



**MARKET DISCIPLINE**

**ESG RISKS**

**JUNE 2023**

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# 1. Environmental, Social and Governance Risks (ESG)

In June 2021, with the revision of the Capital Regulation Requirements (known as CRR II), requirements for the disclosure of environmental, social and governance risks (ESG risks) are introduced through Article 449a. This article obliges large institutions that have issued securities admitted to trading on a regulated market in any Member State to disclose, as of June 2022, information on ESG risks, including physical and transitional risks.

In January 2022, the European Banking Authority (EBA) published the Recommendations and Requirements on Prudential Disclosures of ESG Risks (EBA/ITS/2022/01), pursuant to Article 449 of the CRR II.

These requirements were developed in line with other initiatives taking place at the European Union (EU) and international level, namely the recommendations presented by the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD), Regulation (EU) 2020/852 on the establishment of a framework to facilitate sustainable investment (Taxonomy Regulation) and Regulation (EU) 2019/2089 amending Regulation (EU) 2016/1011 as regards EU Climate Transition Benchmarks, EU Paris-aligned Benchmarks and sustainability-related disclosures for benchmarks.

Globally, reference bodies and regulators continue to publish various proposals and discussion papers on the ESG.

In the last quarter of 2020, Caixa Geral de Depósitos began the formal process of elaborating the Strategic Plan 21-24<sup>1</sup>, under the guidance of the Board of Directors, and the implementation began promptly in 2021.

The Strategic Plan 21-24 embodies CGD's ambition to serve the financial needs of Portuguese families and companies, being present in their day-to-day activities and supporting their medium-to-long-term projects, being committed to service excellence and simplicity to the customer, delivering innovative solutions and a complete value added proposals. As a driver for a business model aligned with the best practices in terms of profitability and sustainability, the Strategic Plan 21-24 comprise six pillars, in which the "Sustainability and Social Impact"<sup>2</sup> pillar stands out.

This pillar is implemented through the Sustainability Strategy 21-24<sup>3</sup>, composed of five strategic axes that are streamlined through a progressive and dynamic action plan that includes the participation of various internal structures:

- Sustainable and Inclusive Financing;
- Climate Risk Management;
- Equity, Digital and Financial Inclusion;

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<sup>1</sup> For more information, consult CGD Strategic Plan 2021-2024 at [https://www.cgd.pt/Investor-Relations/Informacao-Financeira/CGD/Apresentacoes/Documents/Plano-Estrategico\\_2021-2024.pdf](https://www.cgd.pt/Investor-Relations/Informacao-Financeira/CGD/Apresentacoes/Documents/Plano-Estrategico_2021-2024.pdf)

<sup>2</sup> For more information, see chapter "chapter 1.4.2" of the 2022 Sustainability Report, included in CGD's 2022 Management and Accounts Report, available at: <https://www.cgd.pt/English/Investor-Relations/Financial-Information/CGD/2022/Documents/Annual-Report-CGD-2022.pdf>

<sup>3</sup> For more information, consult chapter "4.7 – Sustainability Strategy 2021-2024" of the 2022 Sustainability Report, integrated in CGD's 2022 Management and Accounts Report, available at: <https://www.cgd.pt/English/Investor-Relations/Financial-Information/CGD/2022/Documents/Annual-Report-CGD-2022.pdf>

- Transparent Governance Models;
- Disclosure of Sustainability Information;

The initiatives developed within the scope of the Sustainability Strategy 21-24, as a workstream of the Strategic Plan 21-24, are subject to a monthly status report to the Board of Directors and a quarterly report to the Governance Committee and Sustainability Committee, which is an advisory body of the Executive Committee, chaired by the Chief Executive Officer (CEO) and composed of a Chief Risk Officer (CRO) and top managers from several areas.

## 1.1 Environmental Risk

### Business Strategy and Processes

The Sustainability Policy sets out the governance model, introducing guiding principles and specific activities, as well as the main participants and respective responsibilities in CGD sustainability management at Group level and Entity level. The sustainability management activities established which are considered crucial for the integration of ESG factors in CGD's business activity, it is to highlight the definition of management models for ESG risk, namely environmental and climate risks.

In terms of integrating environmental factors and risks into CGD's strategy and business model, it is to highlight the "Sustainable and Inclusive Financing" and "Climate Risk Management" pillars of Sustainability Strategy 21-24.

The development of the Sustainability Strategy 21-24 was based on the definition of a sustainability materiality matrix which methodological approach rely on the analysis of key trends, regulations, sectoral initiatives and best practices from a global, sectoral and organizational perspective. CGD's stakeholders identified nine topics as relevant, namely the "Sustainable management of operations" and "Environmental risks and climate action", which contribute directly to the topic under analysis.

CGD ensures that the development of its business activity is aligned with emergent challenges and topics through various mechanisms, including adherence to policies and commitments that demonstrate its ambition with sustainable development and climate agenda, such as the Net Zero Banking Alliance (NZBA) of the United Nations Environment Program Finance Initiative (UNEP FI), which aims to achieve carbon neutrality until 2050, following an approach in line with the Paris Agreement and the target of limiting the maximum increase in temperature to 1.5°C above pre-industrial levels by 2100.

In this context, CGD established a Transition Plan for carbon neutrality<sup>4</sup>, defining intermediate Greenhouse Gases (GHG) emission reduction targets aligned with science for its own activities and its financing activities considering three priority sectors: commercial real estate (residential and services), power generation, and cement manufacturing, having followed the recommendations and best practices disclosed in the sector guidance for financial institutions by Science-based Targets initiative (SBTi), the NZBA and Sustainable Markets Initiative (SMI). The established carbon emissions reduction targets are following:

- Own activities (context 1 and 2): - 42% ton CO<sub>2</sub> eq compared to 2021;
- Power generation (Corporate): -71% ton CO<sub>2</sub> eq/MWh by 2030, compared to 2022;
- Power generation (Project finance): -71% CO<sub>2</sub> eq/MWh by 2030, compared to 2022;
- Cement Manufacturing: -21% ton CO<sub>2</sub> eq/ton cement by 2030, compared to 2022;

<sup>4</sup> For more information, consult Transition Plan for Carbon Neutrality at [https://www.cgd.pt/English/Sustainability-CGD/Performance/Documents/Carbon-NET-ZERO2050\\_EN.pdf](https://www.cgd.pt/English/Sustainability-CGD/Performance/Documents/Carbon-NET-ZERO2050_EN.pdf)

- Commercial real estate (Residential): -53% ton CO<sub>2</sub> eq/m<sup>2</sup> by 2030, compared to 2022;
- Commercial real estate (Services): -64% ton CO<sub>2</sub> eq/m<sup>2</sup> by 2030, compared to 2022;

The progress of the targets will be presented on an annual basis in the Sustainability Report, disclosing the evolution of indicators concerning: (i) GHG emissions generated by Caixa; (ii) physical intensity – tons Co2 eq/physical metric; and (iii) the total financed emissions calculated within the scope of the carbon footprint. In a subsequent phase, the Transition Plan for financed emissions will include the remaining carbon-intensive sectors identified in the UNEP-FI guidelines and it will be defined a strategic transition approach for the main group entities, adapted to their reality.

The fulfillment of the financed emission reduction targets depends on the objectives and performance achievement of its corporate clients, as well as on the development of new laws and regulations that drive it (e.g. energy performance of buildings). Nevertheless, in line with the targets now defined, Caixa is committed to deploying business approaches focused on financing and promoting transition paths towards carbon neutrality through close engagement with its customers and the use of the available tools, namely ESG Rating. In this way, compliance with emission reduction targets is promoted through the implementation of Caixa's sustainable financing strategies.

Additionally, as a signatory of the UNEP FI Principles for Responsible Banking (PRB), CGD released the 3<sup>rd</sup> status report against the six principles listed in the initiative, committing itself to strategically aligning its businesses with the PRB framework, to make a positive contribution to society and the environment, in line with the expectations of its stakeholders. As established by the entity, CGD defined targets for two priority areas, identified through the materiality analysis carried out, the results from the "Impact Analysis Tool", and the bank's market share in housing loans to corporates and households.

Caixa's Sustainable Financing and Energy Transition Policy establishes a set of general principles and rules, to be considered in the context of sustainable financing, which guide a commercial strategy approach capable of mobilizing capital flows and financing solutions for a more sustainable and inclusive economy, based on the following principles:

- **Principle 1:** Support the transition to a low-carbon economy for companies and families through financing activities, mitigating risks and enhancing opportunities arising from sustainable development;
- **Principle 2:** Develop financial products and services that contribute to the achievement of environmental or social objectives in alignment with the Objectives of the Sustainable Development;
- **Principle 3:** Ensure the continuous assessment of corporate clients in terms of sustainability, through the gradual deepening of the integration of ESG criteria in the credit analysis and decision process;
- **Principle 4:** Support the climate transition process of companies operating in sectors considered polluting and promote the gradual disinvestment of financing from environmentally unsustainable activities;
- **Principle 5:** Implement government practices that guarantee the identification and monitoring of eligible sustainable financing;
- **Principle 6:** Promote internal training for employees, knowledge generation for the market and the society awareness regarding challenges and opportunities associated with sustainability;
- **Principle 7:** Take action in mitigating greenwashing practices by issuing regular and transparent disclosures to stakeholders about the approach and performance achieved by the organization in terms of sustainable financing.

The document follows the EBA Guidelines on loan origination and monitoring (EBA/GL/2020/06), the European Central Bank (ECB) Guide on climate-related and environmental risks, and provides

an important contribution to the implementation of the Caixa's Transition Plan, in order to achieve the Paris Agreement goals and the United Nations Sustainable Development Goals and, consequently, to continue the process of transition the bank and society towards carbon neutrality.

When developing a new product, CGD takes into account the financing areas and eligibility criteria defined in the Sustainable Financing and Energy Transition Policy and the Sustainable Financing Framework<sup>5</sup>, gradually promoting the alignment of financing activities with the EU Taxonomy Regulation and its respective environmental and social objectives.

The monitoring of the application of sustainable financing principles is ensured through a set of qualitative and quantitative indicators that make it possible to assess Caixa's performance in terms of sustainable financing and whose compliance is monitored by the Sustainability Committee.

In the context of the disclosures to be made under the Article 8 of the EU Taxonomy Regulation and the European Union Delegated Act on the Taxonomy of Climate, Caixa disclosed its degree of eligibility in the Sustainability Report 2022.

In order to comply with the timetable established by the European Commission, Caixa is drawing up a roadmap for the implementation of the criteria set out in the EU Taxonomy Regulation regarding the classification of environmentally sustainable activities and for the calculation of the alignment level. The results will be disclosed in the Sustainability Report in due course.

In 2021, Caixa defined and implemented a new risk assessment methodology, called ESG Rating, which assesses the counterparties' ESG criteria and allows their integration into decision-making processes.

The ESG Rating model aims to complement the Financial rating information, considering non-financial aspects, which are equally important in terms of risk impact and viability, contributing to a prospective view of the economic and financial situation of companies and consequently to a more holistic and robust risk management. The ESG Rating is, to a certain extent, a preview of the evolution of the Financial rating considering that, from a medium-term perspective, non-financial risks (environmental, social and governance) will be expressed in the companies' balance sheet and income statement.

Its objectives are to contribute with inputs for regulatory obligations, but also, and with equal relevance, the integration of these criteria in the decision-making processes and granting of credit to companies, contributing not only to strengthen risk management, but also to drive returns that are more resilient to ESG risks in the long term.

Aiming to ensure the maximization of value for the various stakeholders, it should also be highlighted the ESG Rating aims to reinforce the customer-centric vision, creating opportunities for dialogue and awareness between commercial areas and companies, and promoting advice and anticipation of needs in order to better support companies in the transition to a greener, more inclusive and more responsible economy.

