

Principles for **Responsible** Financing

Overarching principles

The Group BCP recognizes the existence of sectors and activities which environmental and/or social impacts may not be aligned with the Group's commitments towards a sustainable future. The Group's Principles for Responsible Financing is a classification system developed to guide the Group's new business and investment approaches in this regard. This guidance is disclosed on the Bank's website.

To guarantee a common understanding of how these sectors and activities should be approached, the Group defines:

- **Excluded sectors or activities** - those that, due to their inherent environmental and/or social impacts, are in direct conflict with the Group's commitments towards a sustainable future;
- **Restricted or conditioned sectors or activities** - those that, due to their inherent environmental and/or social impacts, raise significant concerns when assessed against the Group's commitments on sustainability, and therefore require the use of minimum safeguards before entering a specific transaction/exposure.
- **Sensitive sectors** - those that have been identified as of high risk through the Group's internal risk assessment methodologies. Those sectors may require an additional due diligence/ risk assessment before entering a specific transaction/ exposure.

The customers are also required to obtain and hold all necessary environmental permits in connection with their business activities, as well as to operate in compliance with environmental legislation and all relevant laws, standards and other regulatory requirements, at national and local levels, for the protection of the environment, health and safety, and the principles of social coexistence.

The Group monitors and set relevant KPI to regularly assess the degree of compliance with these principles. Most relevant KPI, namely excluded sectors, are publicly disclosed.



Excluded sectors or activities

These sectors or activities are those that are not aligned with the Group's current ESG (Environmental, Social and Governance) principles, long-term strategy for sustainability and/or are likely to decline as the transition to a more sustainable paradigm moves forward. The following activities and sectors are excluded from new loans and investment transactions:

- Production or selling of any product (or service) considered illegal according to international law;
- Exploration and extraction of oil and coal;
- Coal-based energy generation;
- Prostitution, pornography, and related activities;
- Unlicensed trading and selling of endangered wildlife or species;
- Harvesting or selling of illegal wood;
- Production, acquisition and/or supply of controversial weapons⁽¹⁾. The financing for arms brokering⁽²⁾, including factoring and documentary credit, is not allowed outside the situations compliant with the EU common position on control of exports of military technology and equipment and control of arms brokering in which the end user is an armed force of an EU member State.

Regarding the acquisition, construction and/or refurbishment of real estate, both residential and commercial, loans collateralized by immovable properties with an energy performance certificate of G are also excluded.

⁽¹⁾ Controversial weapons are considered those that cause unnecessary or unjustifiable suffering to combatants or that affect civilians indiscriminately, as identified in international agreements, conventions, and as per Council Decision 2021/1694 of 21 September 2021 in support of the universalisation, implementation and strengthening of the Convention on Prohibitions or Restrictions on the Use of Certain Conventional Weapons Which May Be Deemed to Be Excessively Injurious or to Have Indiscriminate Effects.

⁽²⁾ Council Common Position 2003/468/CFSP of 23 June 2003 on the control of arms brokering; Council Common Position 2008/944/CFSP of 8 December 2008 defining common rules governing control of exports of military technology and equipment.

The Bank's customers are obliged not to use credit funds in any way related to actions listed on the European Bank for Reconstruction and Development (EBRD) Environmental Exclusion List.

The exclusion of financing towards the sectors and activities listed above apply to all geographies and asset classes, including investment portfolios.

In circumstances in which a business opportunity produces conflicting impacts among the ESG dimensions, particularly between the environmental and the social ones, the Bank might not enforce the above exclusion list upon carefully analysis by the Sustainability Function.

Restricted or conditioned sectors or activities

The Group considers as restricted or conditioned sectors and activities those that, due to their nature and the intensity of their environmental and/or social impacts, should only be financed under conditions that guarantee the appropriate management, mitigation and monitoring of the identified ESG risks. The following sectors and activities are considered restricted or conditioned:

- Production of tobacco;
- Production, processing and trading of hazardous substances and materials, subject to national or international regulation;
- Production and acquisition of non-controversial weapons. In such cases, the financing of enterprises and/or activities will only be allowed to the extent they are part of or accessory to the EU Common Security and Defense Policy, contributing to peace-keeping operations, conflict prevention and strengthening of the international security, the entities envisaged are compliant with the EU common position on control of exports of military technology and equipment and control of arms brokering, duly authorized under the law of the Member State and the end user is an armed force of an EU Member State. Heightened due diligence should be applied (satisfactory information on compliance with the applicable control laws/regulations of the country, licences and necessary authorizations, namely relating to end users' commitments).

The restriction of financing towards the sectors and activities listed above apply to all geographies and all asset classes, including investment portfolios.



Regarding the acquisition, construction and/or refurbishment of real estate, both residential and commercial, the financing of immovable properties with energy performance certificates below the thresholds defined by the Energy Performance of Buildings Directive (EU) 2018/844 may be performed only if customers commit to retrofitting in due time.

