

Risk Management Report

Pillar 3



bradesco

4Q21

Historical Resubmission

Version	Reasons for resubmission	Date of change
V2	Chapter 22 update.	March 31, 2022

Some numbers included in this report have been subject to rounding adjustments.

As a result, some amounts indicated as total amounts in some tables may not be the arithmetic sum of the preceding numbers.

Additionally, the values indicated as percentage variation in some tables may not be the arithmetical application of the preceding numbers.

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1. Presentation of the Report

Financial market globalization has prompted the appearance of financial activities and instruments that are outside the reach of domestic bank oversight authorities. On the other hand, differences in national regulations to which banks were subject created inequalities in international competitive conditions. To mitigate the effects of these gaps and conditions, the Basel Committee on Banking Supervision (BCBS) was created in 1974 with the mission of promoting international convergence in capital standards and bank management practices. The need to add other financial segments to the convergence process led to the creation of the Financial Stability Board (FSB), in 2009, to coordinate the work of the Basel Committee and other financial activity supervisory bodies.

Currently, the banking segment guidelines defined by these two bodies are organized in accordance with a structure known as “the three pillars”:

Pillar 1 – Capital Requirement: Sets the minimum capital standards to be required from the banks, as well as the methodologies to be used to measure credit, market, and operational risks.

Pillar 2 – Supervision Process: Establishes the performance principles of the banking system supervisors and sets criteria to address risks not covered under Pillar 1. The risk management processes are also included in this part of the guidance.

Pillar 3 – Market Discipline: Recommends banks to disclose broadly a set of basic information in such a manner as for financial market participants to be able to undertake well-grounded assessments of the risks these institutions incur.

This report complies with Basel Committee on Banking Supervision's recommendations (Pillar 3 – Market Discipline) and other Central Bank of Brazil's (BCB) rules, as required by Resolution 54/20 and later amendments. This report seeks to provide stakeholders with information access on Bradesco Organization (herein also referred to as “Organization”) risk management, presenting a detailed picture of the procedures and controls of the main risks to which it is exposed, thus allowing market agents to appraise the Organization capital adequacy.

The Organization believes that risk management is essential to enable the long-term stability of financial institutions and that transparency in the information disclosure strengthens the Organization's Risk Culture, contributing to the solid health of the national financial system and society in general. As a consequence of the continuous risk management process and adoption of the best practices, the Organization was the first financial institution¹ in Brazil authorized by the BCB, since January 2013, to use its internal market risk models to calculate regulatory capital, which were already in use for managerial purposes.

This should be read with other documents disclosed by the Organization, such as the Report on Economic and Financial Analysis, the Consolidated Financial Statements and the Appendix indicated in this document², which presents additional information about Organization activities. For more information, access our Investor Relations website at www.bradescori.com.br.

¹ As per BIS document named “Regulatory Consistency Assessment Programme (RCAP) – Assessment of Basel III regulations in Brazil”, of December 2013.






² The information related to the G-SIB (indicators that feed into the Committee's methodology for assessing the systemic importance of global banks) and Remuneration of Directors, will be disclosed according to the terms established by BCB Resolution 54/20, on bradescori.com.br – Market Information – Risk Management.

1.1. Covid-19 Pandemic

Contributing towards overcoming the crisis

Following health protocols, the Organization initiated the gradual return of employees to the in-person activities in the administrative centers and branches network. This plan recommends a safe return of the employees and includes all of the recommendations by the Ministry of Health.

Some lessons have been incorporated into our operations, for example, the way we digitally relate with our clients and suppliers and the intensification of the home working in the Organization.

	The Crisis Committee continues evaluating the pandemic scenario in order to ensure safety in the plan for the gradual return of activities
The branches are still following all the guidelines of the Ministry of Health	
	Psychosocial support channel, Lig Viva Bem, with 24-hour services, 7 days a week, with free voluntary access for our employees and their family group
Inauguration of the Meu Doutor Novamed Clinic and Bradesco Dental in Cidade de Deus - Osasco, with various medical specialties	
	New credit alternatives <ul style="list-style-type: none">- Extensions, spread payments and unification of loans- Financial reorganization- Emergency lines of credit

Further details of the Bradesco's internal/external actions in relation to the Covid-19 pandemic can be found in the Economic and Financial Analysis Report – 4Q21, available on the Investor Relations website (bradescori.com.br – Market Information – Reports and Spreadsheets – Reports) and www.bradesco.com.br/coronavirus.

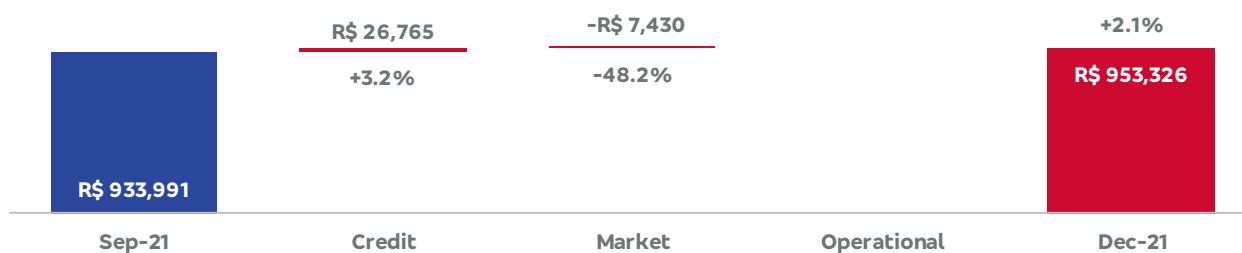
1.2. Key Indicators

The Organization carries out the risk and capital management aligned to the strategic guidelines, involving the Control and Business areas, according to the Executive Board and the Board of Directors guidance, aiming to provide conditions to the Organization strategic targets achievement and support the inherent risk to its activities.

Below are presented the Organization key indicators, obtained under the viewpoint of the Prudential Conglomerate:

Total Capital Ratio 15.8% +0.6 p.p. in the quarter 3Q21: 15.2%	Tier I Ratio 13.7% -0.1 p.p. in the quarter 3Q21: 13.7%	Common Equity Tier Ratio 12.5% -0.2 p.p. in the quarter 3Q21: 12.7%	Leverage Ratio 8.5% +0.3 p.p. in the quarter 3Q21: 8.2%
Total RWA¹ R\$ 953,326 +2.1% in the quarter 3Q21: R\$ 933,991	Credit Risk RWA¹ R\$ 873,737 +3.2% in the quarter 3Q21: R\$ 846,972	Market Risk RWA¹ R\$ 7,995 -48.2% in the quarter 3Q21: R\$ 15,425	Operational Risk RWA¹ R\$ 71,594 0.0% in the quarter 3Q21: R\$ 71,594
LCR 138.1% -7.4 p.p. in the quarter 3Q21: 145.5%		NSFR 117.1% +1.9 p.p. in the quarter 3Q21: 115.2%	

RWA¹ Quarterly Evolution¹



The minimum regulatory requirements determined by Central Bank of Brazil are presented below:

Basel Ratio² 10.63% as of April/2021 11.00% as of October/2021 11.50% as of April/2022	Tier I Ratio² 8.63% as of April/2021 9.00% as of October/2021 9.50% as of April/2022	Common Equity Ratio² 7.13% as of April/2021 7.50% as of October/2021 8.00% as of April/2022
Leverage Ratio 3.0% The minimum requirement was defined by CMN Resolution 4,615, in 30/11/2017, effective as of 1/1/2018.	LCR 90% in 2018 100% as of 2019	NSFR 100% The minimum requirement was defined by CMN Resolution 4,616, in 30/11/2017, effective as of 10/1/2018.

¹ Amount in million (BRL).

² The Total Capital Ratio, the Tier I Ratio and the Common Equity Tier I Ratio encompass the Additional CET1 buffer requirements of Conservation, Systemic and Countercyclical, as per the CMN Resolution 4,193/13 and BCB Circular 3,768/15 and 3,769/15, respectively. The CMN Resolution 4,783/20, effective as of April/2020, establishes the reduction of the conservation capital buffer requirement from 2.5% to 1.25%, for a period of one year and after this period, the requirement will be gradually reinstated until March 31, 2022 at the level of 2.5%.

2. Risk Management

The activity of risk management is highly strategic due to the increasing complexity of products and services and the globalization of the Organization business. The dynamic nature of the market is conducive to the constant improvement of risk management activity.

The Organization conducts corporate risk control in an integrated and independent manner, preserving and valuing an environment of collective decision-making in which methodologies, models and tools to measure and control risks are developed. Promotes the dissemination of the risk culture to all employees, at all hierarchical levels, from business areas to the Board of Directors.

2.1. Key Prudential Metrics

Since January 2015, financial institutions based in Brazil calculate their capital requirements on a consolidated basis with the institutions that are part of their Prudential Conglomerate.

The following table shows the prudential key metrics related to regulatory capital, leverage ratio and liquidity.

Key Metrics (KM1)

R\$ million	a	b	c	d	e
	Dec-21	Sep-21	Jun-21	Mar-21	Dec-20
\\ Available capital (amounts)					
1 Common Equity Tier I (CET1)	119,107	118,453	115,592	110,832	108,982
2 Tier I	130,565	128,401	125,012	120,071	118,282
3 Total Capital	150,236	141,773	141,108	135,568	135,724
3b Excess of resources invested on permanent assets	-	-	-	-	-
3c Total Capital Detachments	-	-	-	-	-
\\ Risk-weighted assets (amounts)					
4 Total risk-weighted assets (RWA)	953,326	933,991	884,639	882,192	858,693
\\ Risk-based capital ratios as a percentage of RWA					
5 CET1 ratio	12.5%	12.7%	13.1%	12.6%	12.7%
6 Tier I ratio	13.7%	13.7%	14.1%	13.6%	13.8%
7 Total Capital Ratio	15.8%	15.2%	16.0%	15.4%	15.8%
\\ Additional CET1 buffer requirements as a percentage of RWA					
8 Capital conservation buffer requirement ⁽¹⁾	2.0%	1.63%	1.63%	1.25%	1.25%
9 Countercyclical capital buffer requirement	0.0%	0.0%	0.0%	0.0%	0.0%
10 Systemic capital buffer requirement	1.0%	1.0%	1.0%	1.0%	1.0%
11 Total of bank CET1 specific buffer requirements	3.0%	2.63%	2.63%	2.25%	2.25%
12 CET1 available after meeting the bank's minimum capital requirements	5.0%	5.6%	5.9%	5.8%	5.9%
\\ Leverage Ratio (LR)					
13 Total exposure	1,530,419	1,557,583	1,493,790	1,477,057	1,436,809
14 LR	8.5%	8.2%	8.4%	8.1%	8.2%
\\ Liquidity Coverage Ratio (LCR)					
15 Total high-quality liquid assets (HQLA)	177,885	193,425	203,035	216,466	244,828
16 Total net cash outflow	128,780	132,953	130,116	132,864	137,248
17 LCR ratio	138.1%	145.5%	156.0%	162.9%	178.4%
\\ Net Stable Funding Ratio (NSFR)					
18 Total available stable funding (ASF)	803,600	768,171	744,994	732,728	743,149
19 Total required stable funding (RSF)	686,072	666,886	641,786	638,225	618,540
20 NSFR ratio	117.1%	115.2%	116.1%	114.8%	120.1%

(1) The CMN Resolution 4,783/20, effective as of April/2020, establishes the reduction of the countercyclical capital buffer requirement from 2.5% to 1.25%, for a period of one year and after this period, the requirement will be gradually reinstated until March 31, 2022 at the level of 2.5%.

Comments

Maintenance of total capital ratio at high levels, remaining well above the regulatory limits, even with the increase in risk-weighted assets (RWA), due to the strong growth of the loan portfolio, and payment of Interest on Shareholders' Equity and dividends.

2.2. Bank Risk Management Approach

2.2.1. Scope of Risk Management

The scope of the Organization risk management achieves a broadest view, allowing the risks of the Economic-Financial Consolidated³ to be supported by the Risk Management Corporate Process (chapter 2.2.4) in order to sustain the development of its activities. For this purpose, the Organization is structured through the three lines model in which all contributes in order to achieve the objectives with a reasonable margin of security:

- **First line**, represented by businesses and support areas, responsible by identifying, reporting and managing inherent risks as part of day by day activities, besides that, responsible for controls execution, in response to risks, and/or for defining and implementing action plans to ensure the effectiveness of the internal control environment while maintaining risks within acceptable levels;
- **Second line**, represented by oversight areas, responsible for establishing risk management policies and compliance procedures for establishment and/or monitoring of first line. In this line, may be highlighted the "Integrated Risk Control Department", "Compliance, Conduct and Ethics Department", Legal, Corporate Safety, among others;
- **Third line**, represented by Audit and General Inspectorate Department, which is accountable for independently evaluate the effectiveness of the risk management and internal controls, including how the first and second lines reach their objectives, reporting the results of their work to the Board of Directors, Audit Committee, Fiscal Council and Senior Management.

2.2.2. Risk Appetite Statement (RAS)

Risk appetite refers to the types and levels of risks that the Organization is willing to accept in the conduct of its business and objectives. The Risk Appetite Statement (RAS) is an important tool that synthesizes Organization's risk culture.

At the same time, the RAS emphasizes the existence of an effective process of responsibilities in the operational management of risks and in the execution of control functions, as well as for mitigating and disciplinary actions, escalation procedures and notification to the Senior Management when the risk thresholds and established control processes are breached.

³ Includes the regulatory scope of the Prudential Conglomerate and other companies in the Consolidated.

The Risk Appetite Statement is annually⁴ reviewed or whenever it is necessary by the Board of Directors, besides being continuously monitored by Senior Management's forums, as well as by business and control functions.

The RAS reinforces the dissemination of risk culture by enabling all your members to be aware of the main aspects of Organization's risk appetite.

