

PRINCIPLES FOR RESPONSIBLE BANKING

LABORAL Kutxa Progress report 2022 | 1 / 10

REPORTING AND SELF-ASSESSMENT REQUIREMENTS	HIGH LEVEL SUMMARY OF THE BANK'S RESPONSE	REFERENCES / LINKS TO THE FULL RESPONSE OF THE BANK / RELEVANT INFORMATION
<p>PRINCIPLE 1: Alignment. To align our business strategy to be coherent and contribute to people's needs and society's goals as expressed in the Sustainable Development Goals, the Paris Climate Agreement and relevant national and regional frameworks.</p>		
<p>1.1. Describe (high-level) your bank's business model, including the main customer segments served, types of products and services provided, the main sectors and types of activities and, where relevant, the technologies financed across the main geographies in which your bank has operations or provides products and services.</p>	<p>LABORAL Kutxa offers commercial and corporate banking services, mainly in the Basque Country and Navarre. Individuals, the self-employed, businesses, SMEs and large and medium-sized companies are its main segments, in addition to cooperatives, including those of Mondragon which actually founded the banking entity.</p> <p>Throughout the Sustainability Report and Statement of Non-Financial Information 2021, which follows GRI standards and has been audited by AENOR, we provide answers to these questions.</p>	<p>1.1. Cresentation of the Group (P. 8)</p> <p>1.3. Cooperativism (P.10)</p> <p>1.5. Geographic distribution of offices (P.12)</p> <p>1.6 Principal magnitudes of the Group (P.13)</p> <p>3.1.2. Principal magnitudes of clientele (P.37)</p> <p>3.1.6. Responsible products and services (P.45-51)</p> <p>4.1 Clientele (P. 83)</p> <p>Principal magnitudes of responsible products and services (P.85)</p>
<p>1.2. Describe how your bank has aligned and/or is planning to align its strategy to be consistent with and contribute to society's goals, as expressed in the Sustainable Development Goals (SDGs), the Paris Climate Agreement and relevant national and regional frameworks.</p>	<p>LABORAL Kutxa is a credit cooperative and belongs, therefore, to the social economy. It was founded to contribute to economic and social progress wherever it operates. Sustainability has always been at the heart of our strategy, the main proof of which is the return to society of 25% of the annual profits.</p> <p>Given its origin, activity and history, LABORAL Kutxa has prioritised SDGs 5, 8, 9, 10 and 17. In 2022, the Governing Council is to conduct a reflection to update this prioritisation.</p> <p>Within LABORAL Kutxa's general strategic reflection for 20-22, the PRBs were included as a guide to drive the activity towards a more sustainable model.</p> <p>At the end of 2020, a reflection exercise was begun to propose a sustainable finance strategy. The aim was to comprehend our initial position in order to detect areas for improvement and establish a global strategy. This strategy, completed at the beginning of 2021, resulted in the design and roll out of an implementation roadmap in the second half of the year. Two of the 11 points of the roadmap refer to the strategy:</p> <ul style="list-style-type: none"> To reflect the Group's ambition on sustainability and increase the details of existing commitments by developing a sustainability strategy. To align the Group's sustainability strategy with key international agreements and signpost its action. 	<p>0. Charter (p. 5-6)</p> <p>1.7. Strategy and risk management (P. 15-17)</p> <p>2.6. N Global Compact and Sustainable Development Goals (P. 34-35)</p> <p>TCFD. Appendix to the 2020 sustainability report 2020.</p>