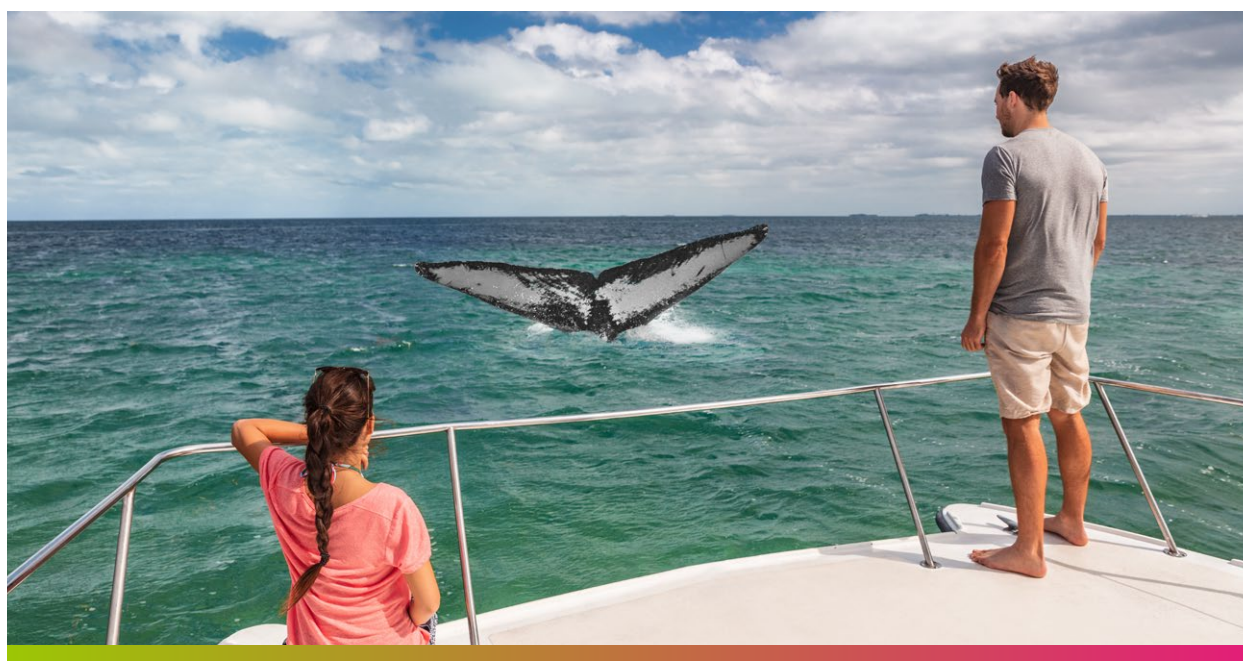
Sensitive sectors

The Group BCP considers as sensitive sectors those that have been identified, as per the internal risk assessment, facing a relevant potential impact either from climate transition, climate physical, nature-related or reputational sustainability factors.

These sectors are internally defined and managed through appropriate risk management controls, which take into consideration the Group's long-term sustainability strategy and business approach, including the target-setting commitments.

The list of sensitive sectors is updated, revisited at least annually following the update of the risk assessment procedures, include sectors like: Energy; Aviation; Shipping; Cement; Steel and Aluminium; and Chemicals.

Any conditions or restrictions on lending or investment opportunities towards these sectors, are discussed between the Risk Management, Credit Risk, Investment and Sustainability Functions, with duly consideration of the quantitative relevance of the exposures towards these sectors or activities.



Implementation process and controls

To ensure the proper implementation of this policy, the following operational principles are followed by the Group BCP:

- All the commercial areas have access to the key Group policies for ESG (including all the aspects described above) and are briefed on relevant changes made to existing policies;
- The Business Functions avoid engaging with clients or new business that may contradict the compliance with this policy. The same principle is applicable to the Investment Functions, who are responsible for identifying whether the opportunity involves companies related to excluded, restricted or sensitive sectors or activities;
- The Credit Risk Function is responsible for identifying whether the transaction involves financing towards companies and/or assets related to excluded, restricted or sensitive sectors or activities;
- If involvement in excluded sectors or activities is not confirmed but there are sufficient grounds for concern, the Sustainability Function should be asked to provide a second opinion and, if need be, a letter of agreement from the client shall be obtained guaranteeing compliance with the Group BCP's policies exclusions i.e., that none of the lent capital will be channelled towards excluded sectors or activities;
- If restricted sectors or activities are identified, the Credit Risk Function should trigger the involvement of the Sustainability Function, which shall define the required safeguards for the transaction approval;
- If sensitive sectors or activities are identified, the Credit Risk Function should follow the internal guidelines that anticipate the necessary due diligence to manage, mitigate and monitor the related ESG risks;
- The identification of excluded, restricted or sensitive sector and activities should follow a case-by-case approach; nonetheless, a comprehensive list of industry codes is created to guide the implementation process.

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