

# **RISK MANAGEMENT POLICY**

## **M. DIAS BRANCO S/A INDÚSTRIA E COMÉRCIO DE ALIMENTOS**

**NOVEMBER 08, 2019**

**PREPARED BY:**

Audit, Risks and Compliance Board,  
Legal Board

**REVISED BY:**

Statutory Board/ Non-Statutory  
Board/ Governance Committee/  
Audit Committee

**APPROVED BY:**

Board of Directors

	<p align="center"><b>POLICY RISK MANAGEMENT</b></p>	<p align="right">2 / 13</p> <p align="right"><b>MDB.GRC.PL.001-R00</b></p>
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	<p style="text-align: center;"><b>POLICY RISK MANAGEMENT</b></p>	<p style="text-align: right;">3 / 13</p> <p style="text-align: right;"><b>MDB.GRC.PL.001-R00</b></p>
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## RISK MANAGEMENT POLICY - M. DIAS BRANCO S/A INDÚSTRIA E COMÉRCIO DE ALIMENTOS

### 1. DEFINITIONS

1.1 The terms and expressions listed below, when used in this Policy, in the singular or plural, will have the following meaning:

**“B3”** – B3 S.A. – Brasil, Bolsa, Balcão.

**“Employees”** – All employees, Directors (statutory or not), members of the Board of Directors, committee members (statutory or not), members of the Fiscal Council, apprentices and interns of the Company, regardless of their position or function.

**“Company” or “M. DIAS BRANCO”** – M. Dias Branco S/A Indústria e Comércio de Alimentos and its subsidiaries.

**“Internal controls”** – Policies, norms, procedures, activities and mechanisms developed with the purpose of (i) guaranteeing effective Risk Management; (ii) ensure the efficiency and effectiveness of operations and the quality and integrity of recording transactions; (iii) provide reliability in the preparation of financial statements; and (iv) disseminate and ensure compliance with laws and regulations.

**“Policy”** - M. Dias Branco S/A’s Risk Management Policy.

**“Risk”** – The possibility that the achievement of the Company's strategic and operational objectives will be negatively influenced by uncertain events, internal or external. Risk should not be confused with the absence or non-execution of Internal Control.

### 2. REFERENCES

2.1. This Policy was prepared based on the following references:

- (i) *International Organization for Standardization ISO 31000:2009;*
- (ii) *Committee of Sponsoring Organizations of the Treadway Commission - COSO*

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*2017 Enterprise Risk Management - Integrating with Strategy and Performance;*

*(iii) Committee of Sponsoring Organizations of the Treadway Commission - COSO*

*2013 Internal Control – Integrated Framework;*

*(iv) The Institute of Internal Auditors - IIA's International Standards for the Professional Practice of Internal Auditing;*

*(v) The Institute of Internal Auditors – IIA's Position Paper: The Three Lines of Defense in Effective Risk Management and Control (2013)*

- (vi) Regulation of B3's Novo Mercado;
- (vii) CVM Instruction No. 480, of December 7, 2009, as amended;
- (viii) CVM Instruction No. 552, of October 9, 2014, as amended;
- (ix) Brazilian Institute of Corporate Governance, IBGC - Corporate risk management: evolution in governance and strategy (booklet 19);
- (x) Brazilian Institute of Corporate Governance, IBGC - The role of the board of directors in the strategy of organizations;
- (xi) Company Risk Management Methodology;
- (xii) Statute of the Company's Audit Committee;
- (xiii) Company's Anti-Corruption Policy; and
- (xiv) Company Code of Ethics.

### **3. PURPOSE AND SCOPE**

3.1. The purpose of this Policy is to establish general rules, guidelines, guidelines and responsibilities for the Company's Risk Management, in order to ensure that:

- (a) Risks inherent to the Company's activities are identified, evaluated and minimized to an acceptable level in view of their perpetuation;
- (b) The structure of Internal Controls is continually reviewed, considering the identified Risks, minimizing the costs associated with uncontrolled Risks and/or unnecessary control activities;
- (c) Operations with potential conflicts of interest are identified and the associated Risks are minimized from the implementation of measures for segregation of duties and/or monitoring of activities;
- (d) All Employees clearly understand the objectives of Risk Management and the roles, functions and responsibilities attributed to the different levels of the Company;
- (e) The Company complies with current regulatory criteria.

3.2. This Policy's mission is to ensure compliance with the Company's business objectives and

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strategies, identifying and timely communicating the need to adapt operating procedures, in order to align the level of exposure to risks with the Company's guidelines.

- 3.3. The provisions of this Policy must be interpreted together and complement the conduct guidelines established in the Code of Ethics and in other related internal policies and procedures (e.g. Risk Management Procedures of the Company and Methodology of Risk Management of the Company).