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	<p>In 2021, the first report was drafted following the recommendations of the TCFD (Task Force On Climate-related Financial Disclosures). This report is a first approach to the integration of sustainability and climate change risks. A second, more in-depth report will be produced in 2022, explaining the targets set and the progress made.</p> <p>The Sustainability Management Plan for 2022 defines the progress in the implementation of the Principles of Responsible Banking, as well as assessing the incorporation of the Net Zero commitment and the establishment of decarbonisation objectives of the portfolio.</p> <p>Within the strategic redirection process launched in 2022 upon termination of the current strategic period, sustainability is a core focus. Initially, three initiatives are proposed along these lines:</p> <ul style="list-style-type: none"> • Sustainability as a necessary element of the Mission • Derived from the reorientation, the design of a medium term Sustainability Master Plan • Redefinition by the Governing Board of the prioritised SDGs. 	
<p>PRINCIPLE 2: Impact and target setting. To continuously increase our positive impacts while reducing negative impacts on, and managing risks to people and environment resulting from our activities, products and services. To this end, we will set and publish targets where we can have the most significant impacts.</p>		
<p>2.1 Impact analysis:</p> <p>Show that your bank has identified the areas in which it has its most significant (potential) positive and negative impact through an impact analysis that fulfils the following elements:</p> <p>a) Scope: The bank's core business areas, products/services across the main geographies in which the bank operates as described under 1.1. have been considered in the scope of the analysis.</p>	<p>An impact, risk and opportunity analysis, as well as a materiality study, is conducted annually for the Sustainability Report.</p> <p>In 2022, a first analysis was carried out using the tool launched by UNEP FI. The tool is an instrument designed to analyse the impact of banks' portfolios, helping to analyse the impacts associated with their retail and wholesale portfolios.</p> <p>The impact analysis conducted complies with the following elements:</p> <ul style="list-style-type: none"> • It has been conducted taking into account the main business areas, with the exception of insurance business and asset management, and covers its entire geographical scope of operation. • Within LABORAL Kutxa's business, the exposure to the mortgage business is worth particular mention. <p>Once these business lines of LABORAL Kutxa have been evaluated and combined with the specific needs of Spain, the tool provided a series of areas where LABORAL Kutxa could have a significant impact. Of these, the three most important have been chosen in order to focus on those where it has greatest impact.</p>	<p>1.7. Strategy and risk management (P. 15-17)</p> <p>1.8. Principles and governance (P. 17-22)</p> <p>2.5. Materiality analysis (P. 32-34)</p> <p>3.16. Responsible products and services (P.45-51)</p> <p>3.4. Our relationship with the environment (P. 71-78)</p> <p>2.2. Commitments and Achievements (P.26-27)</p> <p>2.4. CSR Scorecard (P. 31-32)</p>

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<p>b) Scale of exposure: Where is your core business/core activities in terms of industries, technologies and geographies.</p> <p>c) Context and relevance: most relevant challenges and priorities related to sustainable development.</p> <p>d) Scale and intensity/importance of impact: social, economic and environmental impacts resulting from your bank's activities and the provision of products and services.</p> <p>Show that, building on this analysis, your bank has</p> <ul style="list-style-type: none"> Identified and disclosed its areas of most significant (potential) positive and negative impact. Identified strategic business opportunities in relation to the increase in positive impacts / reduction of negative impacts. 	<p>In the case of LABORAL Kutxa, it has been determined that the Entity has:</p> <ul style="list-style-type: none"> a positive impact both in the area of employment and that of inclusive and healthy economies. negative impact with regard to climate. <p>After carrying out the analysis, it has been proposed how LABORAL Kutxa can help strengthen the areas of positive impact, while reducing negative impacts. To this end, indicators proposed by the tool itself have been selected. At the same time, other indicators have been selected which, although not specifically provided by the tool, are of great interest to LABORAL Kutxa.</p> <p>Lastly, in 2022 a dual materiality analysis was initiated in which stakeholders will be consulted on their opinion of the impact of LABORAL Kutxa's activity on social, environmental and corporate governance aspects. This dual materiality analysis will be included in the 2022 Sustainability Report.</p>	

Please provide you bank's conclusion / statement if it has fulfilled the requirements regarding Impact Analysis.

In 2022 we have conducted the first impact analysis using the tool proposed by UNEP FI. This is a first analysis that will be improved in subsequent years as we become more familiar with the tool and as the quality and depth of the data available from our portfolio improves.

REPORTING AND SELF-ASSESSMENT REQUIREMENTS

2.2 Target settings

Show that the bank has set and published a minimum of 2 specific, measurable (qualitative or quantitative), achievable, relevant and time-bound targets that address at least 2 of the identified "areas of most significant impact".

Show that the targets are linked to and drive alignment and further contribute to the SDGs, the goals of the Paris Agreement and other relevant international, national or regional frameworks. Identify and set targets against a baseline (assessed against a particular year).