Caixa's ESG Rating covers approximately 400,000 companies and Eur 23Bn of bank loans and is composed of 3 dimensions, including the environmental dimension that includes the following components:

- Physical risk rating, which includes indicators such as:

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<sup>5</sup> Sustainable Finance Framework: <https://www.cgd.pt/English/Investor-Relations/DebtIssuances/Prospectus/Documents/CGD-SustainableFinanceFramework.pdf>.

- ✓ Regional physical climate risk – assesses physical risks at the Municipality level (floods, urban and coastal flooding, earthquakes, landslides, tsunamis, volcanic phenomena, water shortages, extreme heat and fires);
  - ✓ Activity risk – assesses sectoral climate sensitivity;
  - ✓ Country risk – assesses the physical climate risk at country level;
  - ✓ Company risk – evaluates the greater or lesser flexibility of the company to face the physical risks inherent to its location or sector of activity in which it operates.
- Transition risk rating, which includes indicators such as:
    - ✓ Greenhouse gas emissions for Portugal and by sector;
    - ✓ Variation of carbon intensities (Scope 1, Scope 2 and Scope 3);
    - ✓ Energy expenses;
    - ✓ Investment in research and development.

It should be noted that, in addition to the calculation of the ESG Rating as a whole, each dimension and each component can be independently calculated, being this information available for consultation and inclusion in credit allocation decisions by the commercial and risk areas in the respective credit decision platforms.

A new version of Caixa's ESG Rating is currently being implemented, which will include new indicators, such as water consumption, waste treatment and the impact of the carbon price on gross value added by sector.

The contribution of the information collected and processed in the ESG Rating, supports the assessment of the current position of the company in the environmental dimension and provides inputs on what could be improved.

## Governance

In order to guarantee an effective engagement and discussion of CGD's climate and environmental risk management model, CGD's Board of Directors, senior management and relevant committees have established a dedicated governance structure.

The Board of Directors defines, supervises and is responsible, within the scope of its competences, for the application of governance systems that guarantee effective and prudent management, including the separation of functions within the organization and the prevention of conflicts of interest.

The Board of Directors, supported by the Risk Committee and the Audit Committee, establishes the risk appetite, which is implemented by the Executive Committee with the support of the Risk Management Division and the control and business areas. The Board of Directors is also responsible for aligning the risk appetite with the bank's strategic priorities for sustainable financing and climate action.

Caixa's current management is delegated by the Board of Directors in the Executive Committee. The Executive Committee is responsible for CGD Group's overall risk management, namely managing and implementing risk appetite, monitoring risk metrics and ensuring consistency between risk appetite and corporate strategy for sustainable financing and climate action.

The Governance Committee ensures compliance with the principles of internal governance and the assessment of sustainability strategies and policies, proposing guidelines for sustainability, social and environmental responsibility to the Board of Directors. Its competencies include, among others:

- Proposing guidelines for social responsibility, sustainability and environmental protection to the Board of Directors;

- Monitoring the definition of the Corporate Sustainability Strategy and its implementation, the development of policies, following global trends - existing and emerging - and best practices, with relevance to sustainability issues associated with governance, compliance, people development culture and their incorporation into business units;
- Monitoring Sustainable Finance initiatives and proposing subsequent guidelines for analysis by the Board of Directors, considering ESG criteria value that may impact on Caixa's stability, investments and financial services provided, in order to increase governance awareness and transparency on governance .

The Risk Committee monitors the management policy for all risks in CGD Group's activity, namely climate and environmental risk, in particular the risk measurement models and calculation of own funds adopted internally, as well as the Community Directives and Bank of Portugal and European Central Bank guidelines on this matter. As part of its duties and competences, it analyses, among other things, the reports submitted by the Risk Management Division on climate and environmental risk. The Risk Committee is also responsible for monitoring the management policies of all financial and non-financial risks inherent to Caixa's activity, particularly with regard to climate and environmental risk.

The Sustainability Committee (CSU) is the advisory body to the Executive Committee which supervises management and guides decisions on the implementation of the Sustainability Strategy, incorporating the principles of sustainable development, responsible banking and sustainable finance into CGD's current operations, in line with the institution's Strategic Plan and stakeholder expectations. The CSU operates from a corporate perspective, covering the CGD Group's Branches and Subsidiaries. Within the scope of its competencies in relation to climate-related and environmental (C&E) risk management, the following stand out:

- Monitor the development and implementation of CGD Group's strategic guidelines for climate action;
- Reviewing CGD Group's climate position statements and carbon neutrality commitments, including climate commitments in sectors with greater carbon emissions;
- Monitor and streamline the implementation of business strategy and key policies related to climate change and C&E risks;
- Promote the alignment of sustainable financing to the mitigation of C&E risks;
- Monitor and promote the implementation of measures to mitigate and adapt to C&E risks;
- Monitor and promote the measurement of the carbon footprint, pricing mechanisms and transition plans;
- Monitor and promote the measurement, management and reduction of financed emissions;
- Monitor and promote actions for the good performance of C&E targets and KPIs;
- Discuss and propose strategies for integrating the results of climate stress tests and scenario analyses into CGD Group's business strategy;
- Monitor and promote the development of action plans in response to the demands of the regulator and supervisor;
- Discuss and promote the integration of ESG aspects into CGD Group's main business lines, internal processes and internal policies;
- Monitor documents and reports on CGD's exposure and performance with regard to C&E risks.

Caixa's climate and environmental risk management model is supported by a framework of coordinated intervention between the three lines of defence.

Responsibility for the first line of defence is transversal to the entire organization and includes the participation of various CGD structural bodies. It is responsible for ensuring the daily execution and supervision of risk management and internal control procedures. It must also identify, assess, control and mitigate risks, by monitoring the development and implementation of internal policies and procedures, in order to ensure the achievement of the proposed objectives for the activities carried out. In this context, the Corporate Support Division (DSC) plays a key role in executing the oversight of the Board of Directors.

Risk management, as a second line of defence, is carried out centrally and supported by a dedicated structure, the Risk Management Division, under the responsibility of the Chief Risk Officer. The Risk Management Division is responsible for providing structural management, identifying known and emerging problems/shortcomings, identifying changes in the institution's implicit risk appetite and supporting the management body with regard to the development of processes and controls to manage risks and related issues.

The Internal Audit Division is responsible for the third line of defence, which is responsible for monitoring and evaluating the risk management and internal control actions of the first and second line of defence.

Details on the governance model for climate and environmental risk management, as well as on the relevant forums for assessing climate and environmental risk issues, are available in the disclosure made by CGD in accordance with TCFD<sup>6</sup> recommendations and in the annual response to the Climate Change Questionnaire of the Climate Disclosure Project (CDP)<sup>7</sup> Index.

In the context of the review of the CGD Group's Employee Remuneration Policy carried out in the first half of 2023, ESG criteria were integrated, both in terms of the general principles governing the policy and in terms of the essential criteria required for awarding variable remuneration, with a view to align with the bank's strategy, particularly with regard to the growing initiatives related to sustainable development and climate action.

In compliance with the provisions of the policy, CGD's Board of Directors decided to approve it, after the assessment and favourable resolution of CGD's Appointments, Assessment and Remuneration Committee (CNAR), Executive Committee and Risk Committee, as well as the favourable opinions of the risk management and compliance functions, an approval process that was completed in June 2023.

During the first quarter of 2023, the CGD's Governing bodies and Employees Remuneration Policy started to integrate ESG criteria into the variable remuneration, with a view to aligning with the bank's strategy, namely with regard to the growing initiatives related to sustainable development and climate action.

## Risk Management

C&E risks are integrated into Caixa Group's risk framework, thus integrating risk appetite, decision-making processes and the bank's strategy. According to the CGD Group's Risk Taxonomy, C&E risk is a subcategory of business and strategy risk, but it is considered that this risk may, in fact, be driver

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<sup>6</sup> For more information, consult Appendix "D - Response to the recommendations of the Task Force on Climate Financial Disclosures (TCFD)" of the 2022 Sustainability Report, integrated in CGD's 2022 Management and Accounts Report, available at: <https://www.cgd.pt/English/Investor-Relations/Financial-Information/CGD/2022/Documents/Annual-Report-CGD-2022.pdf>.

<sup>7</sup> For more information, consult Caixa's response to the CDP's Climate Change Questionnaire 2022 at [https://www.cgd.pt/English/Sustainability-CGD/Performance/Documents/ClimateChange\\_CDP\\_2022.pdf](https://www.cgd.pt/English/Sustainability-CGD/Performance/Documents/ClimateChange_CDP_2022.pdf).

of several risk categories and sub-categories of existing risk categories simultaneously, thus being considered a *cross-cutting* risk.

The C&E risk management model supported in the guidelines and objectives established in CGD Group's C&E risk appetite and integrates, in a manner adjusted to the C&E objectives of each geography in which the CGD Group is present, the following elements:

- Risk profile identification and assessment exercise, including scenario components;
- Business strategy integration;
- Risk assessment and quantification;
- Periodic monitoring and provision of information.

CGD Group has implemented a process to identify the Group's risk profile, which is carried out in annual cycles and is based on CGD Group's risk taxonomy, on order to assess and inventory the risks that are of concern. The process is structured in two phases, the first consists of a risk self-assessment carried out by Caixa and CGD Group entities, while the second phase consists of determining CGD Group's risk profile based on the results of the self-assessment of all entities participating in the process.

This process has the wide involvement of different areas of the bank (including the first line of defence, the Compliance Division for compliance risk and the Risk Management Division for all other risks) and culminates with the definition of the risk profile of the CGD Group and with the identification of risks subject to quantification within the scope of the Internal Capital Adequacy Assessment Process (ICAAP).

Identification of the risk profile is crucial insofar as it makes it possible to draw conclusions about the risks to which Caixa is exposed, thus enabling more informed decision-making within the risk management framework, namely in essential pillars such as the ICAAP, the risk appetite assessment, internal stress testing exercises and corporate strategy definition.

The process of identifying and assessing C&E risks is linked to risk assessment across CGD Group, employing both quantitative and qualitative factors, and an assessment of the effectiveness of related controls.

This process covers short, medium and long-term horizons and an analysis of how C&E risks may impact different risk categories including liquidity risk, credit risk, operational risk, market, reputational risk and any other materially relevant risks in terms of own funds.

The assessment of C&E risk includes the analysis of risk concentrations arising from C&E risks at the level of different risk categories, the analysis of different risk drivers, namely transition risk drivers and physical risk drivers including the vulnerabilities of economic (sub)sectors, operational and physical locations of the institution and its customers and also information from the outcome of other exercises such as stress tests, ICAAP and the Internal Liquidity Adequacy Assessment Process (ILAAP), whenever applicable. The long-term risk assessment includes an analysis of the C&E risks to which the CGD Group is exposed for beyond the typical activity planning horizon, i.e., more than 5 years and at least until 2050, in line with public commitments towards the transition to a more sustainable economy, in order to assess the resilience of the business model against a set of plausible future scenarios, which are relevant for estimating C&E risks.

To assess the risk materiality, CGD established 4 specific materiality intervals, based on the estimated impacts on capital.

The overall result of the assessment of the CGD Group's risk profile, carried out in 2023, is that climate and environmental risk is considered material and emerging.

The following table summarizes the results of the assessment of transition risk and physical risk in the short, medium and long term.