#### **4. RISK MANAGEMENT PROCESS OR RISK MANAGEMENT**

- 4.1. It is the process carried out by Employees, especially by members of the Board of Directors, Audit Committee, and Statutory and Non-Statutory Boards, applied in the definition and execution of the strategy, designed to identify potential events that may affect the Company. In this process, the Risks are duly addressed so that they remain within the limits of the Risk Appetite, providing reasonable assurance as to the achievement of objectives.
- 4.2. For risk management to be effective, its process must be in line with the Company's strategies and establish hierarchies and specific tasks, in addition to clearly defining those responsible for risk management. In addition, it is necessary to establish performance limits and responsibilities that allow decision-making in the Company's day-to-day business. The Board of Directors is the guardian of strategic planning, and Risk Management is an integral part of this process. The Audit Committee, based on its charter, is the advisory body of the Board of Directors in the mission of ensuring the risk control conditions to which the Company and its subsidiaries are subject, evaluating the quality and effectiveness of the decisions taken for management of risks.
- 4.3. The primary responsibility for identifying Risks and implementing Internal Controls lies with Employees who are intrinsically involved in the operation, in their respective areas of activity. The support areas will support the operational areas in fulfilling their responsibilities. The Internal Audit will act independently to evaluate and report the efficiency and effectiveness of Risk Management and Internal Controls activities.

#### ***Definition of Risk Limits***

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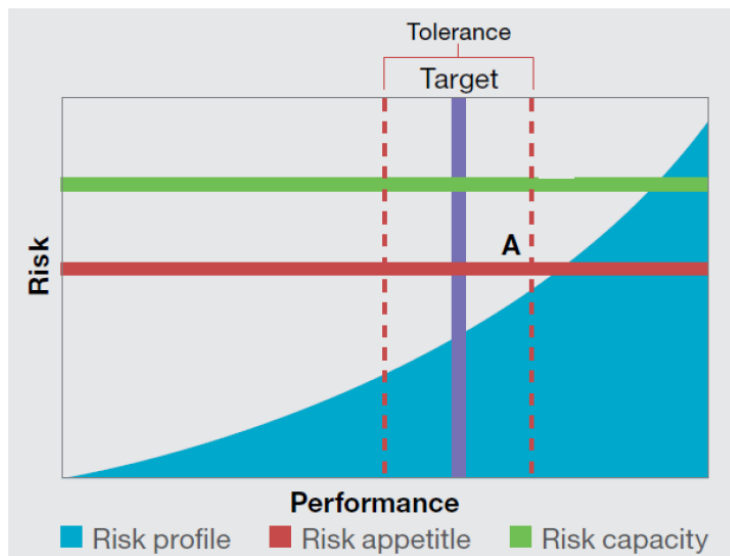
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- 4.4. Debating the limits of its performance, the Company consequently articulates its Risk Management process:



Source: Committee of Sponsoring Organizations of the Treadway Commission - COSO 2017 Enterprise Risk Management - Integrating with Strategy and Performance.

- 4.4.1. “Risk Appetite” – It is the global level of Risk that the Company is willing to face in order to achieve its objectives. The Board of Directors, with the support of the Audit Committee, plays a vital role in building a risk management philosophy and willingness to accept Risks, especially those outside the usual business context. In determining Risk Appetite across different Risk categories, it may be desirable to use both quantitative and qualitative definitions. When Risk can be measured quantitatively, this should be the preferred method for assessing it. Even with qualitative definitions, that is, less precise, the assessment continues to provide valuable guidance for an adequate approach to Risks. Periodically, the Board of Directors, with the support of the Audit Committee, will evaluate and review the acceptable level of risk assumed by the Company as a whole, in order to ensure that the balance between risk and benefit is properly managed and aligned.

- 4.4.2. “Risk Capacity” – Refers to the maximum potential impact of Risk events that the Company could assimilate and, even so, remain liquid enough to operate. Risk Capacity is usually determined in terms of capital, liquid assets, or creditworthiness. The Risk Appetite must not exceed the Company's Risk Capacity.

- 4.4.3. “Risk Tolerance” – Refers to the levels of variation that the Company is willing to accept

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regarding its specific objectives. Risk Tolerance reflects the acceptable variation in the results of specific performance measures. To determine Risk Tolerances, the Company needs to evaluate an indicator, such as revenue, market share, customer satisfaction, or earnings per share, and consider which “range” (variation limit) of results below and above the target would be acceptable. For example, the Company could set a target of 90% customer satisfaction, but could have a tolerance between 88% and 95%. The Risk Appetite for this indicator could not be less than 88%.