Risk Appetite Dimensions

For the various types of risks, which are measurable and non-measurable, the Organization has established controls approaches, observing the main global dimensions:

Capital: the Organization seeks to maintain, on a permanent basis, a solid capital base to support the development of activities and to address the measurable incurred risks (in normal or stressful conditions), as well as to withstand any losses arising from non-measurable risks and to enable possible strategic acquisitions. In order to meet this objective, capital buffers have been established, which are part of the risk appetite framework and are defined and approved by the Board of Directors.

The Organization has established that the Total Capital, Tier I, Common Equity Tier I and Leverage Ratios must correspond, at least to the regulatory floor, plus the current Capital buffer.

Liquidity: the Organization aims be able to honor efficiently its obligations through pulverized and low cost sources of funding, to ensure a cash structure compatible with the size of its obligations, assuring survival in adverse scenarios, without affecting its daily operations and without incurring significant losses.

For this dimension, Long and Short Term monitoring indicators have been established. The Liquidity Coverage Ratio indicator (LCR) for short term correspond to the ratio between the stock of High Quality Liquidity Assets (HQLA) and the total net outflow, calculated as per the stress scenario standardized by the Central Bank of Brazil. The Net Stable Funding Ratio (NSFR) for long term, correspond to the ratio between the available stable funding and the required stable funding.

Profitability: the Organization zeal for sustainable growth of its businesses and results and the adequate remuneration of its capital, seeking to meet the shareholder's remuneration expectation in relation to the risks incurred in its business.

The Organization monitors the main performance indicators in periodically basis by line of business, segments and products. Based upon these indicators, a number of analyzes, projections and studies are made in order to inform the business areas and Senior Management about the individual and consolidated results, thus allowing conscious decision-making and eventual strategic reviews.

Credit: the Organization focuses on domestic customers, in a diversified and pulverized manner, both in terms of products and segments, striving for the portfolio's quality and solidness, with guarantees consistent with the undertaken risks, considering the amounts, the purposes and terms of the granted loans, maintaining adequate levels of impairment allowances as well as portfolio concentration.

⁴ The Risk Committee, related to the RAS, has the following attributions: a) assess the risk appetite levels stated in the Risk Appetite Statement and its management strategy, considering the risk individually and on an integrated basis; and b) supervise the fulfillment of the RAS terms by the Senior Management.

The credit risk valuation is performed through the continuous monitoring of portfolios and exposures, covering assessment of its volumes evolution, delinquency, impairment allowances, vintage analysis, capital, among others. Furthermore, the Organization has a credit approval limits and recovery debts structured governance process.

Regarding to risk appetite, the Organization established limits on the concentration of operations to Economic Group, Economic Activity sector and Transfer (Country). In addition to the concentration indicators, a specific indicator was established for the delinquency over 90 days for Individuals, an indicator of Credit Risk Economic Capital Margin, with the purpose of monitoring and control the capital in the economic and regulatory perspectives and an indicator of Problematic Assets Percentage.

Market: the Organization aims to align the exposures to the strategic guidelines, with specific limits established in an independent manner and with the risks properly mapped, measured and classified as to probability and magnitude.

The possibility of financial loss is monitored and controlled by the Organization due to the fluctuation of prices and market rates of its financial instruments, since its assets and liabilities portfolios may present mismatches of maturities, currencies and indexes. Considering the dynamics of this type of risk and the characteristics of each investment portfolio, the Organization has established a number of risk limits and results.

Regarding to Trading Book, the risk appetite includes Value at Risk (VaR), Stress Scenarios for one month, Monthly and Quarterly Result (negative). For the Banking Book, Δ EVE Internal Model, Δ EVE Outlier Test, Δ NII Internal Model and Evolution of Market Valued Positions are monitored.

Operational: the Organization acts towards to provide assurance regarding suitable conduct to the Organization's businesses, observing compliance to the law, regulations and rules, ensuring that processes comprise efficient controls.

Given the wide range of products and services offered, as well as an expressive volume of activities and operations performed, the Organization may incur on losses resulted by failures, internal process deficiency or inadequacy, personnel and systems, or external events.

Regarding this, within the Prudential Conglomerate framework, the Organization set appetite limits and tolerance to operational losses, monitored on a monthly basis. Additionally, the Organization established a monitor availability indicator of the main service channels and systems, aiming to provide an ongoing readiness on customer service.

Reputation: the Organization monitors its reputation before clients, employees, regulator, investors and the market in general, aiming to assure the timely identification and assessment of potential sources of this risk and act a preventive manner for its mitigation.

The reputational risk control aims to ensure that the Organization monitors and assesses the various stakeholders' perception, seeking to detect potential sources of risk on reputation and if necessary take actions on a timely basis in order to mitigate.

This risk control is performed through a Consolidated Index of Reputation, subdivided into dimensions, from which is possible to determine the Organization's reputation vis-a-vis customers, employees, regulators, investors and market in general.

Model: The Organization uses models to support decision process, financial and regulatory reporting, and to provide predictive information in various businesses' areas. In this context, the Organization recognizes the existence of the associated risk using models and the importance of its management process.

The Organization manage and control model risk through assessment, inventory and classification relevance and model risk, supported by governance processes.

Qualitative Risks: in addition to the risks described above, the Organization is exposed to the risks of Contagion, Strategy, Social and Environmental, Insurance, Cyber Security and Compliance. These risks are managed through processes and a governance structure that is comprised of Departmental Commissions, Executive Committees and Senior Management. The management of these risks is supported by policies, standards and procedures that contribute to their adequate management and control.

Risk Appetite Monitoring

The risk appetite monitoring takes place through effective control processes, in which managers are informed about the exposures to risks and the respective usage of current limits. The report is carried through an alert system, which eases communication and highlights exceptions to the limits, which requires discussion, authorization for the exceptions and/or adequacy measures, permeating all Organization's spheres, supporting the Senior Management in the assessment whether the results are consistent with the risk appetite.

2.2.3. Risk Map

Given the complexity and variety of products and services offered to its customers in all market segments, the Organization is exposed to diverse types of risks stemming from both internal and external factors. Thus, it is very important that the Organization constantly risks monitor in order to provide stakeholders with security and comfort. Notable among the main risk types are:

Credit Risk – Represented by the possibility of losses due to the borrower or the counterparty not meeting their respective financial obligations under the agreed-upon terms, as well as, the depreciation of the credit agreement, resulting from the downgrading of the borrower's credit rating, the reduction of gains or remuneration, advantages granted in renegotiation, recovery costs, and other amounts related to the counterparty not meeting its financial obligations. Also includes

Transfer (Country) Risk, represented by the possibility of losses related to non-fulfillment of obligations associated with a counterparty or the mitigating instrument located outside of the

- Country, including sovereign risk and the possibility of losses due to, issues in the currency exchange of amounts received outside of the Country associated with the operation subject to the credit risk. The **Counterparty's Credit Risk** is represented by the possibility of loss due to the non-compliance by the counterparty with the obligations relating to the settlement of operations involving financial asset trading, including the settlement of derivative financial instruments or decrease of the counterparty's credit standing and **Concentration Risk** is represented by the possibility of loss due to significant exposure to a counterparty, risk factor, product, economic sector, geographic region, mitigator, etc.

Market Risk – Represented by the possibility of financial loss due to fluctuating prices and market interest rates of the Organization's financial assets as its asset and liability portfolios may show mismatched amounts, maturities, currencies and indexes.

- **Operational Risk** – Represented by the possibility of losses arising from faulty, deficient or inadequate internal processes, people and systems, or external events.

Insurance Risk – Resulting from an adverse economic situation, which is contrary to insurance company's expectations upon the preparation of its insurance policy, as well as the uncertainties in estimated provisions, includes pension funds risk, represented by the materialization of emergency contributions needs to cover deficits in funds from incorporated banks and administered by Closed Supplementary Pension Entities.

- **Liquidity Risk** – Represented by the possibility of the Organization not being able to efficiently meet its obligations, without affecting its daily operations and incurring significant losses, as well as the possibility of the Organization not being able to trade a position at market price due to its high amount when compared to the usually traded volume or due to some market discontinuation.

Social and Environmental Risk – Represented by potential damages that a business may cause to the society and environment. Most of social and environmental risks associated to financial institutions are indirect and result from business relations, including those with the supply chain and customers through financing and investing activities.

- **Strategic Risk** – Represented by the uncertainty in achieving the objectives established. It might be due to adverse changes on the business environment, the use of inappropriate assumptions in the decision-making or due to the strategy execution on a different way from what was planned.

Reputational Risk – Represented by the loss of credibility before customers, counterparts, government agencies and market or community, resulting from undue and improper actions, acts and behavior.

- **Model Risk** – Represented by the possibility of losses due to models with errors or inconsistencies, deficiencies or inadequacies in the development process and/or use.

- **Step-in Risk** – Represented by the possibility of financial loss, resulting from the Organization's relationships (contractual or not) with subsidiaries, affiliates, parallel structures, parent companies, investment funds, foundations, suppliers and partners not consolidated in the Prudential Conglomerate.

- **Compliance Risk** – It is the risk arising from legal or administrative sanctions, financial losses, reputational and other damages due to non-compliance or failure to observe the legal framework, the infralegal regulation, the recommendations of regulatory bodies and of self-regulatory organizations and ethical conduct codes applicable to the activities.

- **Cyber Security Risk** – Represented by the possibility of cyber incidents, including attacks, intrusions and leakage, that could compromise the confidentiality, integrity and/or availability of critical Organization's processes, assets and/or infrastructure.

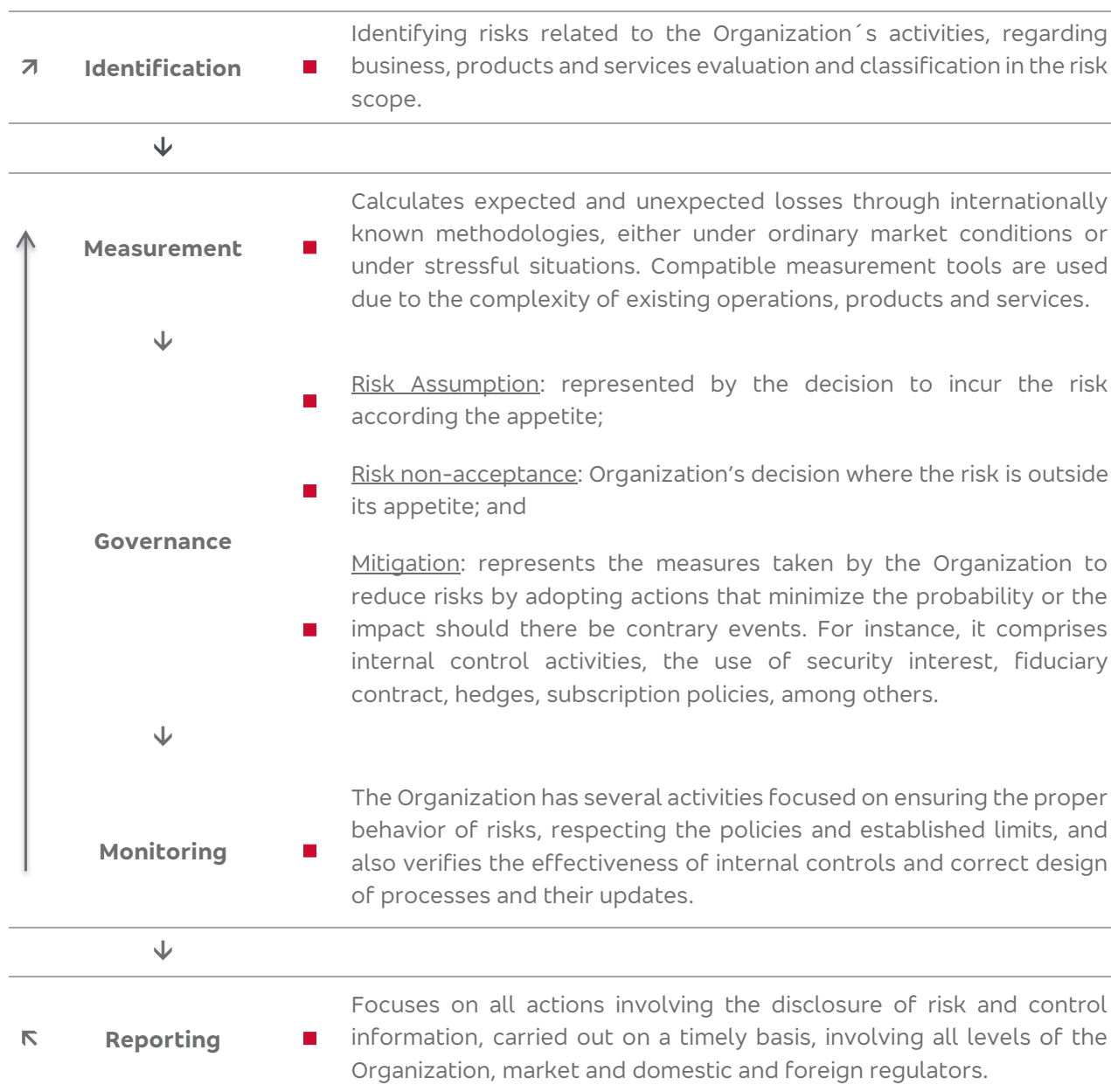
In addition to the risks described in this map and considering the business environment in which the Organization operates, we are constantly monitoring macroeconomic risks that may adversely affect the Organization's exposures. These risks are assessed through consistent processes and a sound governance structure. In this way, the macroeconomic risks identified by the Organization are listed below:

- **Risk of slower than expected inflation deceleration:** new shocks may add to those already present or prove to be more persistent, preventing inflation from converging to the target center in 2022. Exchange rate depreciation, international inflation persistence and of the commodity prices in high level, or continued pressure on the prices of goods and services associated with the economy reopening are factors that can keep inflation under pressure for a longer period;
- **Risk of tightening global financial conditions:** more persistent inflationary shocks may lead Central Banks to anticipate or intensify the withdrawal of monetary stimulus. On the other hand, frustrations with the pace of economic activity recovery renew stagflation risks. The materialization of these risks tends to generate relevant impacts on asset prices in general and in emerging countries specifically;
- **Risk of fiscal regime weakening in Brazil:** measures that compromise the spending cap or the Fiscal Responsibility Law and weaken the Brazilian fiscal framework raise risk premiums, with adverse impacts on the domestic assets prices, the neutral interest rate of the economy, the confidence of economic agents and future growth. This situation tends to be enhanced by the absence of structural reforms that lead to potentially greater GDP growth;
- **Risk of tightening domestic monetary policy far beyond neutrality:** associated with inflationary risks, fiscal uncertainties, more intense exchange rate fluctuations or persistence of supply-side shocks. The materialization of this risk, although justifiable to minimize inflationary pressures, could postpone a more sustained recovery of the domestic economy;
- **Frustration risk with the resumption of domestic economic activity:** the intensity of monetary tightening, supply-side restrictions, or even the emergence of Covid-19 new variants, could delay the recovery process of the Brazilian economy;
- **Electricity rationing risk:** arising from frustration with the rain volume in the wet season. The measures adoption to reduce energy consumption to avoid blackouts could result in a reduction of 0.5 to 1.0 percentage point of GDP in 2022;
- **Risk of a sharper deceleration in the Chinese economy:** policies aimed at controlling leverage in the real estate sector and specific activities regulation could lead to lower Chinese growth, with a negative impact on commodity prices and emerging economies;

- **Social and environmental risks:** events related to social, environmental and climatic aspects that can impact the perceptions and confidence of economic agents, with the potential of negatively affect economic growth and business in general, in addition to causing deterioration of the country's image at the international level.