**Figure 1 | Materiality of transition and climate risks**

	Transition Risk			Physical Risk		
	Short term	Mid term	Long term	Short term	Mid term	Long term
Credit risk	Non Material	Somehow material	Somehow material	Non Material	Non Material	Somehow material
Market risk	Non Material	Non Material	Non Material	Non Material	Non Material	Non Material
Liquidity risk	Non Material	Non Material	Non Material	Non Material	Non Material	Non Material
Operational risk	Non Material	Non Material	Non Material	Non Material	Non Material	Non Material
Other risks <sup>8</sup>	Somehow material	Somehow material	Somehow material	Non Material	Somehow material	Somehow material
Global	Somehow material	Somehow material	Somehow material	Non Material	Somehow material	Somehow material

Non Material
  Somehow material
  Very material
  Critical

For the identification and assessment of transition risk and physical risk, CGD uses defined methodologies and standards based on information from organizations and global initiatives in these matters, such as the TCFD, UNEP FI, the *Network for Greening the Financial System* (NGFS), the *Intergovernmental Panel on Climate Change* and the *Climate Financial Risk Forum*, combined with expert judgment in this area and regulatory recommendations.

The assessment of the impact of physical risk involves the identification and analysis of areas affected by the materialization of physical risk events<sup>9</sup> and the distribution of assets located in these areas, namely the location of companies and their assets and the location of properties that guarantee security credit operations are considered for this analysis. Additionally, different drivers are taken into account, namely acute risks, which pertain to the consequences of extreme weather events like fires, floods or storms, as well as chronic risks, associated with gradual climate changes, such as alterations in temperature, precipitation, periods of drought and rising sea levels.

The exposure of CGD Group to physical risk is more relevant to acute risks than to chronic risks. Particularly, in domestic activity, around 3% of the corporate credit portfolio comprises companies located in areas sensitive to chronic risks and around 64% comprises companies located in areas sensitive to acute risks.

The transition risk assessment considers structural changes in the economy, resulting from the reduction of GHG emissions due to fiscal and regulatory changes, technological advancements necessary for climate adaptation, shifts in consumer preferences and reputational pressure.

The exposure of CGD Group to transition risk is relevant regarding sectors that contribute most to climate change. Particularly, in domestic activity, around 75%.

The assessment of the impact of other environmental risks was considered in the process of assessing the CGD Group's risk profile. For this purpose, CGD used a top-down approach using sector and activity heatmaps characterized according to their dependence and impact on biodiversity. It was concluded that the exposure to companies with significant combined impact and dependence on biodiversity is less than 10%. Furthermore, CGD also assesses exposure to other environmental

<sup>8</sup> Risk categories considered in other risks consist of reputational risk and compliance risk.

<sup>9</sup> For the methodologies for identifying and evaluating the materialization of physical risk events, Caixa uses information sources and data providers specialized in these matters, namely the Taxonomy Regulation, the National Emergency and Civil Protection Authority and the ThinkHazard platform.

risks from a “bottom-up” perspective through the ESG Rating, which takes into account various specific environmental factors of counterparties.

With regards to the impact of climate and environmental risk on various current risk categories and subcategories, CGD considers that these risks have the most relevant observable impacts on credit risk, but they may also have potential impacts on market, liquidity, operational and reputational risks.

Within the scope of the credit risk framework, CGD recognizes the existence of sectors or projects that may be environmentally harmful or negatively contribute to sustainable development. The Credit Risk Policy contains specific rules which ensure that environmental risks are duly identified and mitigated, namely through the Sectoral Exclusion and Limitation Principles and consideration of the ESG Rating in credit decision procedures.

Under the Sectoral Exclusion and Limitation Principles, CGD limits financing to companies or projects with the following characteristics:

- Production or trade in any product or activity considered illegal in the country where the investment takes place, or considered illegal under regulations or international conventions and agreements;
- Companies and activities engaged in unlicensed trading wildlife or species in danger of extinction;
- Companies or projects that exploit scarce natural resources, whose exploration or extraction may cause a negative environmental impact and do not comply with conditions defined in national or international regulations in this regard;
- Companies producing or transforming restricted hazardous materials or substances in national legislation, among others related to environmental, social and reputational risks.

The ESG Rating developed by CGD evaluates and weights specific environmental factors of the counterparty. This assessment supports the prioritization and differentiation of commercial action depending on the clients' risk level, contributing to a holistic and integrated risk view in decision making.

Within the scope of the operational risk framework, CGD has implemented a methodology for collecting and validating operational risk events and their respective losses (direct and indirect), recoveries and non-financial impacts. This includes, among others, strategic and business risks, including climate and environmental risks.

CGD also considers climate and environmental risk in the analysis and evaluation of the occurrence of physical risk events, as well as in the consideration of physical risk and transition risk scenarios in the ICAAP.

Within the scope of the Business Continuity Management System, a risk assessment is carried out annually, which analyses various types of events that may compromise the continuity of critical processes, their consequences and impact on the business, existing vulnerabilities and implemented controls.

In the identification stage, the risk events are considered grouped into environmental, technological, human and organizational that impact the resources that support CGD's critical processes, that is, facilities, information systems, human resources and suppliers. In terms of climate risks, the analysis is conducted at the level of the environmental events group, namely floods.

Within the scope of the reputational risk framework, internal procedures are also provided for situations that may present a reputational risk, which can be identified by anyone within CGD's structure. Regarding counterparties, there are situations that trigger a prior analysis of reputational risk, namely when situations are identified with non-compliance with environmental legislation or

other applicable legal and regulatory provisions or controversies related to the principles of balanced relationship with the environment and sustainable development.

The conclusions of the analysis within the scope of reputational risk are incorporated into a risk opinion that is integrated into the credit decision processes, namely by monitoring proposals in decision forums.

The identification of situations that may represent a reputational risk can also awaken triggers that lead to action plans for risk mitigation.

Within the scope of subcontracting activities, the risk management function (RMF) issues a reputational risk assessment prior to decision-making, or in the context of contract renewals, where environmental factors of suppliers are considered, such as non-compliance with environmental legislation or the existence of controversies related to balanced relationship principles with the environment and sustainable development.

CGD's approach towards climate change encompasses a "double materiality" perspective, taking into account not only the impact of climate change on CGD's activity, detailed previously, but also CGD's impact on the environment. CGD recognizes that a relevant component of commercial business and investment initiatives arises from opportunities linked to the economy's climate and energy transition. At the same time, this business perspective supports the management of climate and environmental risks, in that it promotes a reduction in transition risk in the CGD Group's balance sheet.

In this context, CGD uses strategies related to aligning the portfolio with the objectives of reducing financed carbon emissions.

Since 2021, CGD has been disclosing information on climate and environmental risks in alignment with TCFD recommendations. These disclosures are contained in an annex to CGD's Sustainability Report and provide more detailed information on the assessment methodologies and the materiality of these risks<sup>10</sup>.

CGD has sought to develop skills in the identification, assessment, monitoring, and management of climate and environmental risks, which will enable improving the resilience of the business model to the potential impact and magnitude of these risks. A forward-looking and long-term approach is especially important given the uncertainty regarding the timeframe of these risks, which appears to be longer-term but dependent on short-term action.

Scenario analysis is one of the main climate and environmental risk management tools, as it enables evaluating existing vulnerabilities and contributing to a better understanding of the impact of these risks in a forward-looking manner. This type of tool allows to anticipate the taking of mitigating measures that prevent the materialization of impacts with the aim of adapting and making CGD more resilient to climate change.

For this prospective and long-term sustainability approach, which is inherent to these risks, CGD has invested in the development of projections, stress tests, sensitivity analyses and scenario analyses. These analyses consider short, medium and long-term scenarios, as well as different transition trajectories towards carbon neutrality. This includes not only the transition scenario aligned with the objectives of the Paris Agreement but also more adverse scenarios.

Additionally, within the commitments made by CGD for carbon neutrality, medium and long-term projections have been developed to align the credit portfolio with the established objectives.

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<sup>10</sup> For more information, consult Appendix "D - Response to the recommendations of the Task Force on Climate Financial Disclosures (TCFD)" of the 2022 Sustainability Report, integrated in CGD's 2022 Management and Accounts Report, available at: <https://www.cgd.pt/English/Investor-Relations/Financial-Information/CGD/2022/Documents/Annual-Report-CGD-2022.pdf>.

C&E risks is already integrated into CGD Group's stress testing framework, with short and long-term scenarios developed based on a set of scenarios developed by the NGFS.

It is important to highlight that during 2022 these prospective approaches were taken into consideration in the development of the bank's multi-year budgeting exercise, as well as in the ICAAP, where CGD also used scenario analyses to assess the impact of climate and environmental risk on capital adequacy.

In this context, scenarios were used that simulate the impact of carbon price increase on the credit risk of CGD's clients. For operational risk, CGD evaluates possible impacts of low-frequency and high-severity events related to climate and environmental risk drivers. In the latter, CGD develops loss estimates considering a range of hypothetical impacts that include an estimate of remediation costs, legal costs, regulatory sanctions, customer compensation, asset devaluation and revenue loss.

The C&E risk management strategy, namely its monitoring and control, has been established based on CGD's risk appetite, formalized through the Risk Appetite Statement. The Board of Directors is ultimately responsible for defining and approving the Risk Appetite, which is aligned with the bank's strategic priorities and objectives.

The Risk Appetite Statement includes climate and environmental risk metrics that are continuously monitored and integrated in June 2023 the following risk indicators<sup>11</sup>:

**Figure 2 | Risk Indicators**

Indicator	Definition
Income generated from interest, fees and commissions from companies in GHG-Intensive sectors	Percentage of income generated from interest, fees and commissions by companies in carbon-intensive sectors in relation to the total generated by non-financial companies
Financed GHG emissions	Exposure to carbon intensive companies based on a weighted average of carbon intensity. Includes Scope 1 Scope 2 issues by counterparties with the highest exposure by sector
Loan portfolio exposures in regions most exposed to the risk of climate change	Percentage of exposure in the 10 worst performing industrialized countries on the Climate Change Performance Index (CCPPI) over total credit exposure, in the corporate segment

The appetite for risk is also integrated into the bank's management through its interdependence with other exercises, namely Capital and Liquidity Assessment Processes (ICAAP and ILAAP), Budget, Capital Planning and Allocation and Stress Tests.

The availability and quality of ESG data, particularly climate-related data, have been a challenge for the organization. CGD created a dedicated working group for the governance and management of ESG data, which meets regularly and includes participation of various areas, including those closely related to the business and those responsible for risk analysis and management. CGD's goal is to ensure that there is an effective and holistic aggregation of data and that, as the availability and quality of data improve, the organization aims to enhance the accuracy and estimates of climate and

<sup>11</sup> For more information, consult Appendix "D - Response to the recommendations of the Task Force on Climate Financial Disclosures (TCFD)" of the 2022 Sustainability Report, integrated in CGD's 2022 Management and Accounts Report, available at: <https://www.cgd.pt/English/Investor-Relations/Financial-Information/CGD/2022/Documents/Annual-Report-CGD-2022.pdf>.

environmental data it uses. It is committed to maintaining transparency regarding the limitations of data supporting analysis and reports.

Caixa's response to climate and environmental risks involves optimizing the bank's adaptive and dynamic capacity in the face of emerging national, international, political and regulatory developments related to these risks. This effort is being carried out by all of CGD's governing bodies, in a holistic and forward-looking approach.

For further information on C&E targets and issues, please consult CGD's response to the recommendations of the TCFD.

## 1.2 Social Risk

### Business Strategy and Processes

The Sustainability Policy sets out the governance model, introducing guiding principles and specific activities, as well as the main participants and respective responsibilities in CGD sustainability management at Group level and Entity level. The sustainability management activities established which are considered crucial for the integration of ESG factors in CGD's business activity, it is to highlight the definition of management models for ESG risk, namely Social risks.