It is important to recognize that the above concepts can be articulated both qualitatively and quantitatively; or even be expressed in the form of “ranges” (limits of variation) instead of exact values.

### ***Risk Management Process***

4.5. The Risk Management Process comprises the following steps, which are detailed in the Company's internal procedures (Risk Management Methodology):

- (i) Alignment: capture and understanding of the Company's short and long-term strategic objectives and the environment in which these objectives are inserted.
- (ii) Understanding the origin of Risks: continuous monitoring of the various sources that generate Risks, such as changes in the structure of processes, changes in systems, failures in existing controls, mergers and acquisitions, etc.
- (iii) Risk Identification: mapping of internal and external factors that may adversely affect the Company's business strategies and goals, in order to establish the Risk and Internal Control matrices.
- (iv) Risk Assessment: qualitative or quantitative measurement of the impact and probability of occurrence of Risks. Impact measurement will take into account not only the financial amount, but also aspects related to image, environment, continuity, regulation, health and safety at work, quality, and human resources (eg turnover and climate survey).
- (v) Evaluation of Internal Controls: evaluation of the design and operation of the Company's Internal Controls regarding their effectiveness and efficiency.
- (vi) Response to Risks: definition by the management of a response to the identified Risks in order to bring the exposure to a level within the determined limits of Appetite and Tolerance for Risks.
- (vii) Report: timely and relevant communication of Risks to their target audiences, paying

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attention to both transparency and possible confidentiality of information.

(viii) Monitoring: continuous monitoring and constant updating of the Internal Control environment, the Risk matrix and Risk response actions.

### ***Risk Categories***

4.6. The Company classifies its Risks in the following categories, which are detailed in its internal procedures (Risk Management Methodology):

- (i) Strategic Risks: arise from the guidelines defined in the strategic planning.
- (ii) Operational Risks: associated with the possibility of losses resulting from failures, deficiencies or inadequacies of internal processes, people and systems, as well as external events such as natural catastrophes, strikes, etc.
- (iii) Reporting Risks: specifically aimed at the preparation of financial statements and rules for disclosing information to the market and regulatory bodies.
- (iv) Compliance Risks: related to the Company's reputation, fraud, and compliance with legislation and regulations applicable to its business (including anti-corruption, tax, antitrust legislation, etc.).
- (v) Cyber Risks: related to the security and integrity of information systems.
- (vi) Market Risk: of a financial nature, mainly associated with liquidity, credit, hedging instruments against exchange rate variations and commodities, interest rates, inflation and other economic indices.
- (vii) Socio-environmental Risks: related to environmental aspects, considering the effects of climate change and the indirect economic impacts of the Company's activities.

### ***Risk Governance***

4.7. Based on the Risk Management Methodology, the Company assesses its risks in five levels. The assessments and responses of all Risks must be taken by the Audit, Risks and Compliance Department, with supervision by the Audit Committee, for discussion with the hierarchical levels as defined in the model below. The eventual acceptance of risks must also respect the same governance.

4.8. Extreme risks must be reported by the Audit Committee to the Board of Directors in a timely manner, as they are identified. Such risks must also be included in the Audit Committee's annual report.

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## 5. TRAINING AND COMMUNICATION

5.1. The Company, through the Organizational Development area, must maintain a periodic and constant communication and training plan for all Employees (observing the degree of participation of each one in risk management activities). The Audit, Risks and Compliance team must have a specific plan for updating and improving the technical and behavioral skills necessary for the proper development of their responsibilities.

## 6. RESPONSIBILITIES

6.1. It is incumbent upon the Board of Directors to:

- Establish the Risk Management culture in the Company's activities, setting the tone through its example, active participation, sponsorship and encouragement.
- Define the Company's strategic objectives that will guide the Risk identification work. Periodically monitor risks related to strategic initiatives and projects.
- Determine the Risk Appetite and Tolerance assumptions based on the proposal of the Statutory Board, reviewed by the Audit Committee.
- Monitor the work of the Audit Committee in defining and reviewing methodologies, approach, tools, evaluation, classification, and reporting applied to Risk Management.
- Assess and consider, in the Audit Committee's annual activity report, the main risks

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reported and the recommendations made.

- Monitor risk management activities in accordance with the Company's business guidelines.
- Ensure that the Company has an Audit, Risk and Compliance structure that is adequate and compatible with its size and complexity.
- Ensure the qualification and independence of the Audit, Risks and Compliance area.
- With the support of the Audit Committee, identify, assess, monitor and manage the risks to which the Company is exposed.
- Approve any amendments and revisions to this Policy.
- Regulate the omissions of this Policy.
- Process non-compliance with the obligations and rules established in this Policy and resolve on it, as applicable.

