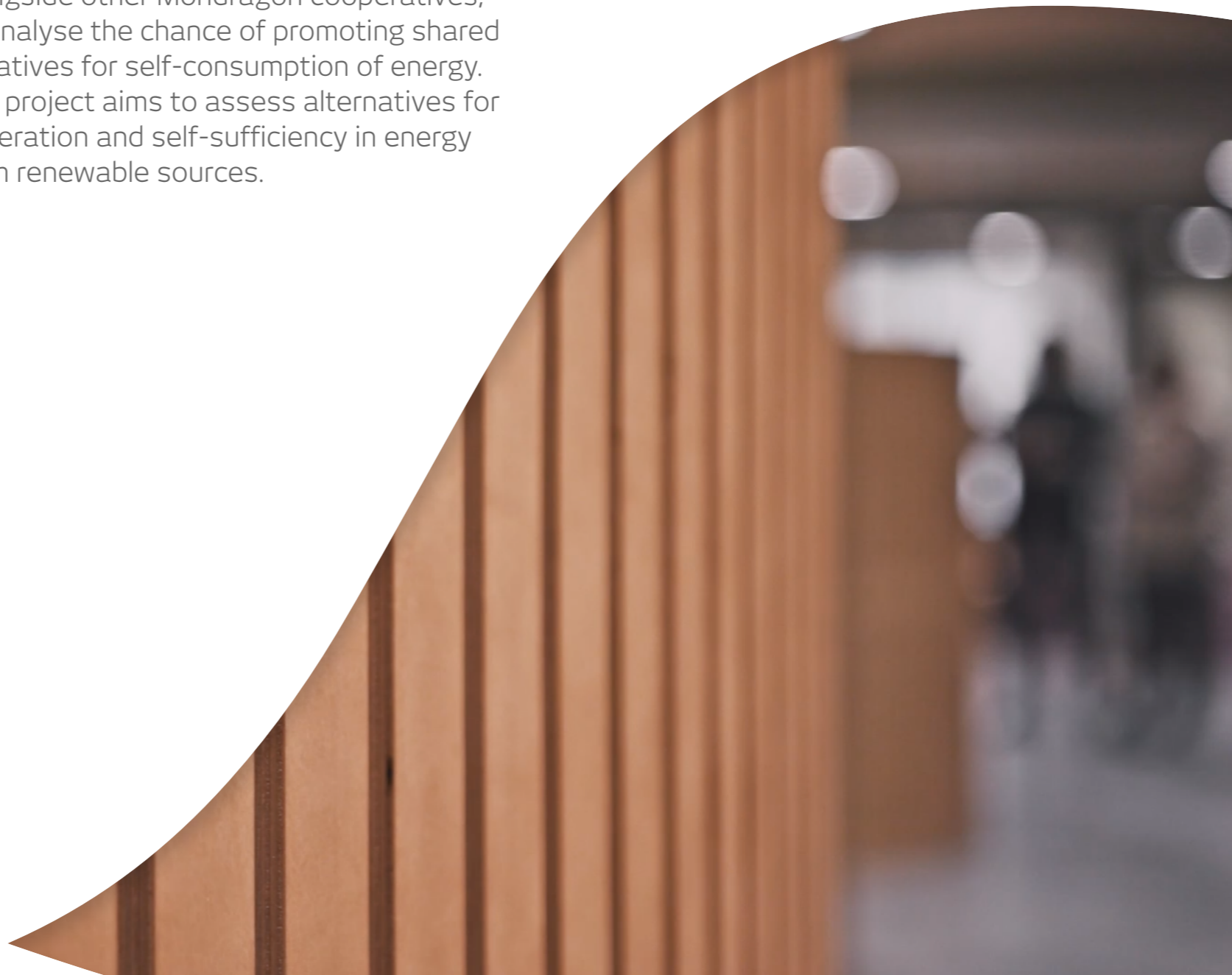
Finally, it is working on various joint research projects with the Basque Ecodesign Center and Mondragon Unibertsitatea to adapt information needs to the actual balance structure and customer characteristics. The main weight of LABORAL Kutxa's mercantile business centres on the self-employed, micro-companies and SMEs, where it is particularly tricky to obtain information (and the relative importance of emissions which is perhaps lower).