Show that the bank has analysed and acknowledged the significant (potential) negative impacts of the set targets and has set out relevant actions to mitigate them as far as possible to maximise net positive impact

HIGH LEVEL SUMMARY OF THE BANK'S RESPONSE

In 2019, following strategic reflection, 10 measurable targets were established that contribute to society's goals. In establishing these targets, the Principles of Responsible Banking were considered and aligned with the Bank's objectives.

These targets affect the main areas of sustainability on which the bank has an impact.

In addition, as a result of the impact analysis, the following targets have been determined:

AREA	INDICATOR	PRESENT SITUATION	OBJECTIVE	DEADLINE	RESPONSIBLE	SDG
Employment	Environmental and social performance incentives	There are social and environmental targets for the members of the Board of Directors	Extend these to Departmental managers	1 year	Persons	8, 13
	Total amount of monetary losses as a result of legal proceedings associated with labour law violations and employment discrimination	0	0	1 year	Regulatory Compliance	3, 8, 16
	Percentage of gender representation for management, technical staff and all other employees	Management: 37%	40%	3 years	Persons	5
	Total recordable incident rate and fatality rate for directly employed and contracted employees	28	20	1 year	Safety and Health Committee	3, 8

REFERENCES / LINKS TO THE FULL RESPONSE OF THE BANK / RELEVANT INFORMATION

1.7. Strategy and risk management (P. 15)

2.6. UN Global Compact and Sustainable Development Goals (P. 34-35)

2.2. Commitments and Achievements (29-30)

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	<table border="1"> <thead> <tr> <th>AREA</th> <th>INDICATOR</th> <th>PRESENT SITUATION</th> <th>OBJECTIVE</th> <th>DEADLINE</th> <th>RESPONSIBLE</th> <th>SDG</th> </tr> </thead> <tbody> <tr> <td rowspan="4">Climate</td> <td>Scope 1 net emissions</td> <td>213 tonne</td> <td>200 tonne</td> <td>1 year</td> <td>Environment Committee</td> <td>11, 13</td> </tr> <tr> <td>Produce from renewable sources the electrical energy consumed</td> <td>13%</td> <td>100%</td> <td>3 years</td> <td>Environment Committee</td> <td>7, 11, 13</td> </tr> <tr> <td>Paper consumption</td> <td>367.381 kg</td> <td>183.690 kg (50%)</td> <td>3 years</td> <td>Sustainability Office</td> <td>11, 12, 15</td> </tr> <tr> <td>Description of climate change risk exposure analysis, degree of systematic exposure of the portfolio and strategies to mitigate risks (we refer to the percentage of mortgaged homes with energy rating F or G)</td> <td>28,30%</td> <td>25%</td> <td>5 years</td> <td>Sustainability Office</td> <td>7, 11, 13</td> </tr> <tr> <td rowspan="2">Inclusive and healthy economies</td> <td>Local purchases</td> <td>94,20%</td> <td>95%</td> <td>1 year</td> <td>Sustainability Office</td> <td>12, 13</td> </tr> <tr> <td>Distribution of profits to society</td> <td>€18.370.000</td> <td>€20.261.029</td> <td>1 year</td> <td>Management</td> <td>4, 8, 10</td> </tr> </tbody> </table>							AREA	INDICATOR	PRESENT SITUATION	OBJECTIVE	DEADLINE	RESPONSIBLE	SDG	Climate	Scope 1 net emissions	213 tonne	200 tonne	1 year	Environment Committee	11, 13	Produce from renewable sources the electrical energy consumed	13%	100%	3 years	Environment Committee	7, 11, 13	Paper consumption	367.381 kg	183.690 kg (50%)	3 years	Sustainability Office	11, 12, 15	Description of climate change risk exposure analysis, degree of systematic exposure of the portfolio and strategies to mitigate risks (we refer to the percentage of mortgaged homes with energy rating F or G)	28,30%	25%	5 years	Sustainability Office	7, 11, 13	Inclusive and healthy economies	Local purchases	94,20%	95%	1 year	Sustainability Office	12, 13	Distribution of profits to society	€18.370.000	€20.261.029	1 year	Management	4, 8, 10	
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<p>Provide conclusion/statement on whether you have complied with the requirements with regard to Target Setting.</p>																																																					
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<p>2.3. Plans for the implementation and monitoring of targets</p> <p>Show that your bank has defined actions and milestones to meet the stated targets.</p>	<p>With regard to the targets established in the Strategic Plan:</p> <ul style="list-style-type: none"> Monitoring of the targets has been included in the 2022 Management Plan, defining the persons responsible for their fulfilment. The evolution of these targets is monitored quarterly by the Planning department, which supervises their evolution. 						<p>2.6. UN Global Compact and Sustainable Development Goals (P. 34-35)</p> <p>3.2.5. Diversity and equality of opportunities (P. 57-59)</p>																																														