2.2.4. Risk Management Corporate Process

The risk management corporate process allows the proactive identification, measurement, assessment in specific governance, monitoring and reporting of risks, which is necessary for the complexity of financial products and services and the profile of the Organization's activities, is made up of the following stages:



2.2.4.1. Internal controls

The Integrated Risk Control Department (DCIR), through the Internal Controls area, works proactively in managing the risks and controls existing in the processes, in order to keep them at acceptable levels by the Organization.

The Internal Controls methodology is in line with the Framework issued by COSO - Committee of Sponsoring Organization of the Treadway Commission (Internal Control - Integrated Framework - 2013) and with the guidelines established by the Information Systems Audit and Control Association (ISACA) through the Control Objectives for Information and Related Technology (COBIT 5 - 2012).

The process that supports the risk assessment comprises the identification and assessment of risks, thematic reviews on specific matters (involving multidisciplinary teams), indicators analysis and certification on the existence and effectiveness of controls, in order to ensure acceptable levels of risks in the activities. The results of this management (residual risks) are inputs for the Corporate Risk Matrix preparation, periodically reported to the Boards, to the Audit, Risk Monitoring and Management Committees Risks as well as to the Board of Directors.

Trained professionals, well-defined and implemented processes, as well as technology compatible with business needs, pursuant to CMN Resolution 2,554/98⁵, support the effectiveness of internal controls.

2.2.4.2. Risk and Capital Management Policies

Regarding the risk culture dissemination, the Organization has policies, rules and procedures to manage risks and capital. These instruments establish the basic operational guidelines laid out by Senior Management in accordance with the institution's standards of integrity and ethics and cover all the activities performed by the Organization and associated companies.

Policies, standards and procedures ensure that the Organization is structured in accordance with the nature of its operations, the complexity of its products and services, activities, processes, systems and the dimension of its risk exposure.

The risk and capital management policies are in line with the Organization's strategic objectives, the best national and international practices and in compliance with laws and regulations issued by oversight bodies. They are reviewed at least once a year by the Board of Directors and disseminated to all employees and associated companies via the corporate intranet.

⁵ As of 01/01/2022, CMN Resolution 2,554/98 was revoked by CMN Resolution 4,968/21.

Risk and Capital Management Policies

- Corporate Governance
- Risk Management
- Credit Risk
- Market Risk
- Liquidity Risk
- Operational Risk
- Insurance Risk
- Model Risk
- Step-in risk
- Strategy Risk
- Business Continuity
- Corporate Sustainability
- Capital Management
- Internal Control
- Corporate Compliance

The Organization has its Corporate Information Disclosure Policy, which strives to guarantee the stakeholders access to clear and accurate information according to each topic, as well as ensure that the reliability of the information to be disclosed is continuously assessed and confirmed, among others guidelines.

Further details on the Corporate Information Disclosure Policy are available on the Investor Relations website (bradescori.com.br – Corporate Governance – Corporate Bylaws and Policies – Policies, Practices and Guidelines).

2.2.4.3. Risk and Capital Management Structures

The risk and capital management structures are made up of several committees, commissions and departments that assist the Board of Directors, the CEO (Chief Executive Officer), the CRO (Chief Risk Officer) and the Board of Executive Officers in their decision-making process.

The Organization has the Integrated Risk Management and Capital Allocation Committee – COGIRAC, whose duty are which supports the CEO on the performance of its attributions related to the management and control of all risks and the Organization's capital.

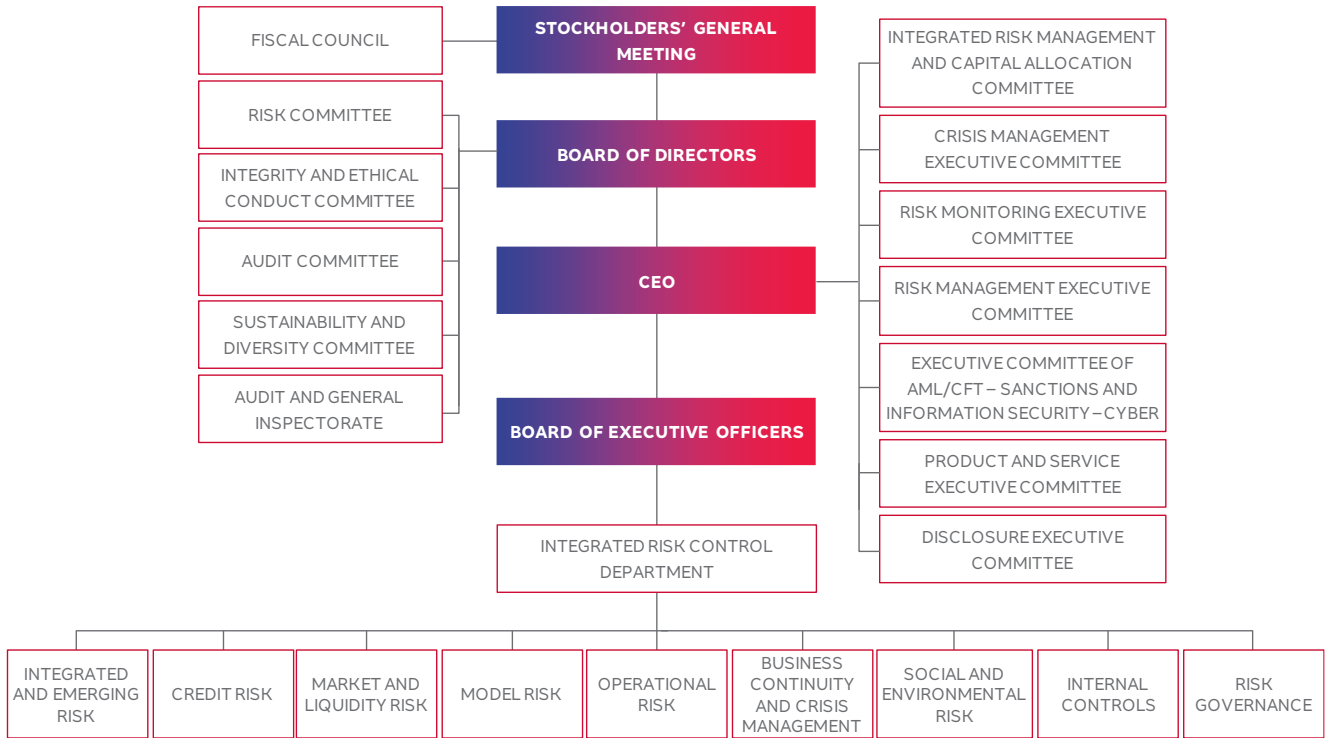
The risk management structures also includes, with the Executive Committees of: a) Risk Monitoring, b) Risk Management, c) AML/CFT – Sanctions and Information Security – Cyber. In addition, it also is supported by the Products and Services Executive Committee and the Executive Committees in business areas which, among other duties, suggest exposure thresholds for their respective risks and prepare mitigation plans to be submitted for evaluation by the Risk Committee and deliberation by the Board of Directors.

Additionally, the Risk Committee is responsible for evaluating the Organization's risk management framework and, eventually, to propose improvements, as well as advising the Board of Directors in the performance of its duties in the management and control of risks and capital.

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The Organization Board of Directors approved the information disclosed in this report regarding the Risk and Capital management structure description.

It is worth highlighting the Integrated Risk Control Department (DCIR), responsible for implementing risk control and capital allocation through solid practices and certification of the existence, execution and effectiveness of controls which ensure acceptable risk levels in the Organization’s processes, on an independent, consistent, transparent and integrated manner. This Department is also responsible for complying with the Central Bank of Brazil rules for risk management activities.



3. Risk and Capital Management Governance

All the levels of the Organization participate in its corporate governance with the aim of optimizing the company's performance and safeguard stakeholders' interests, also facilitating access to capital, adding value to the Organization and contributing to its sustainability, mainly through transparency, equal treatment and accountability. This framework complies with guidelines laid out by the Board of Directors.

In this context, risk and capital are managed through collegiate decisions based on specific committees. This process relies on the participation of all corporate governance segments, ranging from Senior Management to the diverse business, operational, product and service areas.

Board of Directors	<ul style="list-style-type: none"> ■ Approves and revises risk management strategies, risk and capital management structures and policies, including risk appetite and exposure limits by types of risk, as well as the stress testing program, its results, scenarios and assumptions applied.
Risk Committee	<ul style="list-style-type: none"> ■ Evaluates risk appetite levels set in the Risk Appetite Statement (RAS) and the strategies for its management; ■ Oversees the CRO's activities and performance; ■ Supervises the fulfillment of the RAS terms by the Senior Management; ■ Evaluates the levels of adherence of the risk management processes structure to established policies; ■ Proposes recommendations to the Board of Directors on policies, strategies and limits for risk and capital management, stress testing program, business continuity policy, capital and liquidity contingency plans, and capital planning.
Audit Committee	<ul style="list-style-type: none"> ■ Revises the integrity of financial statements; ■ Recommends to the Board of Executive Officers corrections or improvements to policies, practices and procedures identified within the scope of its duties.
Integrity and Ethical Conduct Committee	<ul style="list-style-type: none"> ■ Ensures that infractions and violations of corporate and sectoral Codes of Ethical Conduct; and breaches of anti-corruption and competitive conduct are followed by applicable disciplinary actions, regardless of hierarchical level, and without prejudice to applicable legal penalties; ■ Ensures that the Board of Directors is aware of matters that may have a significant impact on the Organization image; ■ Forwards for deliberation of the Board of Directors, the subjects related to the Organization Directors.
Audit and General Inspectorate	<ul style="list-style-type: none"> ■ Certifies the business risk management process; ■ Ensures compliance with policies, rules, standards, procedures and internal and external regulations; ■ Recommends improvements to the internal control environment.

Executive Committee

Disclosure	<ul style="list-style-type: none"> ■ Supports Senior Management in evaluating the disclosure of transactions and relevant information related to the Organization; ■ Evaluates reports to ensure they are prepared in accordance with controls and procedures defined for their preparation.
Integrated Risk Management and Capital Allocation (COGIRAC)	<ul style="list-style-type: none"> ■ Validates and submits for evaluation by the Risk Committee and deliberation of the Board of Directors the appetite and exposure limits by types of risk; ■ Validates and submits for evaluation by the Risk Committee and deliberation by the Board of Directors the risk and capital management policies; ■ Validates and submits for evaluation by the Risk Committee and deliberation by the Board of Directors the stress testing program, including the parameters, scenarios, its probabilities, assumptions, its results and the management mitigating actions for the impacts; ■ Ensures compliance with risk and capital management policies; ■ Monitors risk profile, performance, capital requirements and sufficiency exposure versus limits and risk control; ■ Validates and submits the Annual Reports of Internal Controls for evaluation by the Risk Committee and deliberation of the Board of Directors; ■ Assesses the effectiveness and compliance of Internal Controls System; ■ Evaluates the action plans that will mitigate/address the very high level residual risks and/or the high level residual risks with action plan over than 12 months.
Risk <ul style="list-style-type: none"> – Risk Monitoring – Risk Management 	<ul style="list-style-type: none"> ■ Guarantee policies compliance and ensure effectiveness of the risk and capital management; ■ Approve and follow up consideration of definitions, criteria and procedures to be adopted, in addition to methodologies, models and tools used in management and measurement of risk and capital; ■ Approve and monitor information on risk exposure level, both consolidated and by area; ■ Evaluate and submit policy, structure, roles and responsibilities, risk appetite, adequacy assessment and capital plan to COGIRAC validation; ■ Monitor market movements and developments, evaluating the implications and risks and capital; ■ Approve action plans that will mitigate/address high residual risks with implementation date of up to 12 months; ■ To be aware of the rules, guidelines and orientations issued by national and international regulatory bodies; ■ To be aware of the work performed by internal and external audits related to risk management.
Crisis Management	<ul style="list-style-type: none"> ■ Evaluates the crisis event and deliberates on possible actions to mitigate and contain the crisis event.