INFRASTRUCTURE AND DIRECT IMPACT OF THE ACTIVITY

LABORAL Kutxa's main environmental impact comes from its investment and financing activity (Scope 3). However, initiatives are also proposed to reduce the direct impact of the activity. This line highlights that 100% of the electrical energy consumed comes from renewable sources. In the same way, the air conditioning in the Central Services building in Arrasate uses renewable energy, specifically geothermal and biomass.

Regarding the 2022 Management Plan, 23 offices will be renewed according to the new sustainable office model, plus one of the Central Services buildings, which is expected to receive the Breeam Excellent certification.

Finally, a project has been launched, alongside other Mondragon cooperatives, to analyse the chance of promoting shared initiatives for self-consumption of energy. The project aims to assess alternatives for generation and self-sufficiency in energy from renewable sources.



2.3. ANALYSIS OF SCENARIOS AND RESILIENCE STRATEGIES

2.3.1. Scenario analysis

On the date of writing this document, no specific scenario analysis has been run to improve the strategic resilience and explore climate vulnerabilities. Within the commitments made by the signing founders of the United Nations Principles for Responsible Banking, analysis has been performed on the impacts of LABORAL Kutxa's work. These impacts are both social and environmental, derived from both company and individuals' business. Regarding the environmental impacts, there are two conclusions:

- On the one hand, the direct impact of our activity will be lowered by reducing the direct CO2 emissions and paper consumption, and also compensating the emissions from Scope 1 and 2 that cannot be eliminated.
- On the other hand, as it is a financial entity, LABORAL Kutxa has a relevant environmental impact through its financing activity. In this point, given that the main activity in our balance is awarding mortgages, we are setting ourselves the goal of gradually minimising the mortgaged homes with the worst energy ratings (homes with an energy rating of F or G). This goal will help improve the energy efficiency among the homes as a whole, which are generally very old and inefficient, which cause 30% of the GGE in Spain.

2.3.2. Resilience strategy

As far as LABORAL Kutxa's resilience is concerned, by producing this TCFD report, LABORAL Kutxa has carried out an initial analysis of the scenario in the climate change risks and opportunities section.

As a result of this initial analysis, it is considered that the climate risks that most strongly affect the Entity are those concerned with transition to a low-carbon economy. For this reason, the priority lines of action described in the strategy implementation section aim to alleviate the transitional risks (legal, technological, market or reputation), and strengthen its opportunities.

Regarding the physical risks, initially no imminent relevant risks were detected that might affect LABORAL Kutxa in the short term. LABORAL Kutxa's business is concentrated in the Basque Country and Navarre where the risks of desertification and fire are lower and the risk of flooding centres on very specific places. Despite this, the direct risk is an aspect that requires greater development and level of analysis in the medium and long term, looking in greater depth at its potential impacts.

Based on this first level of analysis, it is considered that, in the short term, LABORAL Kutxa is resilient enough to address the climate risks. In any case, this is an initial assessment that requires deeper learning and analysis to be measured properly.

The LABORAL Kutxa [Sustainability Report](#) explains the alliances that have been developed and in which it participates, as a fundamental part of the Group's resilience strategy.