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<p>Show that the bank has established the means to measure and monitor progress against the targets set. Definitions of key performance indicators, any changes to these definitions and any overshooting of baselines should be transparent.</p>	<ul style="list-style-type: none"> At least quarterly the Sustainability Committee, of which the entire Board of Directors forms part, monitors and controls the Sustainability Management Plan where they are included. The annual evolution of these targets is explained in the Sustainability Report. <p>The targets established as a result of the impact analysis will be included in the medium-term Sustainability Master Plan that is being defined. Within the strategic reorientation that will culminate in July 2022 and which will be valid for the next 3 years, sustainability is a core focus. One of the main pillars of the sustainability strategy, together with the reflection that has begun on LABORAL Kutxa's Mission, are the commitments and objectives established as a result of signing the Principles of Responsible Banking in 2019.</p>	<p>Fundación Gaztenpresa (P. 66-67)</p> <p>2.2. Commitments and Achievements (29-30)</p>
<p>Provide your bank's conclusion / statement if it has fulfilled the requirements with regard to the Plans for the implementation and monitoring of targets.</p>		
<p>By the end of 2021 and beginning of 2022 the sustainability governance structure has been defined. This includes monitoring by the Board of Directors, training of the Sustainability Committee (of which all members of the Board of Directors form part) and the establishment of the Sustainability Office.</p> <p>This governance structure has been created to promote and monitor the implementation of a sustainable finance strategy for LABORAL Kutxa. This strategy is aligned with the Principles of Responsible Banking.</p>		
<p>2.4. Progress in implementation of targets</p> <p>For each target separately:</p> <p>Show that the actions previously defined have been implemented.</p> <p>Explain why the actions could not be implemented/needed to be modified and how the bank is adapting its plan to meet the targets set.</p> <p>Report on the bank's progress over the past 12 months towards achieving each of the stated targets and the impact of its progress.</p>	<p>In 2021 overall compliance with the targets has been positive. Most of them have been met, with the exception of those directly related to financial activity, which has been slowed down by the COVID-19 crisis.</p> <p>With regard to the targets established as a result of the impact analysis, they are newly created and their progress will be analysed in future reports.</p> <p>As mentioned above, these targets will be incorporated into the Sustainability Master Plan that is being designed in parallel to the reflection on the entity's mission and the strategic reorientation that is underway. The necessary action plans have been put in place to achieve the targets.</p>	<p>2.2. Commitments and Achievements (29-30)</p>