AML/CFT – Sanctions and Information Security – Cyber	<ul style="list-style-type: none"> ■ Guarantees policies compliance and ensure the effectiveness of the corporate security, anti-money laundering and counter-terrorism financing processes; ■ Evaluates and submit to COGIRAC validation the policy and respective guidelines related to corporate security, information governance, anti-money laundering and counter-terrorism financing.
Product and Service	<ul style="list-style-type: none"> ■ Ensures that all risks have been pointed out and are acceptable, resolving on the creation, change, suspension or discontinuity of products and services, taking into consideration the customer's profile.
Collection and Recovery	<ul style="list-style-type: none"> ■ Resolves on proposals for the renegotiation of debts overdue or with potential risk loss; ■ Approves corporate rules, procedures, measures and guidelines related to the Credit Collection and Recovery; ■ Defines limits of authorization to approve debt renegotiation.
Credit	<ul style="list-style-type: none"> ■ Makes collegiate decisions to verify limits or operations involving credit risk, proposed by Organization's Premises and Companies.
Treasury for Asset and Liability Management	<ul style="list-style-type: none"> ■ Defines strategies for managing assets and liabilities based on an analysis of the domestic and international political and economic scenarios and for pricing asset, liability and derivative operations with Organization customers; ■ Evaluates external asset hedging strategies; ■ Validates the proposed risk exposure tolerance limits and liquidity rule and submit them for approval to the Integrated Risk Management and Capital Allocation Committee.
Treasury	<ul style="list-style-type: none"> ■ Defines Treasury strategies to optimize results based on the analysis of domestic and international economic and political scenarios; ■ Validates and submits for the Integrated Risk Management and Capital Allocation Committee's approval of the proposals for tolerance thresholds of exposure to Treasury risks; ■ Monitors results, behaviors and risks of the Trading Portfolio, the mismatches of assets and liabilities, and the clients' portfolio.
Strategic Planning	<ul style="list-style-type: none"> ■ Evaluates positions on the strategy risk and defines actions for its mitigation.

Aiming at the search for the best practices of Governance and Corporate Conduct within the highest ethical standards and principles, it has been created The Compliance, Conduct and Ethics Department (DCCE), whose mission is to independently ensure that the Organization is aligned with its principles, legislation and regulations, contributing to the sustainable and ethical development of its business, society in general and the continuous improvement of Risk Management.

3.1. Stress Testing Program

The risk management framework relies on a stress-testing program, which is defined as a coordinated set of processes and routines, endowed with its own methodologies, documentation and governance, with the main objective of identifying potential institution's vulnerabilities. The stress tests are forward looking exercises of potential impacts of adverse events and circumstances on the capital, liquidity or in portfolio value within the Organization.

In the stress test program, scenarios are prepared by the Studies and Economic Research Department – DEPEC and discussed with Business, Integrated Risk Control Department (DCIR), Controllership Department, among other areas. Those scenarios and results are discussed and approved by a specific collegiate body for this topic, being validated by COGIRAC. Subsequently, they are submitted for evaluation by the Risk Committee and deliberation of the Board of Directors that besides scenarios and stress tests results is responsible for approving the program and the guidelines to be followed.

Stress tests are used as a tool for risk management, in the identification, measurement, evaluation, monitoring, control and mitigation of the institution's risks. The stress tests results are inputs for assessing the institution's capital and liquidity levels, for the preparation of respective contingency plans, for the capital adequacy assessment and for the recovery plan. Likewise, the results are taken into account in the decisions related to strategic guidelines, in the definition of risk appetite levels and limits applied to risk and capital management, as well as in the definition of governance actions with the objective of mitigating identified risks, aligning them with the Organization's risk appetite.

3.2. Capital Management

3.2.1. Capital Management Corporate Process

The Capital Management Corporate Process provides the conditions required to meet the Organization's strategic goals and support the risks inherent to its activities. Thus, adopts a prospective approach when developing its capital plan, forecasting capital needs for the next three years, as well as, setting procedures and contingency actions that might be considered in adverse scenarios.

The Organization manages capital, in line with the strategic guidelines, involving the control and business areas, in accordance with the guidelines of the Board of Executive Officers and Board of Directors. The capital management governance structure, the Internal Capital Adequacy Assessment Process (ICAAP) and the Recovery Plan are comprised of Commissions, Committees and have the highest level on the Board of Directors.

The Controllership Department is responsible to comply with the determinations of the Central Bank of Brazil, related to capital management activities and support the Senior Management by providing analyses and projections of capital requirements and availability, identifying threats and opportunities that help plan towards the sufficiency and optimization of capital levels.

The Organization has also a Recovery Plan, which is delivered to the Central Bank of Brazil in December of each year, approved by the Board of Directors, complying with CMN Resolution 4,502 (June 30, 2016), which establishes procedures for preparation of recovery plans, aiming maintenance of capital and liquidity levels in situations of severe stress in systemically important banks.

3.2.2. Capital Adequacy

Total Capital adequacy is checked daily, aiming to make sure the Organization maintains a solid capital base in normal situations or in extreme market conditions and meets the regulatory requirements.

According to a requirement of the Central Bank of Brazil determination, financial institutions must maintain, permanently, capital (Total Capital) and additional CET1 buffer requirements (Conservation, Systemic and Countercyclical) compatible with the respective risk activities. They are represented by Risk-Weighted Assets (RWA), which is calculated based on, at least, the sum of credit, market and operational risk installments.

Additionally, the Organization must maintain enough capital to meet the interest rate risk from operations not included in the Trading Book (interest rate risk in banking book).

3.2.3. Capital Sufficiency

The capital management process is in line with the strategic planning and considers an outlook, which anticipates any changes in the economic and business environment conditions in which the Organization operates.

The Organization's capital management aims to ensure, in a permanently way, a solid capital composition in a permanent way to support the development in its activities and ensure appropriate coverage of all risks involved. The Organization maintains a managerial capital margin (buffer), which is added to the minimum regulatory requirements.

The management buffer definition is aligned to the market practices and regulatory requirements, observing aspects such as additional impacts generated by stress scenarios, qualitative risks and risks not captured by the regulatory model.

The Organization's regulatory capital sufficiency is periodically demonstrated by calculating the Basel Ratio (Total Capital Ratio), Tier I Ratio and Common Equity Tier I Ratio.

Capital Forecast

The Capital Management area is responsible for making simulations and projections of the Organization's capital, in accordance with the strategic guidelines, the impacts arising from variations and trends of the economic and business environment as well as regulatory changes. The results from the projections are submitted to the Senior Management, pursuant to the governance established.

Projections for the next three years show adequate levels of Capital Ratios, considering the incorporation of net profits and the evolution for need of capital.

3.3. Overview of Risk-Weighted Assets (RWA)

In Brazil, the Central Bank of Brazil determines through CMN Resolution 4,193/13⁶ that institutions must permanently maintain minimum capital compatible with the risks of the operations carried out by them, which refers to the calculation of the capital requirement.

⁶ As of 01/03/2022, CMN Resolution 4,193/13 was revoked by CMN Resolution 4,958/21

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The financial institutions activities risk is represented by the calculation of RWA. The RWA amount is defined by the sum of the following installments:

$$RWA = RWA_{CPAD} + RWA_{OPAD} + RWA_{MPAD/MINT}$$

- **RWA_{CPAD}** – Risk-weighted assets portion relating to credit risk, standard approach;
- **RWA_{OPAD}** – Risk-weighted assets portion relating to operational risk, standard approach;
- **RWA_{MPAD/MINT}** – Risk-weighted assets portion relating to market risk, standard approach/ internal approach.

The following table provides an overview of total RWA used to calculate minimum capital requirements, as established in art. 4 of CMN Resolution 4,193/13.

Overview of Risk-Weighted Assets – RWA (OV1)

R\$ million	RWA		Minimum capital requirements ⁽²⁾
	a	b	c
	Dec-21	Sep-21	Dec-21
0 Credit Risk - standardised approach (SA)	873,737	846,972	69,899
2 Credit Risk ⁽¹⁾	741,033	709,950	59,283
6 Counterparty credit risk (CCR)	27,976	33,741	2,238
7 Of which: standardised approach for counterparty credit risk (SA-CCR)	21,429	21,704	1,714
7a Of which: CEM approach	-	-	-
9 Of which: other CCR	6,546	12,037	524
10 Increase related to the adjustment associated with the variation in the derivatives value due to the credit valuation adjustment (CVA)	15,148	14,723	1,212
12 Equity investments in funds – look-through approach	3,777	3,991	302
13 Equity investments in funds – mandate-based approach	-	-	-
14 Equity investments in funds – fall-back approach	1,771	703	142
16 Securitisation exposures in banking book	502	580	40
25 Amounts for exposures not deducted from total capital calculation ⁽²⁾	83,530	83,285	6,682
20 Market risk⁽³⁾	7,995	15,425	640
21 Of which: standardised approach (SA)	8,193	19,282	655
22 Of which: internal model approach (IMA)	7,995	13,529	640
24 Operational risk	71,594	71,594	5,727
27 Total (2+6+10+12+13+14+16+25+20+24)	953,326	933,991	76,266

(1) Does not include Credit Risk and Counterparty operations.

(2) As established in art. 4 of Resolution 4,193/13.

(3) Composed of a maximum between 80% of the standardised model (SA) and internal model (IMA), according to Circulars 3,646 and 3,674.

Comments

Credit Risk: Increased capital requirement is due to the growth of the Credit Portfolio.

Market Risk: Use of the internal model, unlike the previous quarter, with variation mainly due to decreased in exposure to foreign currency coupon.

Operational Risk: No variation (half-yearly recalculation).

4. Linkages Between Financial Statements and Regulatory Exposures

The regulatory scope for assessing capital sufficiency, since January 2015, is the Prudential Conglomerate, according to the Central Bank of Brazil's regulations. It is worth mentioning, however, that the other companies that are part of the Economic-Financial Consolidated are also part of the Organization's risk management process. For these companies, all the risks inherent to their activities are evaluated, with emphasis on the companies that are part of the Grupo Bradesco Seguros, which also follow regulatory capital standards, either by the Superintendence of Private Insurance (Susep) rules or by the National Regulatory Agency for Private Health Insurance and Plans (ANS), depending on the activity field of each.

The following table allows to identify the differences between the scope published on the financial statements (column a) and the scope of regulatory consolidation (column b). Columns "c" to "g" details the amounts by risk categories.

Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories (LI1)

	a	b	c	d	e	f	g
	Dec-21						
	Carrying values of items:						
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
R\$ million							
\\ Assets							
Cash and cash equivalent	21,284	20,593	20,593	-	-	7,952	-
Financial instruments	1,540,106	1,243,712	1,165,779	70,133	1,414	117,619	6,386
Leases	3,284	3,284	3,284	-	-	-	-
Provision for Expected Credit Loss Associated with Credit Risk	(45,107)	(45,106)	(45,106)	-	-	-	-
Deferred tax assets	85,766	81,165	74,099	-	-	-	7,066
Investments in associates and Jointly Controlled Entities	7,594	48,660	34,437	-	-	-	14,222
Premises and equipment	20,830	10,778	10,778	-	-	-	-
Intangible assets	36,328	31,164	-	-	-	-	31,164
Depreciation and amortization	(36,153)	(29,088)	(6,254)	-	-	-	(22,834)
Provisions for Impairment of Assets	(3,957)	(3,724)	(2,082)	-	-	-	(1.641)
Others Assets	23,691	37,360	37,119	-	-	-	242
Total assets ⁽¹⁾	1,653,666	1,398,798	1,292,647	70,133	1,414	125,570	34,605
\\ Liabilities							
Deposits and other financial instruments	1,144,344	1,194,190	16,569	236,381	-	59,074	941,240
Provisions	329,540	30,321	3,692	-	-	2,107	26,629
Deferred income tax assets	5,595	5,071	-	-	-	-	5,071
Others Liabilities	26,352	22,084	-	-	-	-	22,084
Total liabilities	1,505,831	1,251,666	20,261	236,381	-	61,181	995,024

(1) The sum of the values reported in columns "c" to "g" may differ from the value reported in column "b", since the values considered for the purposes of prudential regulation may be associated with more than one risk category.

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The amounts considered in the financial statements (column “a” of table LI1) are not reconciled with the values reported in the regulatory consolidation (column “b” of table LI1), mainly due to the non-consolidation of non-financial companies (with emphasis on the companies that are part of the Grupo Bradesco Seguros) in the regulatory consolidated.

The LI2 table provides information on the main sources of differences between the column “b” amounts of table LI1 and the exposure amounts.

Main sources of differences between regulatory exposure amounts and carrying values in financial statements (LI2)

		a	b	c	d	e
		Dec-21				
		Items subject to:				
		Total	Credit risk framework	Counterparty credit risk framework	Securitisation framework	Market risk framework
R\$ million						
1	Asset carrying value amount under scope of regulatory consolidation	1,364,194	1,292,647	70,133	1,414	125,570
2	Liabilities carrying value amount under regulatory scope of consolidation	256,643	20,261	236,381	-	61,181
3	Total net amount under regulatory scope of consolidation	1,620,836	1,312,908	306,514	1,414	186,752
4	Off-balance sheet amounts	122,192	122,192	-	-	-
5	Differences in valuations	-	-	-	-	-
6	Other differences	52,823	-	52,823	-	-
7	Exposure amounts considered for regulatory purposes	1,795,850	1,435,100	359,337	1,414	186,752

In the line “Other Differences” of the table LI2 considers non-accounting exposures subject to counterparty credit risk (SA-CCR approach).

The following table presents information on the elements considered in the calculation of prudential adjustments, used in the financial instruments process pricing measured at market value, as provided in CMN Resolution 4,277/13.