In terms of integration of social factors and risks into Caixa's strategy and business model, the pillars "Equity, Digital and Financial Inclusion" and "Transparent Governance Models" of the Sustainability Strategy 21-24 should be highlighted.

The development of the Sustainability Strategy 21-24 was based on the definition of a sustainability materiality matrix which methodological approach relied on the analysis of key trends, regulations, sectoral initiatives, and best practices from a global, sectoral and organizational perspective. Caixa's stakeholders identified nine topics as relevant, namely the "ESG Practices", "Equity, development and well-being of employees", "Investment in the community" and "Accessibility and financial inclusion", which contribute directly to the topic under analysis.

CGD assumes a commitment to the community through the Caixa Social Program, with the aim of promoting best practices in responding to the challenges of Portuguese society through initiatives in the field of financial, social and digital literacy and inclusion, job creation, education, volunteering and cultural support.

In addition to developing internal policies and regulations that guide its actions in terms of social responsibility<sup>12</sup>, Caixa, as a subscriber to the 10 principles of the United Nations Global Compact, reports annually through Communication on Progress<sup>13</sup> its progress and alignment with the principles of this international framework, which imply respect for references such as the Universal Declaration of Human Rights, International Labor Organization's Declaration on Fundamental Principles and Rights at Work, among others.

In anticipation of the obligation to report in 2024 its alignment with the EU Taxonomy Regulation, CGD is determining which mechanisms are necessary to implement to ensure compliance with the minimum safeguards established in Article 18 of the EU Taxonomy Regulation, which have the objective to ensure alignment with the guidelines of the Organization for Economic Cooperation and Development for Multinational Enterprises and the United Nations Guiding Principles on Business and Human Rights, including the principles and rights set out in the eight core conventions identified in the Declaration of the International Labor Organization on Fundamental Principles and Rights at Work and the International Bill of Human Rights.

In the final report of the Sustainable Finance Platform on the Social Taxonomy<sup>14</sup>, the European Commission recognizes the existence of three main groups of stakeholders: i) workforce (included in the value chain); ii) end-users/consumers; iii) affected communities (directly or through the value

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<sup>12</sup> For more information, consult chapter "4.5 – Policies, commitments and working groups" of the 2022 Sustainability Report, integrated in CGD's 2022 Management and Accounts Report, available at: <https://www.cgd.pt/English/Investor-Relations/Financial-Information/CGD/2022/Documents/Annual-Report-CGD-2022.pdf>.

<sup>13</sup> Communication on Progress (COP) is an annual disclosure through which the company informs interested parties about the initiatives developed to implement the 10 principles in each of the 4 areas (human rights, labor practices, environmental protection and anti-corruption) of the Global Compact of the United Nations (UN).

<sup>14</sup> For more information, see the Final Report on the Social Taxonomy at: [https://commission.europa.eu/document/d07e1f1e-3a1f-4d55-add4-a130f26b33e3\\_en](https://commission.europa.eu/document/d07e1f1e-3a1f-4d55-add4-a130f26b33e3_en).

chain). In this context, the Sustainable Financing Policy also considered the definition of social goals in alignment with the report.

From an internal perspective, namely in terms of CGD's workforce/employees, there is a Plan for Equality, which establishes the principles to guarantee management centered on the human factor and socially responsible leadership, promoting the creation of an environment of respect, equity and inclusion, and allowing the development and well-being of employees<sup>15</sup>. To this end and within the scope of the "Transparent Governance Models" pillar of the Sustainability Strategy 21-24, CGD has established the objective of reaching 38% of women in management positions by 2024.

Although suppliers are not a material stakeholder in the financial sector, CGD recognizes that its activities can cause positive and negative environmental impacts along the value chain. When signing contracts with suppliers, the Ethical Principles and Good Business Practices of the CGD Group are attached, which seek to ensure an operational performance that guarantees the efficient management and use of economic, social and environmental resources. In 2022, Caixa launched a sustainability questionnaire (ESG Supplier Rating) to characterize its supplier portfolio in all dimensions of sustainability. On the social front, Caixa evaluated the performance of its suppliers on different topics such as internal policies and regulations, certifications, representation of women in the company's staff/management positions, the countries of origin of the activities subcontracted by Caixa's suppliers and also mechanisms implemented that aim to ensure concepts of diversity, equal opportunities and the protection of human rights. The conclusions drawn from the sustainability questionnaire will be converted into an evaluation matrix for suppliers that sign a contract with Caixa.

From an external perspective, namely in terms of end users/customers, Caixa defines targets for the offer of products, services and financial instruments. In 2022, Caixa took another significant step towards achieving its goal of achieving leadership in sustainable financing in Portugal, through two "green" issues of senior preferred debt, totaling an amount of Eur 1,300bn. The allocation of assets and calculation of the respective impact is supported by Caixa's Sustainable Finance Framework, which defines the eligible financing categories (namely social ones – microfinance, support for small farmers, healthcare and job creation). For more information, consult the Caixa Allocation and Impact Reports<sup>16</sup>.

Additionally, as an entity wholly owned by the Portuguese state, CGD assumes a commitment to the community in which it operates through the Caixa Social Program. Within the scope of the "Equity, Digital and Financial Inclusion" pillar of the Sustainability Strategy 21-24, CGD has set the objective of investing Eur 40M in the community by 2024, which is ensured through various CGD social solidarity<sup>17</sup> initiatives.

Caixa also has internal policies and regulations in place that contribute to the achievement of its strategic vision in terms of social responsibility, in particular the Code of Conduct, the Corporate Policy on Reputational Risk, CGD's Principles of Sectoral Exclusion and Limitation, the Community Engagement Policy, the Declaration of Commitment to Human Rights, the Code of good conduct for

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<sup>15</sup> For more information, consult chapter "4.10 – Equity, digital and financial inclusion" of the 2022 Sustainability Report, integrated in CGD's 2022 Management and Accounts Report, available at: <https://www.cgd.pt/English/Investor-Relations/Financial-Information/CGD/2022/Documents/Annual-Report-CGD-2022.pdf>.

<sup>16</sup> For more information, consult <https://www.cgd.pt/Investor-Relations/Emissao-Divida/Prospetos/Pages/Financiamento-Sustentavel.aspx> and <https://www.cgd.pt/Investor-Relations/Emissao-Divida/Prospetos/Pages/Financiamento-Sustentavel.aspx>.

<sup>17</sup> For more information, consult chapter "4.10 – Equity, digital and financial inclusion" of the 2022 Sustainability Report, integrated in CGD's 2022 Management and Accounts Report, available at: <https://www.cgd.pt/English/Investor-Relations/Financial-Information/CGD/2022/Documents/Annual-Report-CGD-2022.pdf>.

preventing and combating harassment at work, the Equality Plan, the CGD Group employee remuneration policy, the of Subcontracting<sup>18</sup>.

The Credit Risk Policy contains specific rules which ensure that social risks are duly identified and mitigated, namely through the Sectorial Exclusion and Limitation Principles and the consideration of the ESG Rating in credit decision procedures.

Under the Sectorial Exclusion and Limitation Principles, Caixa limits financing to companies or projects with the following characteristics:

- Production or trade in any product or activity considered illegal in the country where the investment takes place, or considered illegal under international regulations or conventions and agreements;
- Companies or projects that use child labor, or labor considered forced;
- Companies and activities related to prostitution;
- Companies and projects that disseminate discriminatory information or that practice discriminatory acts in religious, political, racial or gender terms;
- Military activities, manufacture or supply of related material, limited by legislation.

The ESG Rating developed by CGD assesses and weights various social factors specific to the counterparty. This assessment supports the prioritization and differentiation of commercial action based on the customers' risk level, contributing to a holistic and integrated view of risk in decision-making.

Additionally, within the scope of reputational risk management, operations with customers are analysed whenever there are controversies related to the principles of social responsibility, compliance with labor legislation or conduct practices that are inconsistent with the ethical principles and good business practices observed by CGD.

### Governance

The Risk Management Function in the CGD Group is supported by a governance model that aims to respect best practices, as explained in the “Guidelines on Internal Governance under Directive 2013/36/UE” (EBA/GL/2021/05), and guarantee robustness and effectiveness to the system for identifying, measuring, monitoring, reporting and controlling the various risks incurred by the Group.

The ultimate responsible for the RMF of the CGD Group is the CRO, a member of CGD Executive Committee and globally responsible for monitoring the Group's risk management framework and, ensuring the adequate and effective functioning of the RMF, being responsible for informing and clarify the members of the management and supervisory bodies about the incurred risks, the global risk profile of CGD and the Group and the degree of compliance with the defined risk tolerance levels.

Risk management is conducted in a centralized manner and supported by a dedicated structure, the Risk Management Division (RMD), which carries out functions in the area of management and control of the Group's financial and non-financial risks, with stability objectives, solvency and financial solidity, by guaranteeing the identification, evaluation, measurement, monitoring, control and reporting of the risks to which the CGD Group is exposed as well as the existing interrelationships between them. This ensures the coherent integration of its partial contributions, while remaining in line with the risk appetite defined by the Board of Directors and that they will not

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<sup>18</sup> For more information, consult chapter “4.5 – Policies, commitments and working groups” of the 2022 Sustainability Report, integrated in CGD's 2022 Management and Accounts Report, available at: <https://www.cgd.pt/English/Investor-Relations/Financial-Information/CGD/2022/Documents/Annual-Report-CGD-2022.pdf>.

significantly affect the institution's financial situation. Continuously ensuring compliance with external standards and legal and regulatory requirements in this area.

The Board of Directors defines, supervises and is responsible, within the scope of its competencies, for the application of governance systems that guarantee effective and prudent management, including the separation of functions within the organization and the prevention of conflicts of interest.

The Board of Directors, supported by the Risk Committee and the Audit Committee, establishes risk appetite, which is implemented by the Executive Committee with the support of the Risk Management Division and the control and business areas. The Board of Directors is also responsible for aligning risk appetite with the bank's strategic priorities for sustainable finance and climate action.

Caixa's current management is delegated by the Board of Directors to the Executive Committee, which is responsible for the CGD Group's overall risk management, namely for the management and execution of risk appetite, for monitoring risk metrics and ensuring coherence between risk appetite and corporate strategy for social responsibility and impact.

The Risk Committee monitors the management policy for all risks involved in the CGD Group's activities, particularly non-financial risks. The Risk Committee monitors the models for measuring risk and calculating own funds adopted internally, as well as the Community Directives and guidelines from the Bank of Portugal and the European Central Bank, on this matter. As part of its functions and responsibilities, it analyses, among others, the reports presented by the Risk Management Division on financial and non-financial risks.

CGD's Sustainability Committee stands out as the forum that evaluates and monitors the implementation of projects aimed at creating a positive social impact in the various dimensions of society. The initiatives promoted under the Caixa Social Program, which aims to promote best practices in addressing the challenges of Portuguese society through six axes such as "Financial Inclusion and Job Creation", "Social Inclusion and Solidarity", "Digital and Financial Literacy", "Education and Knowledge", "Volunteering and Support for the Social Economy" and "Culture". CGD recognizes that involvement with the community (internal and external) should be one of CGD's main areas of social responsibility and has implemented a CGD community involvement policy.

Additionally, the Sustainability Committee reports to the Government Commission about the planning and annual implementation of the Sustainability Strategy, with the duties of analysis, monitoring and advising on matters such as corporate governance, ethics and conduct, conflicts of interest, social responsibility, sustainability and sustainable financing.

For more information on the responsibilities of the forums and management bodies, see chapter 2.1 "Governance model" of Market Discipline.