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Provide your bank's conclusion / statement it has fulfilled the requirements regarding progress in implementing targets.		
Progress in achieving the strategic objectives is positive despite the exceptional situation experienced in 2021. Regarding the new objectives, this will be discussed in the next report.		
PRINCIPLE 3: Clients and Customers. To work responsibly with our clients and customers to encourage sustainable practices and enable economic activities that create shared prosperity for current and future generations.		
3.1. Provide an overview of the policies and practices the bank has implemented and/or plans to implement to promote responsible customer relationships. Include high-level information on the programmes and actions implemented (and/or planned), their scale and results.	<p>The practices implemented by LABORAL Kutxa to promote responsible relationships with clientele are described.</p> <p>We are convinced that as a credit cooperative, this way of acting responsibly has been a constant since our origins.</p>	3.1. Our relationship with clientele (P. 37-51)
3.2. Describe how your bank has worked with and/or is planning to work with its clients and customers to encourage sustainable economic activities. This should include information on actions planned/ implemented, products and services developed, and impacts achieved.	<p>This section describes the actions taken to implement responsible customer relations.</p> <p>They highlight the launch in the last 12 months of:</p> <ul style="list-style-type: none"> • Simulators and financing product proposals for the energy improvement of communities of residents. • LK Next proposal to corporate customers to access EU Green Deal Next Generation funds. • Adaptation of the proposal of sustainable investment funds in line with the European Union's Disclosure Regulation and MiFID II. 	<p>3.1. Our relationship with clientele (P. 37-51)</p> <p>3.1.3. Dialogue with clientele (P. 37-39)</p>
PRINCIPLE 4: Stakeholders. To proactively and responsibly consult, engage and partner with relevant stakeholders to achieve society's goals.		
4.1. Describe which stakeholders your bank has consulted, engaged, collaborated or partnered with for the purpose of implementing these Principles and improving your bank's impacts.	<p>Stakeholders have been identified for the Sustainability Report and dialogue mechanisms have been established with them.</p> <p>These dialogues also cover business and sustainability issues. In order to carry out the materiality analysis, the summary of the Report was sent to more than 600,000 customers, suppliers, employees and cooperative members. Nearly 2,100 responses have been received.</p>	<p>2.4. Materiality analysis (P. 32-34)</p> <p>2.2. Commitments and Achievements (29-30)</p> <p>Interest groups are contemplated annually in the materiality study.</p>

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<p>Describe how your bank has identified the relevant interested parties and what problems were tackled/results were achieved.</p>	<p>In 2022, a materiality analysis was launched, considering the perspective of dual materiality, beyond the Materiality Matrix that was already carried out with Stakeholders.</p>	<p>3.1.3. Dialogue with clientele (P. 37-39)</p> <p>3.2.3. Dialogue with the Staff (52-53)</p> <p>Collective negotiations (52-53)</p> <p>3.3.3. Dialogue with Society (69)</p>
<p>PRINCIPLE 5: Governance and culture. To implement our commitment to these Principles through effective governance and a culture of responsible banking.</p>		
<p>5.1. Describe the relevant governance structures, policies and procedures your bank has in place/is planning to put in place to manage significant (potential) positive and negative impacts and support effective implementation of the Principles.</p>	<p>Sustainability governance has been strengthened as part of the development of the Sustainability Roadmap at end of 2021 and beginning of 2022. Specifically:</p> <ul style="list-style-type: none"> • The Governing Board, which has an equal number of men and women, has approved the LABORAL Kutxa Group's sustainability policy available on the website. • The Governing Board has established at least quarterly monitoring of sustainability initiatives underway. • The Sustainability Committee has been set up, made up of the Board of Directors and the members of the Sustainability Office. The Committee is responsible for ensuring the implementation of the Strategy and the management plans established by the Governing Board. To this end, it will monitor the actions underway and apply the necessary measures to adapt the entity to the sustainable finance positioning established in the Strategy. The Committee meets at least quarterly. • The Sustainability Office (SO), made up of 3 people, has been created to coordinate and promote the different initiatives. • The Sustainability Team has been created, made up of the heads of the different departments, to be responsible for executing the actions that have been proposed: Commercial Areas, Risks, Risk Control, Persons, Technology or Audit. 	<p>1.8. Principles and governance (P. 17-22)</p> <p>1.9. Development of governing bodies (22)</p> <p>Sustainability policy</p>
<p>5.2. Describe the initiatives and measures your bank has implemented or is planning to implement to foster a culture of responsible banking among its employees.</p>	<p>LABORAL Kutxa is a credit cooperative in which workers are the owners of the company, and therefore take part democratically in management and decision-making. Our cooperative banking is a social economy, and the culture of responsible banking is part of how we operate.</p> <p>Within the Management Plan there are numerous training and communication measures to advance the implementation of a responsible banking culture, such as:</p>	<p>1.3. Cooperativism (P. 10-11)</p> <p>Values, principles, standards and rules of conduct p.9-10</p> <p>1.10. 1.10. Remuneration of governing bodies (P.21)</p>