Prudent Valuation Adjustments – PVA (PV1)

		a	b	c	d	e	f	g	h
		Dec-21							
		Equity	Interest rates	Foreign exchange	Credit	Commodities	Total	Of which: In the trading book	Of which: In the banking book
R\$ thousand									
1	Closeout uncertainty, of which:	-	-	-	-	-	-	-	-
3	Closeout cost	-	-	-	-	-	-	-	-
4	Concentration	-	-	-	-	-	-	-	-
5	Early termination	-	-	-	-	-	-	-	-
6	Model risk	23	-	-	-	-	23	23	-
7	Operational risk	-	-	-	-	-	-	-	-
8	Investing and funding costs	-	-	-	-	-	-	-	-
9	Unearned credit spreads	-	-	-	-	-	-	-	-
10	Future administrative costs	-	-	-	-	-	-	-	-
11	Other	-	-	-	-	-	-	-	-
12	Total adjustment	23	-	-	-	-	23	23	-

Regarding to pricing, the Organization has a careful process and in line with the principles determined by CMN Resolution 4,389/14. The details of this process are described in item 12.3.7 Financial Instrument Pricing.

5. Capital Composition

According to the rules established by CMN Resolution 4,192/13⁷, the Total Capital of a financial institution is represented by the sum of Tier I and Tier II Capital and will be used in determining its operational limits.

Tier I Capital: seeks to ensure the financial institution solvency, ensuring the continuity of its operation. With the entry into Basel III force, Tier I Capital was divided into two new subgroups:

- **Common Equity Tier I (CET1):** basically composed of shares and reserves;
- **Additional Capital:** basically composed of instruments similar to hybrid capital instruments and debts.

Tier II Capital: constitutes contingent capital that can be converted into effective capital in the insolvency event.

5.1. Capital Breakdown

The following are details on the required Total Capital of the Prudential Conglomerate, under the regulatory approach.

R\$ million	Dec-21	Sep-21	Dec-20
\\ Tier I Capital	130,565	128,401	118,282
Common Equity Tier I	119,107	118,453	108,982
Shareholders' Equity	147,121	147,606	143,703
Non-controlling Interest	(27)	(341)	164
Prudential Adjustments ⁽¹⁾	(27,987)	(28,812)	(34,885)
Additional Capital	11,459	9,948	9,300
Subordinated Debt (according to CMN Resolution 4,192/13)	11,459	9,948	9,300
\\ Eligible Instruments for Tier II Capital	19,671	13,371	17,442
Subordinated Debt (according to CMN Resolution 4,192/13)	19,671	13,366	16,274
Subordinated Debt (previous to CMN Resolution 4,192/13)	-	5	1,168
\\ Total Capital	150,236	141,773	135,724

(1) According to CMN Resolution 4,192/13.

For more information and details, see “CC1 – Composition of regulatory capital”, “CCA – Main features of regulatory capital instruments” and “CC2 – Reconciliation of regulatory capital to balance sheet”, available on the Investor Relations website (bradescori.com.br – Market Information – Risk Management – Exhibits Pillar 3).

⁷ As of 01/03/2022, CMN Resolution 4,192/13 was revoked by CMN Resolution 4,955/21.

6. Macprudential Indicators

As defined by BCB Resolution 171/21, the Organization discloses the calculating of information for the assessment of global systemic importance (IAISG), calculated on a consolidated basis, which establishes an additional capital requirement for financial institutions classified as systemically important.

Disclosure of Global Systemically Important Bank – GSIB Indicators (GSIB1)

For more information and details, see “GSIB1: Disclosure of Global Systemically Important Bank – GSIB Indicators”, available on the Investor Relations website (bradescom.br – Market Information – Risk Management – Exhibits Pillar 3) within 90 (ninety) days from the data base December 31, according to the deadline defined by BCB Resolutions 54/20 and 171/21.

The table CCyB1 provides an overview of the geographic distribution of credit risk exposures to the private non-banking sector for the purpose of calculating the countercyclical buffer, with the calculation methodology applied according to the rules of BCB Circular 3,769/15.

Geographical distribution of credit exposures used in the countercyclical buffer (CCyB1)

	a	b	c	d	e
		Dec-21			
	Countercyclical capital buffer rate	Exposure values and/or risk-weighted assets used in the computation of the countercyclical capital buffer		Bank-specific countercyclical capital buffer rate	Countercyclical buffer amount
R\$ Million		Exposure values	Risk-weighted assets		
Geographical breakdown					
BRAZIL (BR)	0.0%	1,303,581	715,497		-
LUXEMBOURG (LU)	0.5%	10,048	6,746		34
OTHER COUNTRIES	0.0%	42,616	20,117		-
Sum		1,356,245	742,360		
\\ Total		1,356,245	742,360	-	34

Comments

The Organization (prudential consolidated) has in its portfolio, exposure to 25 different countries. Of these, only 1 has a Countercyclical Capital buffer (ACPPi) - Luxembourg - which represents 0.9% of the Credit RWA for private non-banking sector (RWACPrNB) in December/21. The Organization still has exposure to "Other Countries" that do not have ACCPi, representing 2.7% of the amount of RWACPrNB, which are: Cayman Islands (1.4%), United States (0.5%), United Kingdom (0.2%) and Other Countries (0.7%). Regarding the quarter variation, there was an increase of 3.8% in relation to 3Q21, with Brazil concentrating 96.4% of the Credit RWA.

7. Leverage Ratio (LR)

In compliance with Basel Committee’s recommendations, the Leverage Ratio (LR) started on October 2015. This ratio, combined with Total Capital Ratio, limits the risk exposure level assumed by financial institutions. This index evaluates leverage using only exposure values with no risk weighting.

In 11/30/2017, the National Monetary Board published the Resolution 4,615, which defined the minimum level for Leverage Ratio in 3% effective as of 01/01/2018.

The following table details the adjustments made on the total asset value to obtain the Total Exposure used in calculating the Leverage Ratio, as defined according to Circular 3,748/15.

Summary comparison of accounting assets vs Leverage Ratio exposure measure (LR1)

R\$ million		Dec-21
1	Total consolidated assets as per published financial statements	1,653,666
2	Adjustment arising from accounting consolidation differences	(250,610)
1+2	Total assets of individual balance sheet or of the prudential conglomerate, in the case of LR calculation on consolidated bases	1,403,056
4	Adjustments for derivative financial instruments	1,602
5	Adjustment for repurchase transactions and asset loans	23,193
6	Adjustment for off-balance sheet items	133,505
7	Other adjustments	(30,937)
8	Total Exposure	1,530,419

Comments

The Total Exposure decrease in 4Q21 compared to 3Q21 was mainly due to the decrease in Total Assets of Balance Sheet.

The LR2 table provides a detailed breakdown of the components of the leverage ratio denominator, as detailed in Circular 3,748/15.

Leverage Ratio common disclosure template (LR2)

R\$ million	a	b	
	Dec-21	Sep-21	Dec-20
\\ On-balance sheet exposures			
1 Balance sheet items other than derivative financial instruments, securities received on loan and resales for settlement under repurchase transactions	1,322,440	1,331,250	1,139,502
2 Adjustments for equity items deducted in calculating Tier I	(33,048)	(34,004)	(39,021)
3 Total on-balance sheet exposures	1,289,392	1,297,246	1,100,480
\\ Transactions using Derivative Financial Instruments			
4 Replacement value for derivatives transactions	18,438	18,127	18,588
5 Potential future gains from derivatives transactions	7,988	7,552	9,125
7 Adjustment for daily margin held as collateral	-	-	-
8 Adjustment related to the deduction of the exposure related to qualified central counterparty (QCCP) in derivative transactions on behalf of clients in which there is no contractual obligation to reimburse due to bankruptcy or default of the entities responsible for the settlement and compensation of transactions	(9,984)	(9,491)	(7,524)
9 Reference value of credit derivatives	1,602	1,099	1,304
10 Adjustment of reference value calculated for credit derivatives	-	-	-
11 Total exposure for derivative financial instruments	18,044	17,287	21,494
\\ Repurchase Transactions and Securities Lending			
12 Investments in repurchase transactions and securities lending	67,206	90,959	179,186
13 Adjustment for repurchases for settlement and creditors of securities lending	-	-	-
14 Amount of counterparty credit risk	4,563	4,672	1,234
15 Amount of counterparty credit risk in transactions as intermediary	-	-	-
16 Total Exposure on Repurchase Transactions and Securities Lending	71,769	95,632	180,421
\\ Off-balance sheet items			
17 Reference value of off-balance sheet transactions	411,348	395,393	352,905
18 Adjustment for application of FCC specific to off-balance sheet transactions	(260,134)	(247,975)	(218,491)
19 Total off-balance sheet exposure	151,214	147,419	134,415
\\ Capital and Total Exposure			
20 Tier 1 capital	130,565	128,401	118,282
21 Total exposure	1,530,419	1,557,583	1,436,809
\\ Leverage ratio			
22 Leverage Ratio	8.5%	8.2%	8.2%

Comments

The increase of the Leverage Ratio in 0.3 p.p in relation to the previous quarter was due to increase in Tier 1 Capital and decrease in Total Exposure.

8. Liquidity Risk

The Liquidity Risk is represented by the possibility of the institution not being able to efficiently meet its obligations, without affecting its daily operations and incurring significant losses, as well as the possibility of the institution not being able to trade a position at market price due to its high value when compared to the usually traded volume or due to some market discontinuity.

Knowledge and monitoring of this risk is crucial to enable the Organization to settle operations in a timely and safe manner.

8.1. Liquidity Risk Management Process

Liquidity risk management is carried out by the Organization in a corporate manner and permeates all governance layers. The following are the departments' attributions that stand out in the liquidity risk management and control:

<p>Treasury Department</p>	<ul style="list-style-type: none"> ■ Performs daily cash and liquidity management; ■ Proposes limits for liquidity risk control indicators, as well as levels for alert flags; ■ Complies with the strategic and operational limits established; ■ Reports matters related to the liquidity management of the Treasury for Asset and Liability Management Executive Committee.
<p>Integrated Risk Control Department</p>	<ul style="list-style-type: none"> ■ Proposes the liquidity and concentration control metrics, paying attention to their due approval in the established governance process; ■ Calculates and disseminate the liquidity monitoring and control indicators in the established periodicities; ■ Provides simulation tools for the main indicators implemented; ■ Reports matters related to the control and monitoring of liquidity risk in commissions and executive committees where the topic is addressed.
<p>Support Areas (Shares and Custody Department, International and Exchange Department and Controllership Department)</p>	<ul style="list-style-type: none"> ■ Perform cash flow projection for liquidity monitoring, including intraday; ■ Prepare the expected cash flows up to the 12-month horizon and refer to the areas of interest; ■ Check and ensure the consistency, integrity and completeness of the database made available daily to liquidity risk managers and controllers; ■ Provide cash management information to Treasury Department, as well as any significant changes in the Conglomerate Banks reserves levels; ■ Provide management information about mismatch maps available to the Treasury Department.

Policies and Standards

The liquidity risk management process is comprised of policies and standards that establish diversification criteria related to Organization's financing sources.

The Liquidity Risk Management Policy ensures that there are standards, procedures and controls that guarantee the Organization an adequate liquidity level and diversification of its funding.

In turn, the Liquidity Risk Standard for the Prudential Conglomerate describes the Organization's procedures and controls for liquidity risk, including controlling the concentration of funding by product and counterparty.

On the Organization's executive committees are reported product funding concentrations, counterparty and terms.

8.1.1. Control and Monitoring

The Organization's liquidity risk management is carried out through tools developed on robust platforms and validated by the independent areas of the Organization. Among the main metrics and indicators considered in the liquidity risk framework, it is highlight:

- **Liquidity Coverage Ratio (LCR):** consists of verifying the liquid instruments sufficiency to honor the Organization's net cash outflows in the next thirty days in a stress scenario;
- **Net Stable Funding Ratio (NSFR):** consists of verifying the structural funding sufficiency to finance the long-term assets of the Organization's balance sheet;
- Deposit losses for different time horizons;
- Funding concentration maps in different views (product, term and counterparty);
- Integrated stress exercises which different risk dimensions are addressed.

For the main metrics, limits were established, which can be strategic (approved up to the level of the Board of Directors) or operational (approved by the Executive Committee), based on flags, which trigger different levels of governance according to the percentage of use (consumption) of their respective limits.

8.1.2. Liquidity Risk Mitigation

The governance established for the liquidity risk management includes a series of recommendations for mitigating liquidity risk, among the main strategies, the following stand out:

- Financing diversification in counterparty, product and term;
- Adoption of managerial liquidity limits, in addition to those required by the regulator;
- Prior products analysis that may affect liquidity before implementation;
- Portfolio liquidity stress simulations.

8.1.3. Stress Tests

Due to the dynamics and criticality of this topic, the management and liquidity risk control must take place on a daily basis and be based on stress scenarios. Thus, the main metric used to monitor the liquidity risk of the Prudential Conglomerate is the Liquidity Coverage Ratio (LCR), which measures the liquid resources sufficiency to honor commitments in the next thirty days considering a stress scenario. Therefore, daily management is already carried out through stress testing.

Anyway, in addition to LCR and other monitoring metrics, simulations of long-term stress scenarios are carried out, within the integrated stress test program (ICAAP for example), to also assess a possible liquidity indicators deterioration for different time horizons.

8.1.4. Contingency Plan

According to Art. 38, item II, of BCB Resolution 4,557 of February 23, 2017, all institutions must have a liquidity contingency plan. The Organization's liquidity contingency plan covers the following points:

- Crisis management group;
- Main responsibilities of the crisis management group;
- Monitoring indicators;
- Crisis mitigation actions;
- Plan review frequency.

8.1.5. Internal Reporting

Internal communication about liquidity risk, both between departments and between the different layers of internal governance is through internal reports and committees involving both areas (Treasury and DCIR) and the Organization's Senior Management.