Caixa is a signatory to the CEO Guide on Human Rights, developed by the World Business Council for Sustainable Development (WBCSD) and transposed to Portugal by the Business Council for Sustainable Development (BCSD). The signature by CGD's Chief Executive Officer reinforces the bank's commitment to universally recognized human rights, valuing and respecting the BCSD Charter of Principles in the development of products and services, in its relationship with employees, customers, suppliers and communities it operates in. The bank ensures that its activities are carried out with full respect and compliance with these principles.

In the context of the bank's value chain, all suppliers that sign a contract with CGD must subscribe to the CGD's Group Ethical Principles and Good Business Practices, which include principles related to the promotion of labor practices that respect human rights.

Additionally, from a perspective of combating and mitigating social risks from a corporate perspective, the bank provides its employees with mechanisms for reporting and mitigating instances of workplace harassment<sup>19</sup>.

regarding remuneration practices, CGD's Compliance Division annually verifies the legal and/or regulatory adequacy of the respective practices.

Within the scope of the products marketed by CGD, in line with new regulatory requirements for behavioral supervision, CGD specifies the typologies of clients for whom a financial instrument is suitable, taking into account their needs, characteristics and objectives, including consideration of any objectives related to sustainability<sup>20</sup>.

CGD's internal reporting framework and governance model for ESG risk management is encompassing across all ESG dimensions, as described in the governance section of point 15.1 - Environmental Risk, of this document.

### Risk Management

Caixa has implemented internal policies and regulations that contribute to the achievement of its strategic vision in terms of social responsibility, based on a set of internationally recognized principles and guidelines, as discussed earlier in the chapter "Business Strategy and Processes". These form the framework for social risk management, in particular:

- Sustainability Corporate Policy;
- Sustainable Finance and Energy Transition Corporate Policy;
- Reputational Risk Corporate Policy;
- CGD Group's Outsourcing Policy;
- CGD Code of Conduct;
- Global Policy on Prevention and Management of Conflicts of Interest;
- Money Laundering and Terrorism Financing Prevention Policy;
- Personal Data Protection Policy;
- CGD Exclusion and Sectoral Limitation Principles;
- Socially Responsible Investment Policy;
- Quality Policy<sup>21</sup>;
- Community Engagement Policy;
- Human Rights Commitment Statement;
- Code of Good Conduct for the Prevention and Combating of Workplace Harassment

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<sup>19</sup> For more information, consult chapter "4.10 – Equity, digital and financial inclusion" of the 2022 Sustainability Report, integrated in CGD's 2022 Management and Accounts Report, available at: <https://www.cgd.pt/English/Investor-Relations/Financial-Information/CGD/2022/Documents/Annual-Report-CGD-2022.pdf>

<sup>20</sup> Products covered by articles 309.º-I to 309.º-N of the Securities Code (with the amendments introduced by Decree-Law no. 109-H/2021, of December 10).

<sup>21</sup> Defines CGD's commitments and principles with regard to Quality Management and expresses the organization's commitment to customer satisfaction and to the improvement of its products/services and processes.

- Diversity Policy for Caixa Group Employees and Members of CGD's Management and Supervisory bodies;
- Equality Plan;
- CGD Group Employee Remuneration Policy;
- Sustainable Financing Framework;
- Ethical principles and Best business practices for suppliers;
- CEO Guide on Human Rights.

These norms bind employees, functional structures, and other stakeholders and delimit CGD's responsible management practices, emphasizing on ethical conduct, accuracy and transparency in all activities and transactions.

The social risk management framework includes procedures for identifying, evaluating and monitoring sensitive exposures to social risk, when applicable.

CGD Group has implemented a process to identify the Group's risk profile, which is carried out in annual cycles and is based on CGD Group's risk taxonomy, in order to assess and inventory the risks that are of concern. The process is structured in two phases, the first consists of risk self-assessment carried out by CGD and Group entities, while the second phase consists of determining CGD Group's risk profile based on the results of the self-assessment of all entities participating in the process.

This process has the wide involvement of different areas of the bank (including the first line of defence, the Compliance Division for compliance risk and the Risk Management Division for all other risks) and culminates in the definition of the CGD Group's risk profile and with the identification of risks subject to quantification within the scope of the Internal Capital Adequacy Assessment Process (ICAAP).

Identification of the risk profile is crucial insofar as it makes it possible to draw conclusions about the risks to which CGD is exposed, thus enabling more informed decision-making within the risk management framework, namely in essential pillars such as the ICAAP, the risk appetite assessment, internal stress testing exercises and corporate strategy definition.

The availability and quality of ESG data have been a challenge in the organization. CGD created a dedicated working group for ESG data governance and management, which meets regularly and has the participation of several areas, namely those more closely aligned with the business and others with responsibility for analysis and risk management. CGD's objective is to ensure an effective and holistic aggregation of data availability and quality improve, the organization can improve the accuracy and estimates of the ESG data it uses, always maintaining transparency regarding data limitations that supports analysis and reports.

Caixa has other mechanisms for identification, evaluation and mitigation of social risk, highlighting the reputational risk management framework, the compliance risk management framework and the credit risk management framework, namely the ESG Rating and the Sectoral Exclusion and Limitation Principles.

### Reputational risk management framework

Reputational risk is integrated into the CGD Group's risk framework, therefore integrating risk appetite, decision-making processes and the bank's strategy. This includes, among others, subcategories of banking and global activity risk, as well as personal data protection risk, which cover risks related to social factors.

The reputational risk management strategy has been established based on CGD's Risk Appetite, formalized through the Risk Appetite Statement, which contains reputational risk metrics, such as:

- The Reputational Index, which reflects CGD's global activity and its engagement towards stakeholders, namely their perception of CGD's attitude towards the duty of confidentiality, ethical principles, social responsibility and emerging issues such as sustainable inclusive financing;
- Customer complaints and satisfaction;
- Bank secrecy or personal data protection breach.

In the scope of reputational risk management, internal procedures are also provided for situations that may represent a reputational risk, which can be identified by any structural body of CGD. Regarding counterparties, there are situations that trigger a prior analysis of reputational risk, particularly when situations such as the following are identified:

- Non-compliance with labor, environmental legislation or other applicable legal and regulatory requirements;
- Controversies related to social responsibility principles;
- Corruption practices;
- Conduct practices inconsistent with the ethical principles and best business practices observed by CGD;
- Harassing or discriminatory practices;
- Conflicts of interests, sanctions, and practices related to money laundering and combating terrorism financing.

The conclusions of the analysis within the scope of reputational risk are incorporated into a risk opinion that is integrated into credit decision processes, namely by monitoring proposals in decision forums.

The identification of situations that may represent a reputational risk can also raise triggers that lead to action plans risk mitigation.

Within the scope of outsourcing activities, the risk management function issues a reputational risk opinion prior to decision-making or within the context of contract renewal, where social factors of suppliers are considered, such as non-compliance with labor legislation or the existence of controversies related to the principles of social responsibility, corrupt or discriminatory practices and adverse media related to corporate bodies and supplier conduct.

In relation to suppliers who enter into an agreement with CGD, it is expected that they will be required to subscribe to the CGD Group's Ethical Principles and Good Business Practices, as well as the assessment of suppliers' social criteria, carried out through the ESG Supplier Rating. It is worth noting that 181 Caixa suppliers have social clauses in the contracts signed with CGD.

Additionally, as part of the qualification of CGD's suppliers, characteristics such as the existence of a code of conduct and any fines or processes related to labor legislation are evaluated.

#### Credit risk management framework

CGD acknowledges the existence of sectors of activity or projects that are not aligned with the core values that guide CGD's activity and conduct, namely those that may be socially harmful. The Credit Risk Policy contains specific rules which ensure that social risks are duly identified and mitigated, namely through the Sectorial Exclusion and Limitation Principles and the consideration of the ESG Rating in credit decision-making procedures.

Under the Sectorial Exclusion and Limitation Principles, CGD limits financing to companies or projects with the following characteristics:

- Production or trade in any product or activity considered illegal in the country where the investment takes place, or deemed illegal under international regulations or conventions and agreements;
- Companies or projects that use child labor or engage in forced labor;
- Companies and activities related to prostitution;
- Companies and projects that disseminate discriminatory information or that practice discriminatory acts in religion, politics, race or gender;
- Military activities, manufacturing or supply of related materials, limited by national legislation and international conventions.

The ESG Rating developed by CGD assesses and weights various social factors specific to the counterparties. This assessment supports the prioritization and differentiation of commercial action based on the risk level of customers, contributing to a holistic and integrated risk view in decision-making.

In the scope of the social dimension, the ESG Rating considers several indicators, including those related to the principles of sectoral exclusion and limitation provided in CGD's credit policies, and others related to the working conditions of company employees, including gender equality, conditions salaries and training. The new version of the ESG Rating, currently being implemented, will include an additional indicator related to workplace safety conditions.

#### Compliance risk management framework

Within the scope of compliance risk management, CGD has implemented permanent measures aimed to ensure the prevention and repression of corruption and related offenses, which are reflected in various internal procedures and regulations, particularly the Code of Conduct, the Corruption Prevention and Related Offenses Policy, the Global Policy on Conflict of Interest Prevention and Management or the Internal Reporting System for Irregular Practices.

It is also highlighted the fact that CGD has organizational and administrative mechanisms suitable for the nature, scale and complexity of its activity, which effectively enable the identification of possible conflicts of interest, the adoption of appropriate measures to avoid or mitigate the risk of their occurrence and designed to prevent that, when a situation of conflict of interest is identified, the interests of its clients are harmed.

## 1.3 Governance Risk

### Governance/Risk Management

The Risk Management Function in the CGD Group is supported by a governance model that aims to comply with best practices in the field, as explained in the “Guidelines on Internal Governance under Directive 2013/36/UE” (EBA/GL/2021/05), and ensure solidity and effectiveness to the system for identifying, measuring, monitoring, reporting and controlling the various risks incurred by the Group.

The ultimate responsible for the CGD Group's RMF is the CRO, a member of the Executive Committee of CGD's and globally responsible for monitoring the Group's risk management framework. Particularly, the CRO is responsible for ensuring the proper and effective functioning of the RMF, including informing and clarifying the management and supervisory bodies about the incurred risks, the global risk profile of CGD and the Group and the degree of compliance with the defined risk tolerance levels.

Risk management is conducted in a centralized manner and supported by a dedicated structure, the Risk Management Division (RMD), which carries out functions in the area of management and control of the Group's financial and non-financial risks. The objectives of the RMD are to ensure stability, solvency and financial solidity, guaranteeing the functions of identification, evaluation, measurement, monitoring, control and reporting of the risks to which the CGD Group is exposed and the interrelationships between them. This ensures the coherent integration of their individual contributions, while maintaining alignment with risk appetite defined by the Board of Directors and without significantly impacting the financial situation of the institution. Continuously ensuring compliance with external standards and legal and regulatory requirements in this area.

The Board of Directors defines, supervises and is responsible, within their respective competencies, for the application of governance systems that guarantee an effective and prudent management, including the separation of functions within the organization and the prevention of conflicts of interest.

The Board of Directors, supported by the Risk Committee and the Audit Committee, establishes risk appetite, which is implemented by the Executive Committee with the support of the Risk Management Division and the control and business areas. The Board of Directors is also responsible for aligning risk appetite with the bank's strategic priorities for sustainable finance and climate action.

CGD's current management is delegated by the Board of Directors to the Executive Committee, which is responsible for the GGD Group's overall risk management, namely the management and execution of risk appetite, the monitoring risk metrics and ensuring coherence between the risk appetite and corporate strategy for social responsibility and impact.