Risk management

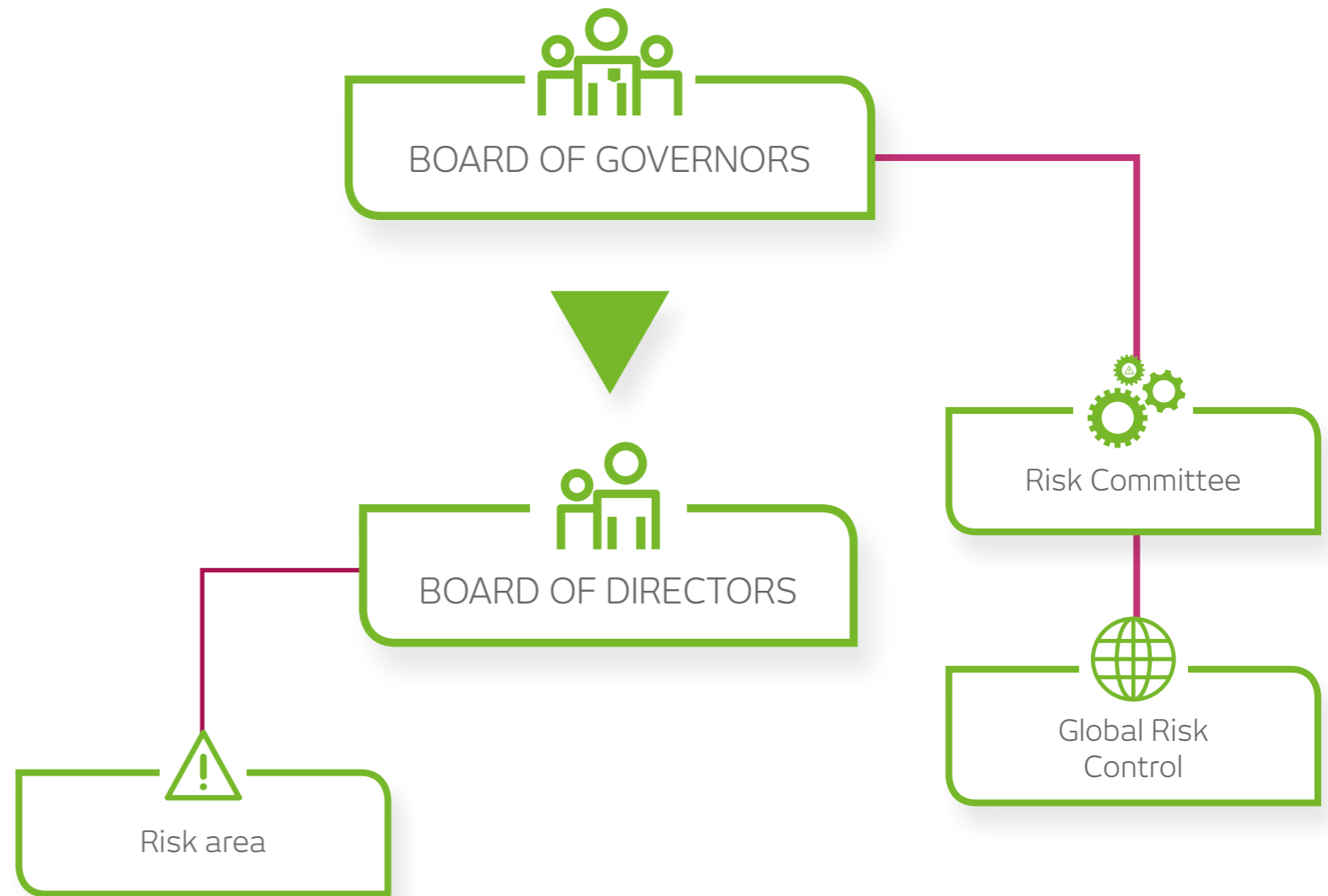


3.1. RISK IDENTIFICATION AND ASSESSMENT PROCESS

As a financial entity, risk management is a major element inherent to the activity. As previously mentioned, there is a Risk Committee in charge of directly advising the Board of Governors on the various risks incurred by the Entity. This Committee’s functions include all specific aspects referring to the risks, their integration and assessment, also related to climate change.

In line with the European Central Bank (ECB) regulatory expectations, the best way of incorporating sustainability and climate change risks is to include them in traditional risk categories (credit, market, etc.).

Depending on the Risk Committee, there is the Global Risk Control department. Furthermore, within the executive organisational structure, there is a Risk Area whose manager sits on the Board of Directors.



3.2. RISK MANAGEMENT PROCESS

As previously mentioned, risk management and control in the Entity is based on the model featuring 3 lines of defence.

- Line 1: each areas manages its different risks. The Sustainability Office provides support and coordination regarding sustainability and climate change risks.
- Line 2: the Global Risk Control department.
- Line 3: Internal audit.

LABORAL Kutxa sets its risk appetite in its Risk Appetite Framework and updates it every year (Risk Appetite Statement, RAS). This determines the risk thresholds. A threshold is an early warning value used as a control reference. Passing this threshold means that the Entity is veering below the objectives set for the indicator in question. In the indicator tracking chart, passing the threshold means activating a deviation analysis protocol, and closer tracking.

At the same time, it also constitutes the risk tolerance, that sets the reference or maximum (unfavourable) level that the Entity is prepared to reach in each indicator to achieve the strategic goals. The risk tolerance has a dual aspect: one the one hand, it is preventive when drawing up the business strategy and, on the other, it redirects the indicator, towards levels with less risk if the monitoring shows that it has dropped into the non-compliance zone.