Additionally, reports are distributed daily to the areas involved in management and control, as well as to Senior Management. This process comprises several analytical instruments used to monitor liquidity, such as:

- Daily distribution of liquidity control instruments;
- Automatic intra-day update of the liquidity reports for appropriate management by the Treasury Department;
- Preparation of reports with past behavior and future simulations based on scenarios;
- Daily verification of compliance with minimum liquidity levels;
- Preparation of further reports where the funding concentrations by sort of product, maturity and counterparty are presented;
- Weekly reports to the Senior Management, showing the behavior and expectations related to the liquidity situation.

The liquidity risk management process also has an alert system that selects the appropriate reporting level according to the percentage of use of the established limits. Thus, the lower the liquidity ratio, the higher Organization levels who receive the reports.

8.2. Liquidity Coverage Ratio (LCR)

The Liquidity Coverage Ratio (LCR) aims to ensure that the Organization maintains a sufficient level of liquid assets to cover liquidity needs on an eventual stress scenario. The LCR is the ratio between the stock of High Quality Liquid Assets (HQLA) and total net cash outflow, calculated based on a generic stress scenario.

The following formula shows the main components of the indicator:

$$LCR = \frac{HQLA}{\text{Cash Outflows} - \text{Cash Inflows} *} \geq \%Required$$

*Limited to 75% of outflows

In accordance with the LCR implantation schedule defined by Basel, the level of the ratio between high quality liquid assets and total net cash outflows must comply with the following schedule:

Year	2016	2017	2018	As of 2019
% Required	70%	80%	90%	100%

The stress scenarios parameterization was conducted by the Regulator to capture idiosyncratic and market shocks, considering the period of thirty days. The items below show some of the shocks included in the methodology:

- The partial loss of retail and uncollateralized wholesale funding, as well as short-term funding capacity;
- The additional outflow of funds, contractually foreseen, due to the downgrading of the institution’s credit rating by up to three levels, including eventual additional collateral requirements;
- An increase in the factors’ volatility that impact collateral quality or the potential future exposure of derivative positions, resulting in the application of larger collateral discounts or a call for additional collateral or in other liquidity requirements;
- Higher withdrawals amounts than expected from credit/liquidity lines granted; and
- The potential need to repurchase debt or honor non-contractual obligations in order to mitigate reputational risk.

High Quality Liquid Assets (HQLA)

HQLA are assets that maintain their market liquidity in periods of stress and that meet the minimum requirements established by the Central Bank of Brazil, such as, among others, being free of any legal impediment or restriction; suffering little or no loss in market value when converted into cash; having a low credit risk; easy and accurate pricing; and being traded in an active and important market, with little difference between the purchase and sale price, high traded volume and a large number of participants, among other criteria. These assets are subject to weighting factors, which may reduce their value, for example in accordance with the risk rating of their issuer or the historic variation in their market price, among other requirements.

Cash Outflows and Inflows

Cash outflows are the result of a reduction in deposits and funding; the maturity of securities issued; scheduled contractual obligations for the next thirty days; margin adjustments and calls in derivative operations; the utilization/withdrawal of credit and liquidity lines granted by the Bank; and contingent cash outflows.

Cash inflows for the next thirty days correspond to the expected receipt of loans and financings; deposits; securities; and margin adjustments and easing in derivative operations.

The LIQ1 table presents the information of Liquidity Coverage Ratio – LCR indicator, regarding cash outflows and cash inflows, as well as its available high-quality liquid assets (HQLA), as measured and defined according to Circular 3,749/15.

Liquidity Coverage Ratio – LCR (LIQ1)

	a		b			
	Dec-21 ¹		Sep-21 ²		Dec-20 ³	
R\$ thousand	Unweighted Amount ⁽⁴⁾	Weighted Amount ⁽⁵⁾	Unweighted Amount ⁽⁴⁾	Weighted Amount ⁽⁵⁾	Unweighted Amount ⁽⁴⁾	Weighted Amount ⁽⁵⁾
\\ High Quality Liquid Assets (HQLA)						
1 Total High Quality Liquid Assets (HQLA)		177,885,181		193,425,427		244,827,538
\\ Cash outflows						
2 Retail funding, of which:	332,878,995	31,000,878	335,554,481	30,874,301	325,354,419	29,651,389
3 Stable funding	168,845,964	8,442,298	172,924,473	8,646,224	170,521,207	8,526,060
4 Less stable funding	164,033,031	22,558,580	162,630,008	22,228,077	154,833,212	21,125,329
5 Non-collateralized wholesale funding, of which:	244,007,852	96,469,966	239,346,864	96,275,280	235,478,140	97,681,458
6 Operating deposits (all counterparties) and affiliated cooperative deposits	15,517,776	775,889	14,504,668	725,233	12,635,960	631,798
7 Non-operational deposits (all counterparties)	228,310,153	95,514,154	224,689,262	95,397,113	220,227,439	94,434,918
8 Non-collateralized obligations	179,923	179,923	152,934	152,934	2,614,742	2,614,742
9 Collateralized wholesale funding		3,435,073		4,467,153		4,581,792
10 Additional requirements, of which:	128,955,006	15,742,405	130,899,517	15,693,813	109,487,521	14,836,352
11 Related to exposure to derivatives and other collateral requirements	10,013,058	5,208,552	9,737,254	5,112,896	11,778,909	6,330,665
12 Related to funding losses through the issue of debt instruments	1,254,451	1,254,451	1,192,371	1,192,371	1,085,406	1,085,406
13 Related to lines of credit and liquidity	117,687,498	9,279,401	119,969,892	9,388,547	96,623,205	7,420,282
14 Other contractual obligations	37,670,084	35,552,953	36,906,126	34,942,453	36,339,264	34,400,518
15 Other contingent obligations	134,939,284	6,617,524	125,495,064	6,239,499	131,523,849	5,164,538
16 Total Cash Outflows		188,818,798		188,492,499		186,316,048
\\ Cash inflows						
17 Collateralized loans	86,149,418	2,290,542	101,767,628	2,736,070	201,944,617	1,425,648
18 Outstanding loans whose payments are fully up-to-date	36,543,661	23,122,824	32,811,440	20,752,001	28,197,590	16,599,016
19 Other cash inflows	44,199,210	34,625,477	40,546,181	32,051,141	38,376,788	31,043,722
20 Total Cash Inflows	166,892,289	60,038,844	175,125,249	55,539,212	268,518,995	49,068,386
		Total Adjust. Amount ⁽⁶⁾		Total Adjust. Amount ⁽⁶⁾		Total Adjust. Amount ⁽⁶⁾
21 Total HQLA		177,885,181		193,425,427		244,827,538
22 Total net cash outflows		128,779,954		132,953,286		137,247,662
23 Liquidity Coverage Ratio (LCR)		138.1%		145.5%		178.4%

(1) Calculated based on the simple daily average of the quarters (63 observations).

(2) Calculated based on the simple daily average of the quarters (65 observations).

(3) Calculated based on the simple daily average of the quarters (63 observations).

(4) Total balance of cash inflow/outflow item.

(5) Total balance of cash inflow/outflow item after application of weighting factors.

(6) Total balance of cash inflow/outflow item after application of weighting factors and limits.

The net assets (HQLA) amounted R\$ 177.9 billion on average in the 4Q21, versus R\$ 193.4 billion, on average, in the 3Q21. Related to the cash outflows, based on the regulatory stress scenario (item 16), about 67.51% are redemptions and non-renewal retail and wholesale funding without collateral (unsecured), as shown in items 2 and 5 in the table. Another relevant group refers to the item “Other contractual obligations” (item 14), which mainly includes the output streams of on lending operations, credit cards and trade finance. Regarding to cash inflows, corresponding to R\$ 60.0 billion on average in the 4Q21, the highlights are the receiving of credit operations (partial renewal) stand out, the inflows of Trade Finance operations, cash and redemptions of securities, besides the inflow of transfer and credit card operations.

8.3. Net Stable Funding Ratio (NSFR)

The Net Stable Funding Ratio (NSFR) aims to assess whether the Organization is financing its activities (assets) with sources of funding more stable (liabilities). NSFR corresponds to the ratio between Available Stable Funding (ASF) and the Required Stable Funding (RSF), which are defined according to the assets and liabilities structures of the institution that are weighted as per the Regulator definitions.

The following formula shows the main components of the indicator:

$$\text{NSFR} = \frac{\text{Available Stable Funding (ASF)}}{\text{Required Stable Funding (RSF)}} \geq 100\%$$

Available Stable Funding (ASF)

The available stable funding are represented by Liabilities and Net Equity, which are weighted as per its stability, and the resources considered more stable are determined mainly by the behavioral aspects of the clients, considering also its relationship with the institution, legal aspects and other implicit variables.

Required Stable Funding (RSF)

The required stable funding are determined according to the Balance Sheet assets and the other financial instruments, for example, credit limits and guarantees provided, which are weighted by aspects, related to the operation, maturity, counterparty, among others.

The following table provides details of a bank's NSFR and selected details of its NSFR components, according to Circular 3,869/17.

Net Stable Funding Ratio – NSFR (LIQ2)

	a	b	c		d	e	Dec-21	Sep-21
	Unweighted value by residual maturity ⁽¹⁾							
	No maturity	Less than six months	More or equal to six months and less than one year	More or equal to one year		Weighted value ⁽²⁾		Weighted value ⁽²⁾
R\$ thousand								
\\ Available Stable Funding (ASF)								
1 Capital	178,217,940	-	-	16,853,926	195,071,866	185,859,744		
2 Total Capital, gross of regulatory deductions	178,217,940	-	-	-	178,217,940	170,579,526		
3 Other capital instruments not included on line 2	-	-	-	16,853,926	16,853,926	15,280,218		
4 Retail funding, of which:	165,929,175	192,551,394	411,518	2,000,170	333,916,771	321,018,594		
5 Stable funding	98,250,070	80,024,373	-	-	169,360,721	165,704,957		
6 Less stable funding	67,679,105	112,527,021	411,518	2,000,170	164,556,049	155,313,636		
7 Wholesale funding, of which:	46,279,731	514,541,255	29,000,927	111,038,751	269,581,602	256,143,218		
8 Operating deposits and affiliated cooperative deposits	16,879,884	-	-	-	8,439,942	7,477,605		
9 Other wholesale funding	29,399,847	514,541,255	29,000,927	111,038,751	261,141,660	248,665,612		
10 Operations that the institution acts exclusively as an intermediary, assuming no rights or obligations, even if contingent:	-	38,058,419	3,848,486	233,618	-	-		
11 Other liabilities, of which:	60,973,567	43,904,409	-	-	5,029,784	5,149,109		
12 Derivatives in which replacement value is less than zero			13,475,606					
13 Other liabilities elements or shareholders' equity not included in the previous lines	60,973,567	30,428,802	-	-	5,029,784	5,149,109		
14 Total Available Stable Funding (ASF)					803,600,023	768,170,664		
\\ Required Stable Funding (RSF)								
15 Total High Quality Liquid Assets (HQLA)					13,295,705	13,509,668		
16 Deposits held at other financial institutions for operational purposes	-	-	-	-	-	-		
17 Bonds, securities and operations with financial institutions, non-financial institutions and central banks, of which:	5,357,409	263,380,323	99,772,169	344,990,721	438,706,636	438,840,622		
18 Operations with financial institutions collateralized by Level 1 HQLA	-	12,225,750	-	-	1,222,575	1,191,903		
19 Operations with financial institutions collateralized by Level 2A, 2B HQLA or non-collateralized	-	72,814,854	7,432,154	4,229,309	10,947,396	12,097,227		
20 Loans and financing granted for retail and wholesale customers, central government and central banks operations, of which:	-	154,260,067	77,163,168	220,011,959	307,279,392	292,131,428		
21 The Risk Weighting Factor, referred by Central Bank Circular 3,644, from 2013, is less than or equal to 35% (thirty five percent)	-	-	-	325,641	213,347	126,188		
22 Performing residential mortgages, of which:	-	3,266,288	3,124,712	50,839,809	40,106,702	41,139,962		
23 Referred by Central Bank Circular 3,644 from 2013, article 22	-	3,266,288	3,124,712	50,839,809	40,106,702	41,139,962		
24 Bonds and securities non eligible to HQLA, including shares traded in the Stock Market	5,357,409	20,813,363	12,052,135	69,909,644	78,937,225	92,153,913		
25 Operations that the institution acts exclusively as an intermediary, assuming no rights or obligations, even if contingent	-	39,237,763	3,166,215	323,166	-	-		
26 Other assets, of which:	218,241,547	46,698,871	2,042,505	16,239,779	219,241,946	200,521,268		
27 Gold and commodities transaction, including ones with physical settlement								
28 Assets provided, due to initial margin deposit as collateral for derivatives operation and participation in mutualized guarantee funds of clearing house or service providers of clearing and settlement that may arbitrate as central counterparty			3,582,951		3,045,508	2,879,839		
29 Derivatives in which replacement value is more than or equal to zero			21,231,782		-	-		
30 Derivatives in which replacement value is less than zero, gross of any collateral deduction due to deposit for variation margin			-		9,195,451	9,864,713		
31 Other assets not included in the previous lines	218,241,547	25,467,089	2,042,505	12,656,829	207,000,988	187,776,717		
32 Off-balance sheet operations		394,064,252	-	-	14,827,979	14,014,651		
33 Total Required Stable Funding (RSF)					686,072,267	666,886,209		
34 NSFR (%)					117.1%	115.2%		

(1) Corresponding to the total of the balance sheet.

(2) Corresponding to the value after applying the weighting factors.

The long-term indicator NSFR, presented weighted volume of available stable funding, higher than the required stable funding, exceeding the weighted balance around R\$ 117.5 billion, resulting the indicator in 117.1%. The amount of available stable funding (ASF) is largely composed by customer funding, considering the level of stability as the main factor supporting the ASF. The verification of the ASF in December/2021, presented a sharing of 42%, originated from Retail funding and 34% of Wholesale funding. The required stable funding (RSF) are composed by assets and items off-balance sheet. These balance are weighted according to the respective liquidity profile, so the items related to lending and other assets in low or non-liquidity are highlighted in the RSF (high weight), while high liquidity operations, e.g. free federal government bonds, receive low weight. For December/2021, the lending operations (item 20) represented 45% out of the total of RSF, while other assets (Item 31) shared 30% of the RSF.