The Risk Committee monitors the management policy for all risks involved in the CGD Group's activities, particularly non-financial risks. The Risk Committee monitors the risk measurement models and capital calculation adopted internally, as well as the Community Directives and guidelines from the Bank of Portugal and the European Central Bank. As part of its functions and responsibilities, it analyzes, among others, the reports presented by the Risk Management Division on both financial and non-financial risks.

Risk management related to governance is carried out from both a corporate perspective and a risk management perspective of CGD's counterparties.

CGD's mission is to create value for Portuguese society, by providing high-quality banking services to individuals and businesses, thereby contributing to the improvement of the well-being of Portuguese families and the development of the business sector, generating adequate profitability for shareholders. CGD guarantees client's access to a diversified set of quality financial products and services, with particular emphasis on savings capture and medium to long-term financing. This

is achieved based on an efficient corporate governance model and respect for highest ethical standards.

Themes related to sustainability and ESG risks carry an increasingly strong reputational weight, inherent in the high scrutiny not only from clients but from all stakeholders, emphasized by being a public capital bank. Caixa has sought to ensure that these issues are addressed in the business strategy in a transparent and rigorous manner and has been making commitments to sustainable financing, carbon neutrality and aligning its business with the challenges and opportunities of ESG themes.

CGD has published its Mission Letter<sup>22</sup>, which highlights its commitment to the principles of social responsibility, sustainable development and respect for stakeholders, as well as the fundamental values that guide Caixa's activity and conduct, in particular trust, profitability, transparency, integrity, professionalism, proximity, responsibility, risk culture, rigor and innovation.

Caixa's Reputational Index is comprised of essential indicators bank's sustainability, including Confidence, Solidity, Transparency, Ethics and Governance. This index reflects the presence of strong governance factors. CGD has stood out in values of the Reputational Index, which reached a score of and 77 at the end of 2022. The credibility of the image of CGD's President's has also been increasing and contributes significantly to the positive evaluation of this indicator, positively impacting CGD's image. In 2021 and 2022, the CEO of CGD stands out leading the credibility and notoriety indices of bank CEOs in Portugal.

As part of the definition of the 21-24 Sustainability Strategy, Caixa has developed a consultation process by the 17 SDGs, which has involved the participation of 3,087 stakeholders. Through this initiative, CGD developed a materiality analysis process where nine themes considered relevant to stakeholders have been identified and have served as the basis for defining the 21-24 Sustainability Strategy as well as aligning and organizing the sustainability reporting.<sup>23</sup>

Caixa has implemented internal policies and regulations that contribute to the achievement of its strategic vision with regard to governance. These policies and regulations define commitments, procedures and responsibilities for the managing and mitigating governance-related risks, in particular:

- CGD Code of Conduct;
- Reputational Risk Corporate Policy;
- Compliance Function Regulation;
- Money Laundering and Terrorism Financing Prevention Policy;
- Global Policy for the Prevention and Management of Conflicts of Interest;
- Adequacy Assessment Policy for the Selection of Members of the Management and Supervisory Bodies and Holders of Essential Functions (Adequacy Policy);
- Prevention of Corruption and Related Infractions Policy;
- Market Abuse Prevention;
- Related Party Transactions Policy;

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<sup>22</sup> For more information, consult: <https://www.cgd.pt/Institucional/Governo-Sociedade-CGD/Pages/Missao-Estrategia.aspx>.

<sup>23</sup> For more information, consult chapter "4.7. Sustainability Strategy 2021 – 2024" of the 2022 Sustainability Report, integrated in CGD's 2022 Management and Accounts Report, available at: <https://www.cgd.pt/English/Investor-Relations/Financial-Information/CGD/2022/Documents/Annual-Report-CGD-2022.pdf>.

- CGD Group's Outsourcing Policy;
- Socially responsible investment Policy;
- Human Rights Commitment Declaration;
- Ethical Principles and Best Practices for suppliers.

The governance risk management framework includes processes for identifying, assessing, and monitoring sensitive exposures to governance risk, where applicable.

The CGD Group has established a process to identify the Group's risk profile, which is developed in annual cycles and is based on the CGD Group's risk taxonomy, in order to evaluate and inventory concerning risks. The process is structured in two phases, with the first phase consisting of self-assessment of risk by CGD and the Group's entities, and the second phase determining the Caixa Group's risk profile based on the results of the self-assessment from all participating entities in the process.

This process has broad involvement from different areas of the bank (including the first line of defense, the Compliance Division for compliance risk and the Risk Management Division for all other risks) and culminates in the definition of the Caixa Group's risk profile and with the identification of risks subject to quantification within the Internal Capital Adequacy Assessment Process (ICAAP).

The identification of the risk profile is crucial as it allows us to assess the risks to which CGD is exposed, thus allowing for more informed decision-making within the risk management framework, particularly in essential pillars such as ICAAP, risk appetite, internal stress testing exercises and the definition of corporate strategy.

From a risk management standpoint regarding CGD's counterparties, there are several mechanisms for identifying, assessing and mitigating governance risk, with emphasis on the reputational risk management framework, the compliance risk management framework and the credit risk, namely the ESG Rating and the Sector Exclusion and Limitation Principles.

#### Credit risk management framework

CGD acknowledges the existence of sectors of activity or projects that are not aligned with the core values that guide CGD's activity and conduct. The Credit Risk Policy contains specific rules that ensure that this risk is duly identified and mitigated, namely through the Sectorial Exclusion and Limitation Principles and the consideration of the ESG Rating in the credit origination and decision-making procedures.

Under the Sectorial Exclusion and Limitation Principles, CGD restricts financing to companies or projects with the following characteristics:

- Production or trade in any product or activity considered illegal in the country where the investment takes place, or considered illegal under the terms of international regulations or international conventions and agreements, including those subscribed or integrated by CGD;
- Companies or projects that use child labor, or engage in forced labor;
- Companies and activities related to prostitution;
- Companies and projects that disseminate discriminatory information or that practice discriminatory acts in religion, politics, race or gender;
- Unlicensed wildlife or endangered species businesses and activities;
- Companies and projects that exploit scarce natural resources, and may cause a negative environmental impact and do not comply with conditions defined in national or international regulations in this area;

- Companies producing or processing restricted hazardous materials or substances restricted by national legislation;
- Military activities, manufacture or supply of related material, limited by national legislation and international conventions.

The ESG Rating developed by CGD evaluates and weighs several factors in the governance dimension, related to sustainability practices and the existence of ESG policies, whose contribution comes from the qualitative assessment carried out by the commercial areas within the scope of their relationship with the counterparty. This assessment carried out through the ESG Rating supports the prioritization and differentiation of commercial action based on the risk level of client risk, contributing to a holistic and integrated view of risk in decision-making.

The new version of the ESG Rating, currently being implemented, will include an additional indicator regarding the reliability of the financial statements and the respective reservations and emphases identified by an independent auditor.

#### Compliance risk management framework

In the scope of Compliance Risk Management, CGD has implemented permanent measures aimed at ensure the prevention and repression of corruption and related offenses, which are reflected in various internal procedures and regulations. Noteworthy among these are the Code of Conduct, the Anti-Corruption and Related Offenses Prevention Policy, the Global Policy for Conflict of Interests Prevention and Management, and the Internal Communication System for Irregular Practices.

It is also highlighted the fact that CGD has organizational and administrative mechanisms suited to the nature, scale and complexity of its activity, which make it possible to effectively identify possible conflicts of interest, adopt appropriate measures to prevent or mitigate the risk of their occurrence and prevent any harm to the interests of its clients of interest is identified. Regarding the risks of Financial Crime, these are managed by the Anti Money Laundering and Combating the Financing of Terrorism (AML/CFT) regulations through the maintenance and development of a specific program to address risks to money laundering and financing of terrorism, sanctions and embargoes, corruption and bribery and market abuse.

In order to comply with the legal and regulatory requirements, as well as recommendations issued by relevant international entities in the field of AML/CFT, CGD has implemented an advanced and effective system to prevent money laundering and financing of terrorism, which makes it possible to identify, assess and mitigate the potential risks associated with its clients and the business relationships established with them. To achieve this, CGD's Financial Anti-Crime Area, is equipped with IT tools suitable for AML/CFT, including applications dedicated to monitoring accounts and clients, classifying the risk profiles and filtering sanctioned clients and politically exposed persons.

Our AML/CFT activities are carried out based on defined policies and procedures with the aim of ensuring strict compliance with legally and ethically accepted standards, as well as internationally recognized best practices.

#### Reputational risk management framework

Within the scope of reputational risk management, internal procedures are foreseen for situations that may represent a reputational risk, which can be identified by any of Caixa's structural bodies. Regarding counterparties, there are situations that trigger a prior analysis of reputational risk, namely when situations such as the following are identified:

- Non-compliance with labor, environmental or other applicable legal and regulatory requirements;
- Controversies related to the principles of social responsibility, a balanced relationship with the environment and sustainable development;

- Corrupt practices;
- Conduct practices that do not align with the ethical principles and good corporate practices observed by CGD;
- Harassing or discriminatory practices;
- Conflicts of interest, sanctions and practices related to money laundering and fight against terrorism financing.

The conclusions of the analysis within the scope of reputational risk are incorporated into a risk assessment which is integrated into the credit decision processes, namely by accompanying the proposals in the decision forums. The identification of situations that may represent reputational risk can also trigger triggers that lead to action plans to mitigate the risk.

Within the scope of outsourcing activities, the risk management function issues a reputational risk assessment prior to decision-making or within the context of contract renewal, where supplier governance factors are considered, such as non-compliance with legislation, existence of controversies related to the principles of social and environmental responsibility, corrupt or discriminatory practices and adverse media related to corporate bodies and supplier conduct. Regarding suppliers who enter into a contract with CGD, it is mandatory that they will subscribe to the Ethical Principles and Good Business Practices of the CGD Group, as well as the assessment of suppliers' governance criteria, carried out through the ESG Supplier Rating.

Additionally, as part of the qualification of CGD's suppliers, characteristics such as the existence of a code of conduct, possible fines or legal processes and the existence of possible conflicts of interest are evaluated.

## 1.4 Transition Risk: Exposure, Credit Quality, Emissions, and residual maturity by sector

Table 1 reports, with a reference date of June 30, 2023, the breakdown of gross amounts in loans and advances, debt securities and equity instruments in non-financial corporations by sectors that contribute significantly to climate change, including, among others, information on the creditworthiness of financed exposures and issues.

As of 30 June 2023, approximately 81% of the total exposure to loans and advances, debt securities and equity instruments to non-financial corporations relates to sectors identified by the EBA as major contributors to climate change (NACE codes A-I and L).

It is reported in column “B” of Table 1 the exposures excluded from the benchmarks aligned with the Paris Agreement. CGD identified exposure according to eligible sectors in the light of the Climate Benchmark Standards Regulation (EU) 2020/181<sup>24</sup>, applying the thresholds defined in the Regulation and based on public information from counterparties, and in cases where it is not available, the counterparty was considered to be excluded from benchmarks aligned with the Paris Agreement.

Greenhouse gas (GHG) emissions can be distinguished into three categories: Scope 1, 2 and 3:

- Scope 1 - Direct GHG emissions from sources owned or controlled by the company;
- Scope 2 - Indirect GHG emissions from the purchase of electricity by the company;
- Scope 3 - Other indirect GHG emissions resulting from activities that do not belong or are not controlled by the company; can be subdivided into upstream emissions, i.e. lifecycle of materials, products or services up to the point of sale and downstream emissions, i.e. distribution, storage, use and end-of-life treatment of products and services.