Regarding the indicators, the following concepts are identified within the Risk Appetite Framework that include the ESG risks

- Capital
- Profitability
- Liquidity risks
- Credit risk
- Interest rate risk
- Market risk
- Operational risk
- Technological risk
- ESG risk



3.3. INTEGRATION IN GENERAL RISK MANAGEMENT

In 2022, three ESG-risk indicators were included in the aforementioned risk appetite statement (RAS).

Determining these indicators involved analysing the more material ESG risks depending on the Entity's balance, and the availability and robustness of the available data.

- Ratio of individualised ESG analysis sectors against the Credit Investment.

Percentage of credit investment in sectors that meet the ESG individualised analysis criteria according to the CNAEs (identified as Environmental and Social Risk).

- Ratio of mortgage credit investment in homes with low energy ratings.

Credit investment in mortgage loans intended to purchase a home with a low energy rating (F or G) / Total credit investment in mortgage loans (intended to purchase any home).

- Ratio of mortgage investment in homes with high direct climate risk.

Credit investment in mortgage loans intended to purchase a home with a high direct climate risk / Total credit investment in mortgage loans (intended to purchase any home).

Within the specific field of reputational risk, in 2021, an effort was made to improve the analysis and monitoring of this risk. This involved working with KPMG, developing a reputational risk policy plus a procedure and a tool to calculate the quarterly Reputational Risk Exposure Rate (RRER). One of the risk categories defined by this tool is the scarce integration of sustainability aspects in the business. Consequently, one event to be monitored periodically is defined as:

The lack of consideration for sustainability (or ESG) matters when defining the LABORAL Kutxa strategy and/or scarce integration in the business and its governance, plus lack of coherence from the business with the corporate proposal (such as poor promotion of sustainable / responsible products, not considering sustainability (or ESG) risks in investment decisions, not setting objectives linked to decarbonisation, low level of responsibility among the top management regarding sustainability aspects (or ESG), etc.).

In the same way, operational risk management considers several aspects relating to the environmental and climate risk that might have a direct impact on LABORAL Kutxa's activity. In this field, maintaining the ISO 14001 environmental certification, audited annually by AENOR, is considered an extenuating element.

Not only a recent field of action, the sustainability and climate risks present some differential characteristics that make them particularly complicated to quantify. Despite this, LABORAL Kutxa intends to pursue knowledge and appropriate integration progressively. In this respect, LABORAL Kutxa has set up a process to integrate and manage sustainability and climate risks.

During 2022, a roadmap has been designed to incorporate sustainability risks in the medium term. KPMG has provided support to identify the demands and expectations from standards and regulations. This GAP analysis will be used to propose an integration plan depending on the critical nature, the impact and complexity of the actions to be carried out. 44 initiatives have been identified for the short and medium term.





Objectives and indicators



4.1. INDICATORS

As far the internal figures are concerned, here are the most important:

ENVIRONMENTAL PERFORMANCE INDICATORS

Year	2020	2021*
Advertising paper (kg/customer)	0.089	0.107
In-house paper (kg/customer)	0.206	0.219
Water (m ³)	7,226	6,824
Electricity (Kwh)	11,505,454	11,432,660
Toner (kg)	2,269	2,557
Diesel (l)	621	695
Waste managed (kg)	199,418	311,496

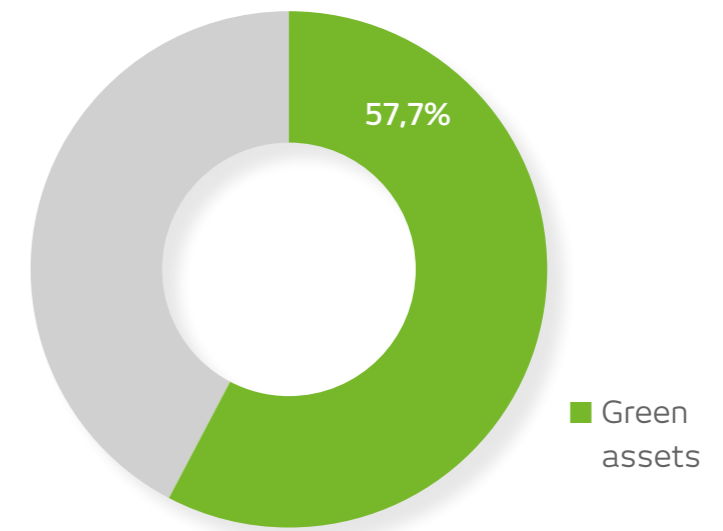
* Business recovery year after the COVID 19 pandemic.

