Disclosure in accordance with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)

Approach to climate-relevant opportunities and risks

Thurgauer Kantonalbank (TKB) is obliged to implement the requirements under Code of Obligations Article 964b as well as the associated Ordinance on Climate Disclosures from 2025 (for the 2024 financial year). The bank follows the global disclosure standard, the Task Force on Climate-related Financial Disclosures (TCFD), when reporting its climate-related opportunities and risks. As TKB has worked intensively on implementing the requirements since the start of 2022, this report includes, on a voluntary basis, an initial, qualitative disclosure in compliance with the TCFD on the current implementation status and an outlook.

Governance: Integration of climate-related opportunities and risks in the organization

Role of the Board of Directors

Sustainability – and especially climate change as a material element thereof – is of material strategic importance from the Board of Directors' and Executive Board's perspective. The Board of Directors approves TKB's sustainability strategy, which is implemented by the Executive Board with the support of internal and external experts. The approach to climate change is a major part of sustainability. In 2023, the Board of Directors will address, inter alia, the reduction pathways for Scope 3 emissions.

Embedding at the operational level

Current corporate governance at TKB ensures that the implications of climate change are incorporated into the business strategy and risk management. The Executive Board regularly examines strategic issues relating to sustainability and the associated opportunities and risks and monitors the bank's progress. A number of sustainability-related positions have been created and working groups set up within the organization. For example, TKB has a Sustainability Office that reports to the Chief Executive Officer as part of corporate development ("Strategy, Innovation, Sustainability"). The Sustainability Office creates and heads up the sustainability strategy process, coordinates its implementation, provides ideas and acts as a contact point for operational ESG-related issues. A Sustainable Real Estate Office has also been established to ensure that sustainability-related topics are integrated into advisory services, valuations, etc. at the operational level of the real estate financing segment. The sales units receive sustainability training, so they can take account of the opportunities and risks that arise from this in the advisory process. Moreover, professional risk monitoring skills were established with regard to climate change and the associated capacity expanded. TKB also has working groups and subject matter experts charged with implementing the measures defined in the sustainability strategy. When implementing its sustainability strategy, TKB also has the support of the Sustainability Advisory Council, which is made up of external experts and offers innovative ideas.

Outlook

Efforts are currently underway to embed the Board of Directors' and Executive Board's standards for dealing with climate-related opportunities and risks, with implementation scheduled to be completed in 2023. Moreover, further steps are being implemented – from the advisory process to reporting – in relation to embedding at the operational level.

Strategy: the impact of climate-related opportunities and risks on the risk situation and business model

In its corporate strategy, TKB has adopted a clear position on the topic of sustainability, especially with regard to climate change, which is set out in more detail in the sustainability strategy. The bank is moving ahead with implementation in a way that favors opportunity while remaining aware of the risks, both within the bank's own operations as well as in its role as financial intermediary.

TKB is strategically impacted by the potential implications of climate change in two ways: there is potential for increased risk, which can lead to increased value adjustments or higher operational costs via various transmission channels. In addition, TKB's business development can be impacted by new legal requirements or general societal changes.

Impacts on risk

When evaluating the risk, TKB performed a systematic risk assessment of climate-relevant events and their impact on specific risk types. Overall, on the basis of this analysis, the bank identified individual risks where approaches must still be established for both ongoing monitoring as well as the further development of the methodology and fundamental data. As TKB is heavily involved in mortgage as well as commercial and corporate business, the greatest relative impact – with regard to financial risks – lies with credit risk. Based on the risk analysis, TKB generally rates itself as robust regarding climate scenarios. Moreover, no substantive grounds were found for performing a thorough review of the business alignment.

Credit risk

The evaluation must always be based on a specific timeframe and distinguish between physical and transitional developments:

- TKB currently sees no material increase in risk over the short to medium term for physical events such as floods, droughts, storms, etc. This is partly because the events are mainly limited to specific regions or only impact certain sectors. In addition, the TKB loan portfolio has a very high share of real estate financing (whereby building-related claims are covered by natural hazards insurance), as well as sectors that have not shown any particular susceptibility to physical risks to date.
- Over the long term, TKB sees potential for an increase in physical events, as the containment of climate change requires the cooperation of the entire international community, which does not yet seem certain. Borrowers can be increasingly exposed to disruptive liabilities, such as rising insurance premiums or increased losses, through the increase in events and/or their severity as well as through chronic climate change.
- Regarding transitional risks in the context of higher CO_2 prices, legal restrictions or general changes in demand, TKB sees the strongest relative potential impact on the loan portfolio, especially over the medium term. Against the backdrop of the Paris Agreement and the climate strategy of Switzerland and the Canton of Thurgau, TKB believes it likely that other steering measures will be taken in order to achieve the demanding emission reduction targets by the next global interim target in 2030. These could include borrowers' capital ratios in both the real estate and corporate loan portfolios and result in increased defaults. Initial internal scenario calculations were made applying significantly higher CO_2 prices. TKB will publish more detailed disclosures on this at the next opportunity.