Table 1 reports in columns “I” and “J” the emissions financed by CGD, calculated according to the following methodologies:

- For counterparts disclosing Scope 1, 2 and 3 GHG emissions, the information was collected directly from the companies' integrated or sustainability reports or other public sources;
- For counterparties that are part of an Economic Group, whose holding company discloses information relating to real emissions, in consolidated terms, the emissions considered represent a percentage of the holding company's emissions corresponding to the weight of the counterparty in turnover;
- For cases where there is no real data on emissions, emissions were estimated based on sector-specific average emission factors, according to the following methodology:
  - For scope 1 emission estimations, GHG emission intensities per sector were used, then applying an average emission factor specific to the counterparty's sector, as a proxy;
  - The estimation of scope 2 values considered as a proxy for applying the sector-specific average emission factor, the average electricity consumption per sector after its conversion into emissions;
  - For scope 3 emission estimations, values are estimated based on the average distribution of emissions by scope, according to observed data from comparable counterparties. The observation was made based on the maximum number of counterparty peers that disclose scope 1, 2 and 3 emissions.

<sup>24</sup> In accordance with Article 12.1 paragraphs d) to g).

For counterparties belonging to a holding company with available information on actual emissions, the parent company approach was followed, i.e., the counterparty's emissions were considered as a percentage of the holding's total emissions, taking into account the weight of the counterparty in the result of the holding. This methodology follows the same approach used for the ECB Climate Stress Test, as per the exercise FAQs.

**Table 1| ESG 1: Banking portfolio – Indicators of potential transition risk associated with climate change: Credit quality of exposures by sector, emissions and residual maturity**

Sector / Subsector	Gross carrying amount			Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions			<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity	
	Of which exposures towards companies excluded from EU Paris-aligned Benchmarks in accordance with points (d) to (g) of Article 12.1 and in accordance with Article 12.2 of Climate Benchmark Standards Regulation	Of which stage 2 exposures	Of which non-performing exposures	Of which stage 2 exposures	Of which non-performing exposures							
<b>1 Exposures towards sectors that highly contribute to climate change*</b>	<b>15.306,39</b>	<b>289,03</b>	<b>1.580,23</b>	<b>1.064,17</b>	<b>-939,87</b>	<b>-143,27</b>	<b>-668,03</b>	<b>10.518,58</b>	<b>2.589,65</b>	<b>2.044,33</b>	<b>153,83</b>	<b>4,84</b>
<b>2 A - Agriculture, forestry and fishing</b>	<b>377,50</b>	<b>0</b>	<b>47,61</b>	<b>44,27</b>	<b>-30,29</b>	<b>-3,59</b>	<b>-23,70</b>	<b>53,34</b>	<b>53,34</b>	<b>46,35</b>	<b>0,85</b>	<b>4,40</b>
<b>3 B - Mining and quarrying</b>	<b>189,84</b>	<b>0</b>	<b>12,87</b>	<b>17,28</b>	<b>-8,62</b>	<b>-1,09</b>	<b>-6,00</b>	<b>127,38</b>	<b>61,47</b>	<b>0,91</b>	<b>0,08</b>	<b>2,92</b>
4 B.05 - Mining of coal and lignite	0	0	0	0	0,00	0,00	0,00	0	0	0	0	0
5 B.06 - Extraction of crude petroleum and natural gas	0,12	0	0	0,00	-0,00	0,00	-0,00	0,12	0	0	0	0,34
6 B.07 - Mining of metal ores	67,08	0	0,27	0	-0,74	-0,01	0,00	67,08	0	0	0,00	0,18
7 B.08 - Other mining and quarrying	54,36	0	11,85	17,25	-7,40	-1,06	-5,98	45,14	8,23	0,91	0,08	3,16
8 B.09 - Mining support service activities	68,27	0	0,75	0,02	-0,47	-0,02	-0,02	15,03	53,24	0	0,00	4,73
<b>9 C - Manufacturing</b>	<b>3.830,85</b>	<b>2,73</b>	<b>296,61</b>	<b>271,57</b>	<b>-209,35</b>	<b>-20,70</b>	<b>-160,25</b>	<b>3.198,98</b>	<b>531,18</b>	<b>58,38</b>	<b>42,30</b>	<b>2,95</b>
10 C.10 - Manufacture of food products	475,49	0	33,80	19,69	-20,39	-2,04	-13,69	411,27	49,51	4,85	9,85	2,11
11 C.11 - Manufacture of beverages	242,43	0	80,63	4,56	-8,73	-4,70	-2,56	150,33	78,70	3,33	10,07	3,36
12 C.12 - Manufacture of tobacco products	13,21	0	0	0,08	-0,15	0,00	-0,03	13,21	0	0	0	0,84
13 C.13 - Manufacture of textiles	175,66	0	16,55	27,83	-19,18	-1,61	-15,98	145,38	15,91	7,32	7,05	2,94
14 C.14 - Manufacture of wearing apparel	102,67	0	14,34	17,40	-12,32	-0,83	-10,52	90,17	11,38	1,04	0,09	2,98
15 C.15 - Manufacture of leather and related products	71,77	0	9,40	11,66	-10,69	-0,51	-9,49	60,64	7,48	3,61	0,04	2,97
16 C.16 - Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials	164,78	0	8,64	8,49	-8,03	-0,97	-5,76	139,83	11,98	2,84	10,12	2,33
17 C.17 - Manufacture of pulp, paper and paperboard	557,83	0	1,07	0,66	-4,62	-0,09	-0,51	449,94	107,87	0	0,02	4,26
18 C.18 - Printing and service activities related to printing	36,91	0	5,57	2,60	-2,80	-0,29	-2,25	27,83	7,65	1,41	0,02	3,77
19 C.19 - Manufacture of coke oven products	214,84	2,62	0,83	0	-1,37	-0,03	0,00	214,84	0	0	0	0,77
20 C.20 - Production of chemicals	214,61	0,11	5,26	1,67	-3,46	-1,15	-1,03	204,19	7,37	0,32	2,72	2,39
21 C.21 - Manufacture of pharmaceutical preparations	86,61	0	2,84	0,00	-0,59	-0,03	-0,00	78,28	8,19	0,14	0,00	1,24
22 C.22 - Manufacture of rubber products	142,37	0	8,94	6,57	-5,92	-0,48	-4,01	113,63	28,00	0,31	0,43	3,57
23 C.23 - Manufacture of other non-metallic mineral products	410,01	0	14,21	9,40	-8,88	-2,05	-3,98	372,01	35,24	2,63	0,13	2,83
24 C.24 - Manufacture of basic metals	63,19	0	3,76	7,87	-6,71	-0,10	-6,29	59,74	3,28	0,17	0,00	1,68
25 C.25 - Manufacture of fabricated metal products, except machinery and equipment	373,15	0	36,96	18,60	-18,40	-2,37	-13,13	297,64	61,52	12,83	1,15	3,29
26 C.26 - Manufacture of computer, electronic and optical products	22,90	0	0,16	2,75	-2,00	-0,01	-1,81	14,16	8,74	0	0,00	4,30
27 C.27 - Manufacture of electrical equipment	72,04	0	2,54	36,96	-18,83	-0,11	-18,50	66,73	1,57	3,73	0,00	2,75
28 C.28 - Manufacture of machinery and equipment n.e.c.	88,69	0	15,02	1,79	-3,06	-1,27	-1,29	65,50	18,16	4,98	0,04	4,00
29 C.29 - Manufacture of motor vehicles, trailers and semi-trailers	82,10	0	4,70	43,34	-20,62	-0,91	-19,21	70,65	10,63	0,80	0,02	2,74
30 C.30 - Manufacture of other transport equipment	37,40	0	1,02	27,14	-15,59	-0,16	-15,37	16,11	20,53	0,74	0,02	4,89
31 C.31 - Manufacture of furniture	71,05	0	8,38	7,80	-6,32	-0,62	-5,21	52,13	17,02	1,76	0,14	3,42
32 C.32 - Other manufacturing	60,25	0	19,55	7,58	-4,04	-0,31	-3,45	43,22	14,13	2,89	0,02	4,96
33 C.33 - Repair and installation of machinery and equipment	50,90	0	2,44	7,11	-6,66	-0,07	-6,19	41,55	6,33	2,65	0,37	3,12

Values in millions of euros

Sector / Subsector	A	B	D	E	F	G	H	L	M	N	O	P
	Gross carrying amount				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions			<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity
	Of which exposures towards companies excluded from EU Paris-aligned Benchmarks in accordance with points (d) to (g) of Article 12.1 and in accordance with Article 12.2 of Climate Benchmark Standards Regulation	Of which stage 2 exposures	Of which non-performing exposures		Of which stage 2 exposures	Of which non-performing exposures						
34 D - Electricity, gas, steam and air conditioning supply	699,77	276,54	40,56	0,32	-14,40	-5,17	-0,32	495,12	43,71	152,78	8,16	4,29
35 D35.1 - Electric power generation, transmission and distribution	648,37	276,24	40,22	0,31	-14,02	-5,12	-0,31	443,89	43,71	152,62	8,16	4,47
36 D35.11 - Production of electricity	393,70	204,13	37,66	0	-12,26	-4,98	0,00	191,24	42,87	151,43	8,16	6,64
37 D35.2 - Manufacture of gas; distribution of gaseous fuels through mains	49,85	0,30	0,14	0,01	-0,36	-0,05	-0,01	49,85	0	0	0	2,03
38 D35.3 - Steam and air conditioning supply	1,55	0	0,20	0	-0,03	-0,00	0,00	1,38	0	0,17	0	3,35
39 E - Water supply; sewerage, waste management and remediation activities	273,44	0,00	60,19	3,75	-19,48	-14,51	-3,56	171,47	63,44	35,00	3,53	6,14
40 F - Construction	1.578,86	0,88	136,26	208,93	-192,74	-9,95	-164,54	1.151,54	128,89	261,41	37,03	4,32
41 F.41 - Construction of buildings	495,68	0	90,45	64,96	-60,95	-6,04	-51,45	364,94	82,89	44,85	3,00	4,09
42 F.42 - Civil engineering	834,20	0,88	19,70	128,03	-117,57	-2,39	-102,68	587,34	12,10	204,18	30,57	4,62
43 F.43 - Specialised construction activities	248,98	0	26,10	15,94	-14,22	-1,52	-10,41	199,25	33,89	12,38	3,45	3,73
44 G - Wholesale and retail trade; repair of motor vehicles and motorcycles	3.077,46	0,67	221,47	144,16	-147,95	-16,57	-100,91	2.692,81	285,62	73,54	25,49	2,59
45 H - Transportation and storage	1.492,84	8,19	255,75	126,94	-137,70	-39,03	-82,19	875,61	470,87	133,19	13,17	5,43
46 H.49 - Land transport and transport via pipelines	491,34	0	41,06	11,56	-18,66	-3,27	-8,23	377,91	103,21	6,99	3,23	3,67
47 H.50 - Water transport	102,39	0	6,70	0,48	-4,43	-0,20	-0,44	18,31	81,48	0,84	1,76	7,77
48 H.51 - Air transport	116,80	0	115,81	0,05	-15,54	-15,51	-0,02	43,79	73,02	0	0,00	6,92
49 H.52 - Warehousing and support activities for transportation	772,60	8,19	91,78	114,00	-98,49	-20,02	-72,99	433,16	212,54	125,14	1,76	6,50
50 H.53 - Postal and courier activities	9,71	0	0,39	0,85	-0,59	-0,04	-0,50	2,44	0,63	0,23	6,42	1,26
51 I - Accommodation and food service activities	971,00	0	227,39	58,28	-53,34	-12,35	-32,29	463,28	251,33	248,27	8,12	6,62
52 L - Real estate activities	2.814,94	0,02	281,51	188,68	-125,99	-20,31	-94,27	1.065,43	699,81	1.034,50	15,11	8,10
53 Exposures towards sectors other than those that highly contribute to climate change*	3.584,48	0	286,67	177,29	-672,85	-299,22	-287,16	2.849,17	555,21	160,98	19,13	7,27
54 K - Financial and insurance activities	752,26	0	46,15	16,93	-29,14	-2,68	-15,11	589,91	110,57	50,78	1,01	3,50
55 Exposures to other sectors (NACE codes J, M - U)	2.832,22	0	240,52	160,36	-643,71	-296,54	-272,06	2.259,26	444,63	110,20	18,12	3,77
56 TOTAL	18.890,87	289,03	1.866,89	1.241,46	-1.612,72	-442,49	-955,19	13.367,75	3.144,86	2.205,31	172,95	4,89

Values in millions of euros

## 1.5 Transition Risk: Loans collateralized by properties and energy efficiency levels of properties pledged as collateral

Table 2 reports, with a reference date of June 30, 2023, the gross amounts of CGD Group loans, collateralized with commercial or residential properties, as well as the level of energy efficiency expressed in kWh/m<sup>2</sup> and the energy performance according to the Energy Performance Certificate (CE or EPC).