9. Credit Risk

Credit risk refers to the possibility of losses associated with the borrower's or counterparty's failure to comply with their financial obligations under the agreed upon terms; as well as the depreciation of loan agreements resulting from deterioration, in the borrower's risk rating; the reduction in gains or remunerations and also with benefits granted in renegotiations; recovery costs and other amounts related to the counterparty's default with their financial obligations. Also includes concentration and transfer (country) risk.

Credit risk management in the Organization is a continuous and evolving process of mapping, development, assessment and diagnosis through models, instruments and procedures that require a high degree of discipline and control during the evaluation of credit proposals in order to preserve the integrity and autonomy of the processes.

The Organization controls its exposure to credit risk, which mainly results from credit operations, credit commitments, financial guarantees provided, securities and derivative financial instruments.

In order to ensure the quality expected from the portfolio, special attention to all aspects of the lending process, credit concentration, guarantee requirements, maturities, amongst others has been given.

The Organization continuously maps all the activities that could possibly generate exposure to credit risk, classifying them by their probability and magnitude, identifying their managers, as well as their measurement and mitigation plans.

9.1. Lending Process

The diversified business model allows support several audiences, in direct and convenient channels in the different regions of Brazil. Segmentation strategies, both for Individuals and Legal Entities, also support a good relationship with customers and to accurate offers of products and services.

This positioning has a positive impact on the Organization's credit profile, being translated into a diversified and dispersed portfolio, both in terms of products and segments. This is consistent with the risks assumed and with adequate provisioning and concentration levels.

In the Credit Department, the lending process is based on the Organization's Credit Policy, which lays emphasis on safety, quality and liquidity while investing in credit assets. The risk management governance permeates the entire process, which fully complies with Central Bank of Brazil rules.

The methodologies adopted value business agility and profitability, with targeted and appropriate procedures, oriented to the granting of credit transactions and establishment of operating limits.

The assessment and classification of the total risk of customers and economic groups, the Organization considers the quantitative (economic and financial indicators) and qualitative (registration and behavioral data) aspects of the customers' capacity to pay their debts.

All business proposals are subject to operational limits, which are included in the Loan Guidelines and Procedures. At branches, the delegation of power to grant a loan depends on its amount, the customer's total exposure to the Organization, the collaterals and guarantees posted the level of restriction and their credit risk rating. Business proposals with risks beyond these limits are submitted to technical analysis and approval by the Credit Department.

Risk Management Report – Pillar 3

The Executive Credit Committee was created to decide, within its authority, on queries about assignment of limits or operations proposed by business areas, previously analyzed and reviewed by the Credit Department. Depending on the financial amount, operations/limits proposed, from this Committee, may be submitted for approval by the Board of Directors.

Loan proposals pass through an automated system with parameters to provide indispensable information for analysis and granting of loans, in addition to the follow-up of the loans granted, minimizing the risks inherent to the operations.

There are exclusive Credit and Behavior Scoring systems for the assignment of mass loans in the Retail segment, intended to provide speed and reliability, while standardizing the procedures for loan analysis and approval.

Business is diversified, widespread and aimed at individuals and companies with a proven payment capacity and solvency, seeking to support them with collaterals and guarantees that are adequate to the risk assumed, considering the credit lines, amounts and the maturities of the granted loans.

9.2. Credit Risk Rating

The Organization has a robust governance, practices and follow-up process. Among these practices, we can mention the Governance of Concessions and Credit Recovery Levels, which, depending on the size of the operation or the total exposure of the counterparty, require approval at the level of the Board of Directors. In addition, frequent portfolio monitoring is evaluated, with assessments of its evolution, defaults, provisions, vintage studies, capital, among others.

In addition to the process and governance levels of approval for credit and recovery operations, the risk appetite defined by the Organization is followed by concentration limits of operations for Economic Group, Sector and Transfer (concentration by countries). Besides concentration indicators, a specific indicator was established for delinquency level over 90 days for Individuals, indicator for Problematic Assets and an indicator of Credit Risk Economic Capital Margin, in order to monitor and control capital from an economic and regulatory point of view.

The credit risk assessment methodology, in addition to providing data to establish the minimum parameters for lending and risk management, also enables the definition of special Credit Rules and Procedures according to customer characteristics and size. Thus, the methodology provides the basis not only for the correct pricing of operations, but also for defining the appropriate guarantees.

The methodology used also follows the requirements established by National Monetary Council (CMN) Resolution 4,327 and includes analysis of social and environmental risk in projects, aimed at evaluating customers' compliance with related laws and the Equator Principles, a set of rules that establish the minimum social and environmental criteria, which must be met for lending.

In accordance with its commitment to the continuous improvement of methodologies, the credit risk rating of operations contracted by the Organization's economic groups/customers is distributed on a graded level scale, ensuring greater compliance with the requirements of the Basel Capital Accord, preserving the criteria set forth by National Monetary Council Resolution 2,682 for recording the necessary impairment allowances.

In a simplified way, the operations risk ratings are determined according to the credit quality of the economic groups/customers defined by the customer risk rating, contract guarantees, credit product modality, late due behavior, notes/restrictions and the contracted credit face value.

The customer risk ratings for economic groups are based on parameterized statistical procedures, using quantitative and qualitative information and judgments. Classifications are made by economic group and periodically monitored to preserve loan portfolio quality.

With respect to individuals, customer risk ratings are generally defined based also in statistical procedures and analysis of variables that discriminate risk behavior. This is made by applying statistical models for credit assessment.

The customer risk rating is used, in sets with several decision variables, for concession and/or renewal analysis of operations and credit limits, as well as for monitoring the customers' risk profile deterioration.

9.3. Credit Risk Management Process

The credit risk management process is conducted in a corporation-wide approach. This process involves several areas with specific duties, ensuring structural efficiency. Credit risk measurement and control are conducted in a centralized and independent manner.

Both the governance process and existing limits are sanctioned by the Integrated Risk Management and Capital Allocation Committee, which are submitted for the approval of the Board of Directors, and are revised at least once a year.

The credit risk management structure performs a fundamental role in the Organization's second line, actively participating in the process of improving customer risk classification models, periodically monitoring major risks by main default events, level of provisioning in view of expected and unexpected losses.

This structure continuously reviews the internal processes, including the roles and responsibilities, Information Technology training and requirements, as well as conducts periodically reviews of risk evaluation processes to incorporate new practices and methodologies.

The attributions of the credit risk management structure faithfully follow the compliance precepts defined by the Organization. Integration with other lines occurs continuously and frequently, enabling assertiveness in the identification, measurement and control of credit risk.

9.4. Credit Risk Mitigation

Potential credit losses are mitigated by the use of a series of collaterals formally stipulated through legal instruments, such as conditional sales, mortgages, by guarantees such as third-party sureties or guarantees and also by financial instruments such as credit derivatives. The efficiency of these instruments is evaluated considering the time to recover and realize an asset given as collateral, its market value, the guarantors' counterparty risk and the legal safety of the agreements. The main types of collaterals include, term deposits; financial investments and securities; residential and commercial properties; movable properties such as vehicles, aircrafts; furthermore, security interest also include commercial bonds such as invoices, checks and credit card bills. Securities and guarantees may also include bank guarantees.

Credit derivatives are bilateral agreements where one of the counterparties buys hedge against credit risk of a specific financial instrument and its risk is transferred to the selling counterparty. Usually, the later receives a linear remuneration during transaction's effectiveness. In the event of default, the counterparty who bought the hedge will be paid, the purpose of which is to mitigate the financial instrument impairment. In this case, the selling counterparty receives the underlying asset in exchange for referred payment.

9.5. Control and Monitoring

The Organization's credit risk is controlled and monitored by the Credit Risk area of the Integrated Risk Control Department (DCIR). The department advises the Risk Management Executive Committee, in which methodologies for credit risk measurement are discussed and formalized. Significant issues discussed in this committee are reported to the Integrated Risk Management and Capital Allocation Committee, which is subordinated to the Board of Directors.

Additionally, to the committee, the area holds monthly meetings with all product and segment executives and officers, with a view to informing them about the evolution of the loan portfolio, delinquency, problematic assets, restructurings, adequacy of allowance for loan losses, loan recoveries, losses, portfolio limits and concentrations, regulatory and economic capital allocation, among others. This information is also reported to the Audit Committee on a monthly basis.

The area also monitors any internal or external event that may cause a significant impact on the Organization's credit risk, such as mergers, bankruptcies and crop failures, in addition to monitoring industries in which the company is exposed to significant risks.

9.6. Internal Reporting

Credit risk is monitored on a daily basis in order to maintain the risk levels within the limits established by the Organization. Risk control management reports are provided to all levels of business, from branches up to Senior Management.

Pointing out the risk situations that would impact the liquidity of loans granted to customers, the credit risk monitoring area provides daily reports, through a corporate system, to the branches, national management, business segments, as well as the lending and loan recovery areas. This system provides dynamic information about the loan portfolios and credit bureau information of customers, in addition to enabling comparison of past and current information, highlighting points requiring a more in-depth analysis by managers such as: assets information by segment, product, region, risk rating, delinquency and expected and unexpected losses, amongst others, allowing both a macro-level and detailed view of the information, and also enables a specific loan operation to be viewed.

The information is viewed and delivered via reports, allowing queries at several levels such as business segment, divisions, managers, regions, products, employees and customers, and under several aspects (asset, delinquency, provision, write-off (loss), restriction levels, use of collaterals and portfolio quality by rating, among others).

9.7. Details of Credit Risk Exposures

The quality of exposures subject to credit risk related to credit operations, debt securities and operations off-balance sheet are detailed below.

Credit quality of assets (CR1)

	Dec-21			
	a	b	c	g
	Gross values of		Allowances, advances and unearned income	Net Values (a+b-c)
Defaulted exposures	Non-defaulted exposures			
R\$ million				
1 Loans	16,840	607,339	45,105	579,074
2 Debt Securities	9,358	374,019	7,325	376,053
2a of which: national sovereign bonds	-	261,765	-	261,765
2b of which: other bonds	9,358	112,255	7,325	114,288
3 Off-balance sheet exposures	-	333,762	2,050	331,712
4 Total (1+2+3)	26,199	1,315,120	54,481	1,286,838

Note: According to instructions for filling Circular Letter 3,936, loans, financing, leasing operations, interbank liquidity operations and other similar operations were considered as Credit Concessions.

Comments

There was a 3.6% increase in total exposure compared to the previous quarter, mainly due to the growth in loans and off-balance sheet exposures.

Gross exposures are exposures before the application of the Credit Conversion Factors (CCF) and before the deduction of their provision, with an operation being considered default when its delinquency is more than 90 days.

Changes in the stock of defaulted loans and debt securities operations in progress between two periods, considering the operations reported in table CR1, are detailed in table CR2.

Changes in stock of defaulted loans and debt securities (CR2)

	Dec-21 a Total
R\$ million	
1 Defaulted loans and debt securities at end of the previous reporting period	24,767
2 Loans and debt securities that have defaulted since the last reporting period	7,910
3 Returned to non-defaulted status	(429)
4 Amounts written off	(3,508)
5 Other adjustments	(2,541)
6 Defaulted loans and debt securities at end of the reporting period (1+2+3+4+5)	26,199

Comments

Defaulted loans and debt securities had an increase of 5.8% compared to 3Q21.

Additionally, information on the credit quality of assets reported in table CR1, is shown in the CRB tables from "a" to "e".

Breakdown of exposures by geographical areas, industry and residual maturity (CRBa)

R\$ million Economic Sector	Dec-21				
	Contracts with Remaining Maturity				
	Up to 6 months	Between 6 months and 1 year	Between 1 year and 5 years	Above 5 years	Total
Retail	30,309	10,501	26,373	979	68,163
Real Estate and Construction Activities	9,026	4,893	21,939	4,837	40,695
Transportation and Concession	8,267	3,308	22,561	6,729	40,866
Miscellaneous Services	13,468	5,198	16,183	2,265	37,114
Holding	6,905	852	11,442	1,955	21,154
Automotive industry	10,403	3,568	5,804	316	20,091
Financial	100,590	42,214	128,853	61,967	333,625
Wholesale	17,231	5,106	12,981	1,599	36,917
Electrical energy	4,490	6,345	14,741	2,921	28,498
Oil and Petrochemical	2,025	291	3,429	4,429	10,174
Steel and Metallurgy	5,816	1,488	4,314	1,413	13,031
Food Industry	9,874	6,160	9,018	1,764	26,817
Smoke and drinks	10,970	1,649	272	549	13,440
Paper and Pulp	872	208	8,926	2,102	12,109
Extraction	5,652	275	1,886	95	7,908
Telecommunications	8,303	515	940	435	10,193
Health	3,392	832	8,056	1,344	13,623
Sugar and ethanol	5,496	542	2,428	1,060	9,525
Chemistry	6,880	2,089	4,561	305	13,836
Construction Material	1,536	565	1,514	860	4,476
Leisure and tourism	2,131	1,017	2,500	122	5,770
Capital goods	2,886	1,270	2,089	82	6,326
Cooperative	2,368	2,149	2,831	326	7,674
Education	1,005	617	2,361	866	4,848
Hygiene and Cleaning Products	1,485	146	393	856	2,881
Textile	2,345	637	1,485	71	4,539
Appliances and electronics	2,986	509	1,464	8	4,967
General Industry	1,665	711	1,394	21	3,791
Trading	3,509	508	219	52	4,289
Information Technology	1,695	1,047	1,166	10	3,917
Agriculture	788	579	2,021	273	3,660
Packaging	1,778	450	944	51	3,223
Furniture and wood	771	588	1,503	135	2,998
Other sectors	160	69	154	5	387
Individual	136,175	83,816	97,691	147,633	465,315
\\ Total Exposure	423,251	190,713	424,440	248,435	1,286,838
Geographic Region					
\\ Domestic Market	407,089	188,237	411,913	245,228	1,252,468
Southeast	252,132	110,139	193,003	110,219	665,493
South	34,389	19,943	39,411	21,571	115,313
North	8,066	5,226	11,838	7,908	33,038
Northeast	24,739	15,287	30,277	30,166	100,469
Mid-West	87,763	37,643	137,384	75,365	338,154
\\ Foreign Market	16,161	2,476	12,526	3,207	34,370
\\ Total Exposure	423,251	190,713	424,440	248,435	1,286,838