GAR

In 2021, LABORAL Kutxa made its first calculation of the Green Asset Ratio (GAR), using templates defined in Annex VI of the CE Delegate Regulation published on 6 July 2021 to obtain this KPI (Key Performance Indicator). This KPI demonstrates compliance with the quantitative information requirements from article 8 of the Regulation (EU) 2020/852 (Taxonomy Regulation) for credit entities.

The GAR claims to disseminate information on the proportion of the business volume, investments in fixed assets and operating costs (as key performance indicators) for activities related to assets or processes tied to sustainable economic activities from an environmental point of view.

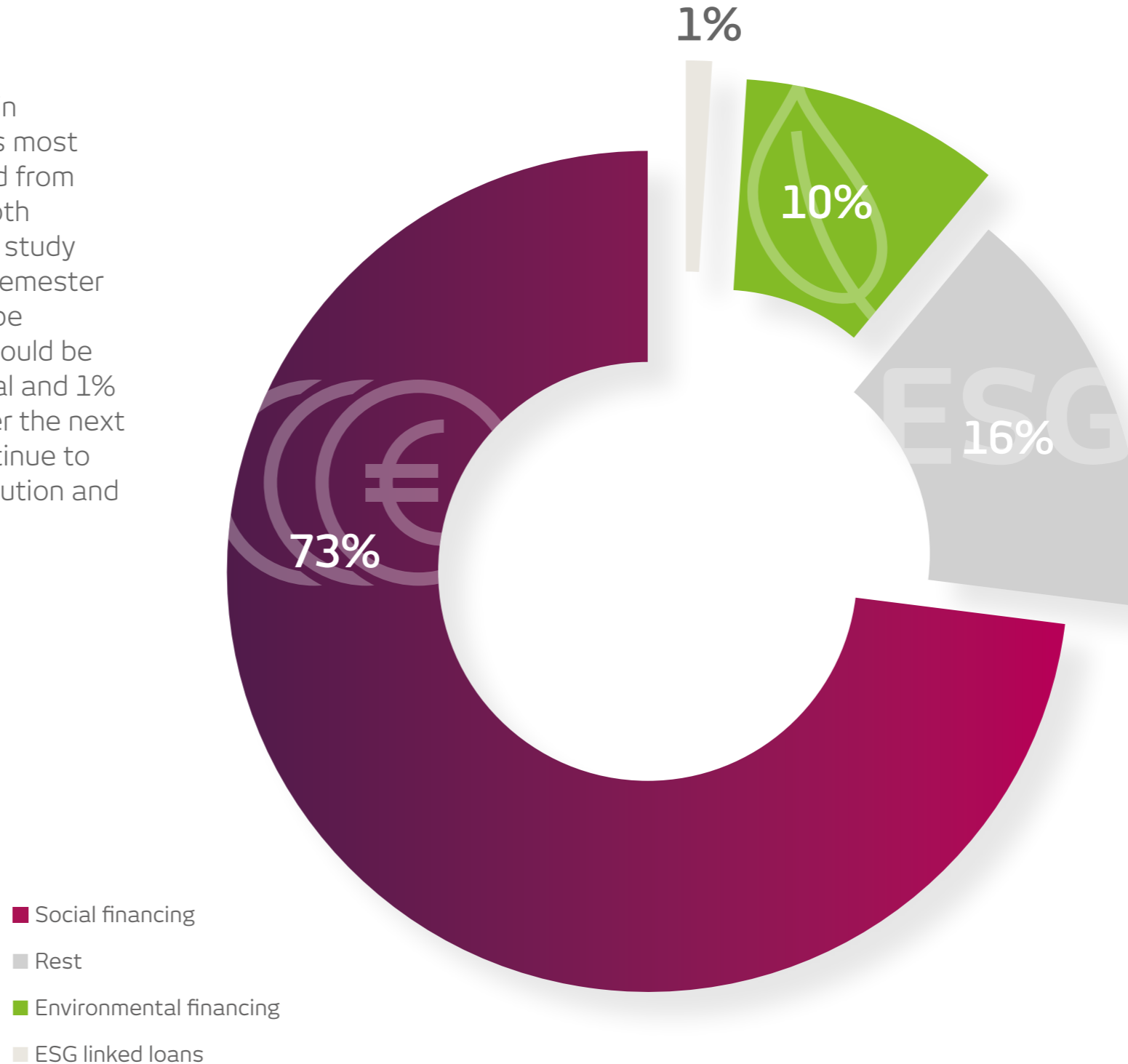
According to this indicator, 57.7% of LABORAL Kutxa's assets finance relevant sectors for the taxonomy, in other words, sectors which are eligible for taxonomy. These assets can be broken down by counterpart, type of instrument and type of environmental objective.