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<p>This should include a high-level overview of capacity building, inclusion in remuneration structures and performance management and leadership communication, among others.</p>	<ul style="list-style-type: none"> • Training for: <ul style="list-style-type: none"> ✓ Governing Board: specific training on sustainability risks ✓ Management Committee and Heads of Departments ✓ Departments: sustainability in LK included in the programmed training on banking regulation ✓ Everyone: basic perspective on sustainability in the financial sector and its impact: <ul style="list-style-type: none"> • General internal training: Sustainability Office • External training: MIFID (5h) ✓ Specific training for Central Services teams: risks, treasury, corporate network, DNA, risk control • From the point of view of communication: <ul style="list-style-type: none"> ✓ Reflection on building a sustainability narrative for LK linked to cooperative values ✓ Internal dissemination of progress in sustainability, including the environmental variable ✓ Strengthen external notification of progress in sustainability ✓ Study Centre. Incorporation of sustainability into analysis • Sustainability objectives have been established in 2021 as part of the variable remuneration of the members of the Management Committee. • In 2022 these targets have also been lowered to the level of all department heads and some sections. 	<p>1.8. Principles and governance (P. 17-20)</p> <p>3.2.7. Management of remuneration (P. 56-57)</p>
<p>5.3. Governance structure for implementation of the Principles</p> <p>Show that your bank has a governance structure in place, including:</p> <ol style="list-style-type: none"> a) establishment of targets and actions to reach them. b) corrective measures in the event that they are not achieved, or unexpected negative impacts are detected. 	<p>As seen in point 5.1, within the roadmap for the implementation of a sustainable finance strategy defined in 2021, a core element has been the definition of sustainability governance. Sustainability governance currently has several levels that ensure the setting of targets to advance the implementation of sustainability objectives, including the Principles. The level of progress of these targets is also regularly monitored and controlled.</p> <p>As mentioned above, the Principles have been integrated into the Strategic Plan and the Management Plan, which is monitored.</p> <p>The Sustainability Committee leads, promotes and monitors everything related to sustainability and the implementation of the Principles of Responsible Banking.</p>	<p>In the specific case of environmental objectives, we have UNE EN ISO 14001 environmental certification</p> <p>3.4.1. Environment-management focus (P. 71-73)</p> <p>Sustainability policy</p>

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<p>Provide your bank's conclusion / statement if it has fulfilled the requirements with regard to the Governance Structure for the implementation of the Principles.</p>		
<p>LABORAL Kutxa has fully reviewed and updated the structure for sustainability management. The structure has been strengthened to give it greater impetus while maintaining the differentials of our credit cooperative configuration.</p>		
<p>PRINCIPLE 6: Transparency and accountability. To periodically review our individual and collective implementation of these Principles and be transparent about and accountable for our positive and negative impacts and our contribution to society's goals.</p>		
<p>6.1. Progress in implementing the Principles for Responsible Banking</p> <p>Show that your bank has progressed in implementing the Principles over the last 12 months and has established and implemented targets in at least two areas.</p> <p>Show that your bank has considered existing and emerging good practices relevant for the implementation of the Principles and has defined priorities and ambitions to align with good practices.</p> <p>Show that your bank has implemented/is working on implementing changes in existing practices to reflect and be in line with existing and emerging good practices, and has made progress in implementing these Principles.</p>	<p>The reflection on sustainable finance that has taken place in the last 12 months has been aligned with the Principles for Responsible Banking. One of the initiatives carried out was benchmarking with financial institutions that are themselves international benchmarks in sustainability. The six financial institutions that have served as models are signatories of the Principles for Responsible Banking and are known for their good practices in sustainability. The development of a roadmap for the implementation of the sustainability strategy is the outcome of this reflection and benchmarking.</p> <p>As mentioned above, a strategic reorientation for the next three years has also been initiated in which sustainability is considered a priority element. Together with the digitalisation of financial activity, sustainability is considered as a transversal and transformative aspect.</p>	<p>Since signing the Principles, we have participated in the initiatives carried out by UNEP FI to advance in their implementation. This allows us to be at the forefront of the best practices that are being carried out internationally.</p>
<p>Provide your bank's conclusion / declaration if you have fulfilled the requirements regarding progress in the implementation of the Principles of Responsible Banking.</p>		
<p>Implementation of the Principles has accelerated over the past 12 months. The aim is that they become a pillar of the Entity's transformation towards a more sustainable model that brings together LABORAL Kutxa's tradition of responsible banking as a credit cooperative with their concern for the effects of the environmental crisis and climate change.</p>		