With the aim of promoting the energy efficiency of buildings, the Energy Performance of Buildings Directive (2010/31/EU) and the Energy Efficiency Directive (2012/27/EU) introduced the energy rating of buildings in Europe. The obligation to obtain energy certificates in Portugal has only applied since 2013 (Decree-Law No. 118/2013, of 20 August). After its entry into force, the energy certificate is mandatory for new or old buildings at the time they are placed on the market for sale or lease. The EPC must be presented at the time of signing a purchase and sale contract, financial lease or lease. Buildings that are subject to interventions exceeding 25% of the total value of the building are also required to request the issuance of an EPC.

The EPC provides information on the energy performance of a property, classifying the property on a scale from A+ (very efficient) to F (poorly efficient), issued in Portugal by qualified experts recognized by the Energy Agency (ADENE).

It is important to consider the following in the analysis of Table 2:

- Transactions (sales/lease) prior to the date of entry into force of the directive were not subject to the obligation to provide the EPC;
- The directive is applicable in the European Union and, as such, does not cover all jurisdictions where CGD operates;
- Within the European Union, and as recognized by the EBA in the implementation of technical standards on prudential disclosures about ESG risks, the application of the directive is not standard.

CGD developed a project during 2022 to collect the EPC of properties pledged as guarantee for operations in Portugal. CGD already collects information on the EPC of properties pledged as guarantee for new operations.

However, and given that it was not possible to obtain an EPC for the entire portfolio, a model was developed that estimates the energy rating of the property taking into account specific information about the property, namely location, typology, year of construction, value of the evaluation.

The model was developed using the Decision Trees method, which, by obtaining alternative models, selects the final model taking into account a set of performance measures and expert analysis.

The level of energy efficiency (expressed in kWh/m<sup>2</sup>) was determined based on the energy classification of the property, according to the total average values of this energy class, determined by the “European building emission factor database” of the Partnership for Carbon Accounting Financials<sup>25</sup> (PCAF) for residential and commercial properties and according to the country where the property is located.

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<sup>25</sup> <https://building-db.carbonaccountingfinancials.com/>.

**Table 2| ESG 2: Banking book - Climate change transition risk: Loans collateralised by immovable property - Energy efficiency of the collateral**

Counterparty sector	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P
	Total gross carrying amount amount															
	Level of energy efficiency (EP score in kWh/m <sup>2</sup> of collateral)						Level of energy efficiency (EPC label of collateral)							Without EPC label of collateral		
	0; <= 100	> 100; <= 200	> 200; <= 300	> 300; <= 400	> 400; <= 500	> 500	A	B	C	D	E	F	G		Of which level of energy efficiency (EP score in kWh/m <sup>2</sup> of collateral) estimated	
<b>1 Total EU area</b>	<b>29.601,97</b>	<b>23.007,90</b>	<b>1.395,86</b>	<b>265,11</b>	<b>443,50</b>	<b>177,11</b>	<b>104,29</b>	<b>1.204,60</b>	<b>1.747,26</b>	<b>2.999,19</b>	<b>2.641,23</b>	<b>1.438,01</b>	<b>682,18</b>	<b>3,45</b>	<b>18.886,05</b>	<b>78%</b>
2 Of which Loans collateralised by commercial immovable property	4.045,48	0	254,18	265,11	443,50	177,11	104,29	50,08	227,33	312,11	165,47	35,80	59,63	0,05	3.195,00	12%
3 Of which Loans collateralised by residential immovable property	25.275,08	23.007,99	1.141,69	0	0	0	0	1.154,51	1.519,93	2.687,08	2.475,76	1.402,21	622,55	3,39	15.409,65	93%
4 Of which Collateral obtained by taking possession: residential and commercial immovable properties	281,41	0	0	0	0	0	0	0	0	0	0	0	0	0	281,41	0%
5 Of which Level of energy efficiency (EP score in kWh/m <sup>2</sup> of collateral) estimated	14.677,86	13.767,77	719,69	37,76	131,37	11,85	9,42	0	0	0	0	0	0	0	14.677,86	100%
<b>6 Total non-EU area</b>	<b>2.309,62</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2.309,62</b>	<b>0%</b>
7 Of which Loans collateralised by commercial immovable property	314,48	0	0	0	0	0	0	0	0	0	0	0	0	0	314,48	0%
8 Of which Loans collateralised by residential immovable property	1.981,93	0	0	0	0	0	0	0	0	0	0	0	0	0	1.981,93	0%
9 Of which Collateral obtained by taking possession: residential and commercial immovable properties	13,21	0	0	0	0	0	0	0	0	0	0	0	0	0	13,21	0%
10 Of which Level of energy efficiency (EP score in kWh/m <sup>2</sup> of collateral) estimated	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0%

Values in millions of euros

## 1.6 Transition Risk: Exposures to the 20 Most Carbon Intensive Companies

Table 3 reports, with a reference date of June 30, 2023, gross amounts in loans and advances, debt securities and equity instruments in non-financial corporations, as well as CGD's exposure to the 20 most carbon-intensive companies in the world. The CGD Group is not exposed to the 20 most carbon-intensive companies in the world, nor to their respective subsidiaries.

To identify the 20 most carbon-intensive companies in the world, CGD resorted to a public data source "The Climate Accountability Institute".

The report by The Climate Accountability Institute contains data for 2018, this being the most recent of the sources analyzed by CGD. There is data available on cumulative emissions for periods of up to 50 years, which are intended to identify the companies most responsible for the worsening of climate crises due to their global GHG emissions. However, given that some of the companies may have made a greater contribution to carbon emissions in the past but may have improved their performance, CGD considers that the most recent and static information is the most relevant to identify the companies that, in according to the most recent data, they have the worst performance in terms of GHG emissions.

**Table 3| ESG4 - Banking book - Climate change transition risk: Exposures to top 20 carbon-intensive firms**

a	b	d	e
Gross carrying amount (aggregate)	Gross carrying amount towards the counterparties compared to total gross carrying amount (aggregate)*	Weighted average maturity	Number of top 20 polluting firms included
0	0	0	0

Values in millions of euros

## 1.7 Physical Risk: Exposure subject to physical risk

Table 4 reports, with a reference date of June 30, 2023, gross amounts of loans and advances, debt securities and equity instruments in non-financial corporations, with a breakdown by economic activity sector (classification by NACE) and by exposures considered sensitive to the impact of chronic and severe phenomena related to climate change.

The methodology developed by the World Bank Group (Think Hazard!) maps physical risks (coastal floods, water shortages, heat waves, river floods, floods, earthquakes, landslides, tsunamis, volcanic eruptions, hurricanes, forest fires) applying a risk level (not applicable, low, medium and high) by country, district and municipality.

The Portuguese national platform for reduction of the risk of calamities by the Civil Protection Authority (PNRRC), has a physical risks mapping (river floods, coastal floods, land displacements, tsunami, extreme heat, urban fires, rural fires, earthquakes, water shortages, strong winds and snowfall), by risk level (not available, low, medium and high) and by parish council level to Portugal.

To identify CGD's exposures sensitive to the impact of physical risk, locations with at least one climatic phenomenon classified as high or critical, according to information from the "PNRRC" Platform for exposure in Portugal and from "Think Hazard" for the remaining geographies and considering the location of the counterparty.

The methodology used by CGD defines extreme weather events such as river floods, floods, earthquakes, landslides, tsunami, volcanic eruptions, hurricanes and forest fires as severe phenomena, and as chronic phenomena those triggered by long-term climate change, such as sea level rise, water scarcity and global warming.

**Table 4| ESG5 - Banking book - Climate change physical risk: Exposures subject to physical risk**

a	b	c	d	e	f	g	h								m	n	o			
							Gross carrying amount													
							of which exposures sensitive to impact from climate change physical events													
							Breakdown by maturity bucket					of which exposures sensitive to impact from chronic climate change events	of which exposures sensitive to impact from acute climate change events	of which exposures sensitive to impact both from chronic and acute climate change events				Of which Stage 2 exposures	Of which non-performing exposures	Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions
<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity	of which Stage 2 exposures	Of which non-performing exposures	of which Stage 2 exposures	Of which non-performing exposures												
1 A - Agriculture, forestry and fishing	377,50	196,83	44,92	44,00	0,71	4,66	164,67	121,25	57,13	39,26	39,15	-25,10	-3,00	-19,78						
2 B - Mining and quarrying	189,84	116,22	58,68	0,40	0,07	0,81	97,78	72,35	8,83	8,13	16,53	-7,10	-0,38	-5,32						
3 C - Manufacturing	3.830,85	1.886,21	358,79	36,50	34,68	2,85	569,49	1.273,83	214,46	217,22	185,04	-138,61	-13,67	-108,72						
4 D - Electricity, gas, steam and air conditioning supply	699,77	419,92	26,96	152,78	8,16	4,63	84,77	389,51	4,42	40,56	0,32	-14,15	-5,17	-0,32						
5 E - Water supply; sewerage, waste management and remediation activities	273,44	146,76	45,58	0,43	3,52	3,97	61,50	145,10	28,72	17,82	0,72	-3,12	-1,27	-0,64						
6 F - Construction	1.578,86	884,40	70,54	165,44	35,65	4,01	359,80	521,20	41,88	89,38	61,69	-66,79	-4,94	-46,00						
7 G - Wholesale and retail trade; repair of motor vehicles and motorcycles	3.077,46	1.829,07	173,33	48,61	13,44	2,23	485,75	1.342,03	196,14	144,25	98,16	-102,64	-10,93	-69,29						
8 H - Transportation and storage	1.492,84	573,02	235,83	49,24	12,98	4,58	151,40	502,62	206,08	154,96	120,92	-103,68	-18,62	-77,16						
9 L - Real estate activities	2.814,84	851,87	584,07	925,96	15,08	7,95	291,81	2.038,11	132,52	233,07	170,81	-103,64	-15,17	-79,57						
10 Loans collateralised by residential immovable property	27.257,01	476,60	1.463,48	3.800,67	13.058,79	25,08	6.222,28	14.753,56	2.283,05	1.330,30	188,76	-214,65	-94,42	-87,44						
11 Loans collateralised by commercial immovable property	4.359,96	1.871,76	809,41	1.185,57	57,74	6,77	417,47	2.096,55	224,74	391,41	235,41	-237,27	-36,73	-159,59						
12 Repossessed colaterals	294,62	0,00	0,00	0,00	0,00	0,00	0,00	9,17	9,17	0,00	0,00	0,00	0,00	0,00						
13 Other relevant sectors (breakdown below where relevant)																				

Values in millions of euros