The results obtained from calculating the GAR reflect the Entity's balance composition: a surplus liquidity position (materialised in the fixed income portfolio), mercantile financing with majority weighting in SMEs and particularly a high volume of mortgage financing.

SUSTAINABLE FINANCING

Beyond the GAR, as explained in section 2.2.2, LABORAL Kutxa's most important loans were examined from a sustainability perspective (both environmental and social). This study detected that during the first semester of 2022, 84% of the loans can be considered sustainable: 73% would be social loans, 10% environmental and 1% would be ESG linked loans. Over the next few years, these loans will continue to be assessed to track their evolution and aim to increase them.



RENEWABLE ENERGY

In addition to these indicators, LABORAL Kutxa also provides the following data, relating to financing that it offers to various climate-friendly initiatives:

Loans for renewable energy (thousand €)*			
2018	2019	2020	2021
18,412	20,616	36,370	19,982

* Formalised



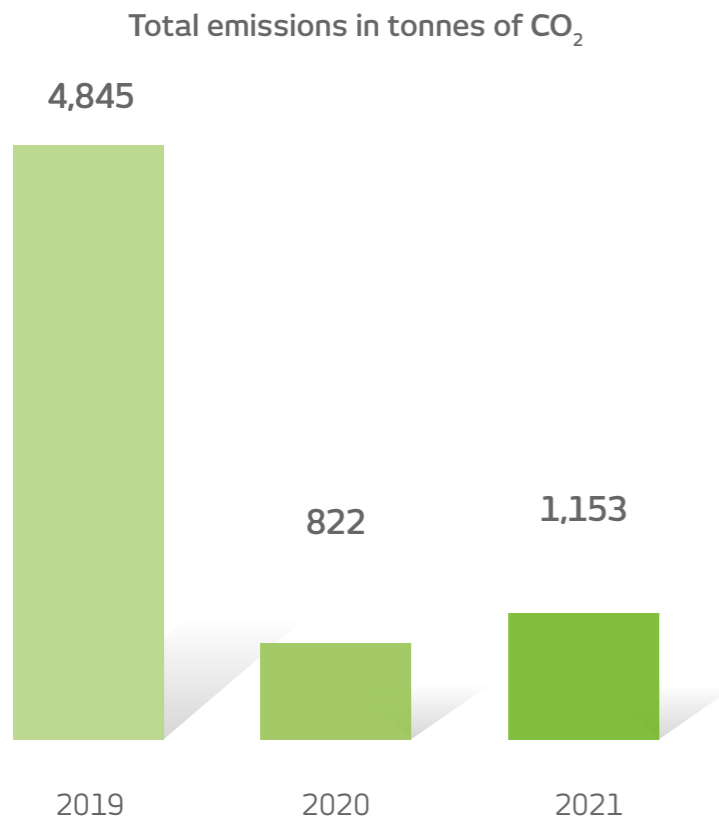
4.2. EMISSIONS-CARBON FOOTPRINT

Every year, LABORAL Kutxa calculates its CO2 - Greenhouse gas emissions (GGE). This calculation uses the Basque Government Klima 2050 calculator, based on the UNE EN ISO 14064-1 international standard. The calculator considers the following elements for the three scopes:

- Scope 1: consumption of diesel, propane and coolant gas emissions.
- Scope 2: the total electrical consumption is considered (Central Services, office network and Regional Management buildings). This has been nil since 2020 given that all energy is contracted from renewable sources.
- Scope 3: includes emissions due to journeys in work hours, miles covered by taxi, emissions from paper consumption, work trips (plane, train and hotel), customer electricity consumption when using our website, paper waste management and water consumption.

Breakdown of emissions according to origin. Carbon footprint	2016	2017	2018	2019	2020	2021
Scope 1: direct emissions	144	57	25	160	145	213
Scope 2: indirect emissions	4,997	4,739	4,529	3,616	0	0
Scope 3: other indirect emissions	794	818	740	1,069	677	940
Total emissions (Tn CO₂)	5,935	5,613	5,293	4,845	822	1,153

LABORAL Kutxa has made a continual effort over the last few years to reduce its CO₂ emissions. The current Strategic Plan set the objective to reduce emissions by 75% on 2019.