Impacts on the business model

TKB considers meeting the target of net zero by 2050 set by Switzerland and the Canton of Thurgau to be a major social and macroeconomic challenge.

TKB mainly has residential and commercial real estate financing in its loan portfolio and relatively few CO_2-intensive sectors in its corporate customer business. The climate strategy of Switzerland and the Canton of Thurgau mainly identifies buildings and traffic as offering significant GHG-emission reduction potential.

TKB has performed an initial analysis of the Scope 3 value of the financed emissions. The bank will publish more detailed disclosures on this at the next opportunity.

- The TKB loan portfolio is materially impacted by the reduction requirements in the real estate sector – albeit no more than other banks with a high proportion of mortgage financing.
- The Confederation and cantons have initiated measures and initiatives to achieve the emission reduction targets through promotional programs or legal requirements, for example. TKB thus considers it increasingly important to inform customers about energy efficiency as well as sustainable investments. It maintains partnerships in the energy sector and offers sustainable financing and investment products.
- The political, regulatory and social operating conditions for reducing GHG emissions in Switzerland are basically in place. TKB is working on the assumption that the demand for energy-efficient construction and the associated financing will rise sharply, both with respect to new buildings as well as renovation projects.
- As a cantonal bank, TKB also finances public sector buildings that serve socio-political purposes. It has been found that CO_2 emissions are not entirely avoidable in the area of sewage and waste management. Nonetheless, TKB works to ensure that these constructions are as low-emission as possible through its advisory services.

Outlook

TKB is currently working on improving its fundamental data and methods for future quantitative disclosures. This relates both to the further development of risk analyses as well as the Scope 3 calculation and the definition of a science-based target pathway. On that basis, the risk assessments for different climate scenarios as well as the impacts on the business model will be defined in greater detail.

Risk management: integration of climate-related risks into risk management

TKB has a framework concept for institution-wide risk management, which satisfies the requirements of the Swiss Financial Market Supervisory Authority (FINMA) for risk management under Pillar 2 and with regard to double proportionality (scope and impact). The formal and explicit embedding of the Board of Directors' and Executive Board's provisions regarding ESG risks (sustainability risks) is currently undergoing implementation and will be completed in 2023. The following risk management instruments will be expanded in the sustainability context:

- **Risk inventory**: examining the relevance and materiality of climate change for the individual risk types at TKB, in order to identify the risk types requiring implementation of ongoing risk monitoring and more in-depth analysis, including scenario calculations. An initial risk inventory was performed in 2022.
- **Risk strategy**: identification of necessary measures and potential courses of action based on the findings from the risk inventory.
- **Risk governance**: addition of extra duties and responsibilities for monitoring risks and developing methods in the sustainability context.
- **Risk measurement**: conception and implementation of scenario calculations for credit risk to quantify potential risks related to climate change and identify development potential. An initial scenario calculation was performed in 2022.
- **Risk reporting**: inclusion of ESG-specific key risk indicators (KRI) in regular risk reporting to ensure that the Executive Board and Board of Directors are involved in risk monitoring.

Besides regular reviews of the risk inventory and ongoing monitoring, TKB intends to incrementally develop the applied methods and fundamental data over the next few years.

Metrics: measurable criteria and targets for climate-related opportunities and risks

In 2022, TKB focused on the primary qualitative implementation of the TCFD disclosure requirements. In this context, the bank relies on the recommendations and aids of the Partnership for Carbon Accounting Financials (PCAF) initiative, which it joined in 2022. In this connection and for the purpose of an internal status assessment, initial risk scenarios were calculated and a first Scope 3 analysis was performed, which delivered information for the next steps of implementation. TKB aims to incrementally develop the methods applied and fundamental data used over the next few years.

This includes planning a science-based target pathway as well as defining and implementing further key risk indicators (KRI).