6.2. It is incumbent upon the Company's Audit Committee to:

- Review annually and recommend for approval by the Board of Directors the proposal for the Company's Appetite and Risk Tolerance prepared by the Statutory and non-Statutory Boards.
- Annually analyze and review and monitor the Company's risk matrix.
- Review structure, processes, methodologies, approach, tools, assessment, classification, and reporting of risk management.
- Submit an annual activity report to the Board of Directors containing the main risks addressed in the period and the recommendations made.
- Approve and monitor the activities of the Audit, Risks and Compliance Board, including the annual work plan, in accordance with the Audit Committee's bylaws.
- Ensure the independence and freedom of action of the Audit, Risks and Compliance Board, in accordance with the policies in force at the Company.
- Review this Policy and propose any changes.

6.3. It is incumbent upon the Audit, Risk and Compliance Board to:

- Establish the Company's risk management structure and risk matrix, as well as coordinate, assist and monitor its implementation.
- Establish the Company's Risk Management Process, as well as coordinate,
- assist and monitor its implementation.
- Develop Risk Management methodologies that can be efficiently applied by the

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Company and that adhere to internal policies and procedures and applicable laws and regulations.

- Develop Risk Management strategies.
- Support the Audit Committee in the continuous assessment of the Company's Risk Management structure and process.
- Advise the Statutory and Non-Statutory Boards and the Audit Committee in proposing Risk Appetite and Tolerance.
- Support Employees in the Risk Management of their respective activities.
- Support the periodic communication and training plan, under the terms of this Policy.
- Disseminate the Risk Management and Internal Controls culture in the Company.
- To be the main link between the business areas and the Company's governance bodies, in order to ensure that the actions taken by the business areas properly manage risks.
- Conduct the risk assessment process of the Company's areas, observing the methodology, strategy and schedule approved by the Audit Committee.
- Validate the results of Risk Management analyzes with Employees from the areas involved and help define strategies to address Risks (monitoring of indicators and Internal Controls, implementation of action plans and/or reduction of controls, etc.).
- Conduct the process of evaluating the design of the Internal Controls observing the defined methodology and schedule.

6.4. It is incumbent upon the Employees to:

- Pay attention to Risks, propose and implement Internal Controls, and ensure and monitor the implementation of Risk Management processes related to their respective areas of activity.
- Give and facilitate access to the Audit, Risks and Compliance Department to all information relevant to Risk Management, ensuring its integrity and correctness.
- Ensure and monitor the implementation of defined action plans to deal with risks.
- Observe the Risk Appetite and Tolerance limits established by the Board of Directors.
- Support, encourage and participate in Risk Management communication, dissemination and training initiatives.

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- Report to the Audit, Risks and Compliance Board any and all relevant Risks identified, materialized or not, in order to maintain the appropriate Risk Management process.

6.5. It is incumbent upon the Organizational Development Board to:

- Develop and implement the periodic communication plan.
- Develop and implement the periodic training plan.
- Keep documented all training and initiatives that corroborate the application of this Policy by the Company.

6.6. It is incumbent upon the Ethics Committee to:

- Process non-compliance with the obligations and rules established in this Policy and resolve on it, as applicable.

## **7. VIOLAÇÃO DA POLÍTICA**

7.1. Failure to comply with this Policy will subject the violator to disciplinary sanctions, in accordance with the Company's internal rules (e.g. the Company's Code of Ethics), without prejudice to the applicable administrative, civil and criminal sanctions, attributable to the competent authorities.

## **8. TERM AND CHANGES**

8.1. This Policy enters into force on the date indicated below, after being approved by the Company's Board of Directors and any changes or revisions must be submitted to the Board of Directors.

8.2. The rules established in this Policy apply to the Company and all its Employees.

## **9. FINAL DISPOSITIONS**

*Validity: from January 02, 2020.*

*1<sup>st</sup> Version: November 08, 2019.*

**Responsible for the document:**

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<i>Stage</i>	<i>Responsible</i>
Preparation	Audit, Risk and Compliance Board Legal Department
Revision	Statutory Board Non-Statutory Board Governance Committee Audit Committee
Approval	Board of Directors

**Change log:**

<i>Version</i>	<i>Modified Item</i>	<i>Reason</i>	<i>Date</i>
00	Original version	N/A	[ -- ]
01	Miscellaneous	<ul style="list-style-type: none"> <li>- Breakdown of the Risk Management Manual.</li> <li>- Details of the Risk Management Process.</li> <li>- Adjustments resulting from the new version of B3's Novo Mercado Rules.</li> </ul>	08.11.2019

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