The significant reduction seen in 2020 was mainly due to replacing the main source of emissions, and a decision to only consume electricity from renewable sources.

Over the next few years, an analysis of the fluoride gas emissions has been planned, to be followed by an improvement plan. A Mobility Plan will also be proposed, which will cover the two current GGE sources.

One outstanding challenge is to measure the carbon footprint of the investment and financing portfolios. The 2022 Management Plan considers moving forwards in obtaining information to incorporate this information from Scope 3 of the carbon footprint. This involved setting up several initiatives and projects. The most relevant is a sector-based project promoted by the different bank boards that seeks to support the entities in terms of defining a common calculator to measure Scope 1, Scope 2 and Scope 3 emissions when customers do not provide data or that might be useful, as a contrast to emissions published by customers. Several financial entities have joined this project and it will be developed during the second half of 2022. LABORAL Kutxa plans to implement it subsequently.

4.3 OBJECTIVES

The objectives given below have been set to reduce the impact of the activity, to boost full integration of sustainability and climate risk in the cooperative's activity and thereby support transition to a low-carbon economy.

Strategic Plan. Objectives for the end of 2022 compared to 2019:

- Reduce by 75% the CO₂ emissions into the atmosphere from LABORAL Kutxa as a whole, thereby minimising the Carbon Footprint.
- 30% reduction in paper consumption, the most widely-used resource in our activity.
- Make 40% of total purchases from local suppliers.

2022 Sustainability Management Plan:

- Design of a roadmap to include sustainability and climate change risks, according to the regulators' expectations.

- Migration of the range of investment funds to Article 8 of the SFDR Regulation. Start the transition of the range of pension plans and Provident Societies.
- Development of a green financing product catalogue.
- Design and implementation of a training roadmap: Board of Governors, management, all other people, focussing on specific fields (risks, companies, cash flow, etc.).
- Apply sustainability objectives to the variable salary of middle management: heads of department and some sections.
- Refurbishment of the LK3 Central Services building, obtaining the Bream Excellent certification.
- Design and implementation of a plan to reduce paper consumption. The strategic plan for 2020-22 sets an objective to reduce consumption by 30%. The new plan to reduce paper consumption sets a reduction goal of 50% over consumption at close of 2022.

Environmental Programme 2022


- Design a work mobility plan.
- Diagnostics and environmental improvement plan for the new office model.
- Plan to reduce fluoride gas emissions.





Future plans and initiatives related to climate change



The background of the slide is a solid green color. It features several dark green silhouettes of birds in flight, scattered across the page. There are also several thick, curved, light green lines that sweep across the background, creating a sense of movement and flow.

The TCFD framework approaches this last section as an open space to explain the next steps, and to summarise both future climate plans and related climate initiatives.

Doubtlessly, adapting the banking activity to the transformation challenge required by climate challenges and regulators' expectations is a major challenge that requires a huge effort from the whole Entity. From the Board of Governors to the office administrators, everyone is including environmental aspects in their everyday work. Being capable of dealing with customers and keeping pace with this transformation is, and for the next few years is going to be, a significant effort that must be kept in line with the strategy and the organisational structure to address it successfully. As explained throughout this report, the LABORAL Kutxa Group has launched an adaptation process, transforming structures and incorporating environmental and climate change risks. At the same time, a new product catalogue is being developed, more skills training is being provided and there is a constant effort to reduce the activity's direct impact.

In any case, the LABORAL Kutxa Group, as a credit cooperative aiming to help transform the economy towards a fairer and more sustainable model, is immersed in a reflection process to consider its role in 2022 and the near future. A

programme called Zentzua is under way to redefine and update the purpose of the cooperative project. Right now, it is clear that the consequences of climate change and the transformation of the economic model that this involves have deep-running reverberations on people, so they cannot be separated from the social transformation objectives that have been the main focus of the Group's activity so far. The consequences of climate change are going to affect everyone, particularly the most vulnerable. In the same way, transforming the economic model into a more sustainable model will bring about economic consequences in production sectors and workers that need to reconvert or that might be left behind. Therefore, in this update of the purpose of the consequences in the business model, the environmental aspect might be given greater emphasis, putting it on a par with distribution of wealth, support for society, contribution to economic development or taking care of culture.