Total defaulted loans operations segregated by geographical areas and industry (CRBb)

R\$ million	Dec-21		
	Defaulted Loans		
Economic Sector	Total	Provision	Write-offs
Retail	1,878	1,473	1
Real Estate and Construction Activities	6,347	4,321	0
Transportation and Concession	722	653	-
Miscellaneous Services	1,001	862	1
Holding	1,296	1,913	-
Automotive industry	54	36	-
Financial	691	441	-
Wholesale	267	218	5
Electrical energy	39	0	-
Oil and Petrochemical	131	0	-
Steel and Metallurgy	113	73	-
Food Industry	101	83	3
Smoke and drinks	35	33	-
Paper and Pulp	11	11	0
Extraction	261	259	1
Telecommunications	15	12	-
Health	46	37	-
Sugar and ethanol	0	0	-
Chemistry	47	44	-
Construction Material	15	12	0
Leisure and tourism	319	263	-
Capital goods	11	8	-
Cooperative	9	4	-
Education	121	107	0
Hygiene and Cleaning Products	7	6	-
Textile	284	268	1
Appliances and electronics	3	3	-
General Industry	42	28	2
Trading	2	2	-
Information Technology	25	20	-
Agriculture	29	14	3
Packaging	9	7	0
Furniture and wood	43	28	1
Individual	27	22	18
Other sectors	12,199	9,794	1
\\ Total Exposure	26,199	21,055	36
Geographic Region			
\\ Domestic Market	26,199	21,055	36
Southeast	17,731	14,156	17
South	2,079	1,654	8
North	914	739	6
Northeast	4,169	3,481	5
Mid-West	1,304	1,025	0
\\ Foreign Market	-	-	-
\\ Total Exposure	26,199	21,055	36

Total past due loans exposures segmented by past due loans band (CRBc)

R\$ million	Dec-21					Total
	Past due operations					
	Less than 30 days	Past due 31 to 90 days	Past due 91 to 180 days	Past due 181 to 365 days	Past due more than 365 days	
Loans	6,916	9,338	7,780	9,060	-	33,094
Debt Securities	-	3,203	110	110	9,138	12,561
Total	6,916	12,541	7,890	9,170	9,138	45,655

Segregation of total restructured exposures (CRBd)

R\$ million	Dec-21	
	a	b
	Defaulted Loans	Others
Total Restructured Exposures	5,107	23,512

Concentration (CRBe)

% From the total book	Dec-21
largest debtor	0.7%
10 largest	5.8%
20 largest	8.8%
50 largest	13.3%
100 largest	16.9%

9.8. Details of Credit Risk Mitigation Exposures

Information regarding the amounts considered for prudential regulation purposes before and after the use of credit risk mitigation instruments, as established on Circular 3,809/16, are detailed in table CR3, in which the exposures are mitigated essentially by Fiduciary Assignment of Financial Investments, Fiduciary Assignment of Credit Bills, Pledge of Financial Investments, Credit Bills and Treasury Bills.

Credit risk mitigation techniques – overview (CR3)

R\$ million	a	b	Dec-21		d	e
	Exposures unsecured	Exposures secured	Exposures secured by collateral, of which: secured amount	Exposures secured by financial guarantees	Exposures secured by credit derivatives	
	1 Loans	541,189	37,885	3,444	34,440	-
2 Debt securities	376,053	-	-	-	-	
I Off Balance sheet	121,854	337	337	-	-	
II Others	284,983	-	-	-	-	
3 Total	1,324,079	38,222	3,782	34,440	-	
4 Of which defaulted	24,501	1,697	11	1,686	-	

Comments

The exposure considers the Credit Conversion Factor (CCF) and mitigation, with 90% covered by financial guarantees and 10% by collaterals.

The effects of credit risk mitigation in the capital requirements calculation, according to Circular 3,809/16, are detailed in table CR4.

Standardised approach – credit risk exposure and Credit Risk Mitigation (CRM) effects (CR4)

R\$ million	a	b	c		d	e	f
	Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density		
	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density [e/(c+d)]	
			Dec-21				
1	Sovereigns and their central banks	404,118	-	404,118	-	1,412	0
2	Non-central government public sector entities (PSEs)	6,255	4,229	6,249	2,752	7,663	0.9
3	Multilateral development banks	2,751	-	2,751	-	-	-
4	Banks and other institutions authorized by the Central Bank of Brazil	52,147	11,080	52,147	4,693	25,386	0.4
6	Corporates	335,426	129,305	335,432	77,089	378,660	0.9
7	Regulatory retail portfolios	290,110	187,090	290,110	37,651	229,727	0.7
8	Loans and financing secured by residential property	58,170	-	58,170	-	20,401	0.4
9	Financing for commercial real estate construction	85	7	85	7	46	0.5
10	Equity	28,604	-	28,604	-	28,604	1
13	Other assets	62,442	-	62,442	-	49,133	0.8
14	Total	1,240,110	331,712	1,240,110	122,192	741,033	0.5

Comments

The increase in RWA in relation to the 3Q21, was mainly in Corporates.

The exposures reported in table CR4 are detailed by category and weighting factor in table CR5. Both adopt the rules and procedures of BCB Circular 3,644/13.

Standardised approach – exposures by asset classes and risk weights (CR5)

		Dec-21									
		Risk weight									
		a	b	c	d	e	f	f1	g	i	j
		0%	10%	20%	35%	50%	75%	85%	100%	Others	Total credit exposures amount (post CCF and post-CRM)
R\$ million											
Asset Classes											
1	Sovereigns and their central banks	397,355	-	6,665	-	68	-	-	-	30	404,118
2	Non-central government public sector entities (PSEs)	-	-	-	-	-	0	10,331	153	-	10,484
3	Multilateral development banks (MDBs)	2,751	-	-	-	-	-	-	-	-	2,751
4	Banks and other institutions authorized by the Central Bank of Brazil	7	-	8,093	4,014	44,726	-	-	-	-	56,840
6	Corporates	1,559	-	-	-	9,458	-	174,672	225,305	44	411,038
7	Regulatory retail portfolios	2,215	-	-	-	45,809	275,007	-	-	4,730	327,761
8	Loans and financing secured by residential property	-	-	-	57,892	278	-	-	-	-	58,170
9	Financing for commercial real estate construction	-	-	-	-	93	-	-	-	-	93
10	Equity	-	-	-	-	-	-	-	28,604	-	28,604
13	Other assets	13,048	-	-	-	25	-	-	49,120	248	62,442
14	Total	416,936	-	14,758	61,906	100,458	275,007	185,003	303,183	5,051	1,362,301

Comments

Total exposure increased by 3.6% compared to Q3 2021, mainly in Corporates and sovereigns and their central banks.

10. Counterparty Credit Risk

The counterparty credit risk, to which the Organization is exposed, is represented by the possibility of loss due to the counterparty default of their obligations relating to the settlement of operations involving bilateral flows, including the financial asset trading or derivatives.

The Organization exercises complete control over the replacement cost and the potential future exposure of operations involving counterparty risk. Thus, all exposure related to this risk is part of the general credit limits set for the Organization's customers.

In conclusion, the Counterparty Credit Risk management encompasses modeling and monitoring (i) of counterparties credit limits consumption, (ii) of the adjustment of parcel to the credit fair value of derivatives portfolio (CVA, Credit Value Adjustment) and (iii) of the respective regulatory and economic capital. The methodology adopted by the Organization, establishes that, exposition of the credit portfolio to a given counterparty, can be calculated from the Reposition Cost (RC) of its operations in different scenarios of the financial market, what is possible through the process of Monte Carlo simulation.

In risk management context, the Organization calculates the economic capital related to credit risk, in order to contemplate the portfolio of derivative segregated by counterparty, both for the definition of EAD (Exposure at Default) and CVA (Credit Value Adjustment).

Also in this context, the Organization conducts studies of capital projection, such as the Stress Test of the ICAAP (Internal Capital Adequacy Assessment Process) and TEBU (Bottom-Up Stress Test). These multidisciplinary programs minimally involve the Business areas and the Economic, Budget / Result and Risk departments.

Regarding the mitigation manners of the counterparty credit risk that the Organization is exposed, the most usual is the composition of guarantees like, deposits of margin and disposal of Government bonds, which are, performed by the counterparty in the Organization or in other custodian institution, which has its counterparties risks duly assessed.

In addition, from June 19th, the exposure value calculation related to counterparty credit risk arising from operations with derivatives financial instruments subject to the calculation of the capital requirement through a standardised approach (RWA_{CPAD}) was updated according the BCB Circular 3,904/18.

10.1. Details of Counterparty Credit Risk Exposure

Table CCR1 presents an overview of the approach used to calculate the capital requirement for counterparty credit risk in derivative transactions, repurchase agreements (repo) and asset loan transactions, and provide the main parameters employed, as established in Circulars 3,809/16, and 3,904/18.

Analysis of Counterparty Credit Risk (CCR) exposure by approach (CCR1)

	a	b	d	e	f
	Replacement cost	Potential future exposure	Alpha used for computing regulatory EAD	EAD post-CRM	RWA
R\$ million					
1 SA-CCR Approach	12,074	6,948	1.4	26,631	21,429
1.1 CEM (Current Exposure Method) Approach	-	-		-	-
3 Simple Approach for credit risk mitigation (for SFTs)				-	-
4 Comprehensive Approach for credit risk mitigation (for SFTs)				323,878	6,356
6 Total					27,786

Comments

In relation to the previous quarter, there was a decrease in repo operations and asset loans.

Table CCR3 details the counterparty credit risk exposures in derivative transactions, repurchase transactions (repo) and asset lending transactions subject to the standardised approach, as established in Circular 3,644/13, by type of counterparty and risk weight factor.

Standardised approach of CCR exposures by regulatory portfolio and risk weights (CCR3)

	Dec-21										i
	a	b	c	Risk weight			f	g	h	Total credit exposure	
Regulatory portfolio	0%	10%	20%	50%	75%	85%	100%	150%	Others		
Sovereigns	61,796	-	-	-	-	-	-	-	-	-	61,796
Non-central government public sector entities (PSEs)	-	-	-	-	-	242	2	-	-	-	243
Multilateral development banks (MDBs)	9	-	-	-	-	-	-	-	-	-	9
Financial and other institutions authorized by the Central Bank of Brazil	48,373	-	975	1,455	-	-	-	-	-	-	50,803
Legal entities, except retail	202,279	-	-	-	-	19,454	10,120	-	-	-	231,853
Retail	-	-	-	-	-	-	-	-	-	-	-
Other	5,805	-	-	-	-	-	-	-	-	-	5,805
\\ Total	318,261	-	975	1,455	-	19,696	10,122	-	-	-	350,509

Comments

In relation to the previous quarter there was a decrease in repo operations.

Table CCR5 details the types of collateral received or delivered in derivative transactions, repurchase transactions (repo) and asset lending, as established on Circular 3,809/16, including transactions carried out through central counterparties.

Composition of collateral for CCR exposure (CCR5)

R\$ million	Dec-21					
	Collateral used in derivative transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
	a	b	c	d	e	f
	Segregated	Unsegregated	Segregated	Unsegregated		
Cash – domestic currency	-	-	-	-	-	-
Cash – other currencies	-	5	-	36	-	-
Domestic sovereign debt	957	-	7,666	-	20,689	176,925
Other sovereign debt	-	-	-	-	-	-
Corporate bonds	-	-	-	-	1,007	4,755
Equity securities	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
\\ Total	957	5	7,666	36	21,696	181,680

Comments

In relation to the previous quarter, there was a decrease in collateral received and posted collateral in repo operations.

Table CCR6 presents information on the notional and fair value of credit derivatives (transferred risk and received risk), before offsetting short and long positions.

CCR information regarding credit derivatives exposures (CCR6)





R\$ million	Dec-21	
	a	b
	Protection bought	Protection sold
\\ Notionals	1,601	5,349
Single-name credit default swaps	1,601	3,580
Index credit default swaps	-	-
Total return swaps	-	1,770
\\ Total notionals	-	-
\\ Fair values	341	45
Positive fair value (asset)	341	-
Negative fair value (liability)	-	45

Comments

In relation to the previous quarter, there was an increase in credit derivatives exposures with protection bought and a reduction in protection sold.

Table CCR8 presents an overview of exposures to central counterparties.

CCR information regarding exposures to central counterparties (CCR8)

R\$ million	a	b
	Dec-21	
	EAD (post- CRM)	RWA
1 Exposures to QCCPs (total)		190
2 Exposures for trades at QCCPs (excluding initial margin and default fund contributions), of which:	7,542	151
3 (i) OTC derivatives	1,196	24
4 (ii) Exchange-traded derivatives	6,346	127
5 (iii) Asset loans and repurchase operations (repo)	-	-
6 (iv) Other operations	-	-
7 Segregated initial margin	6,901	
8 Non-segregated initial margin	-	-
9 Pre-funded default fund contributions	103	39
10 Unfunded default fund contributions	-	-
11 Exposures to non-QCCPs (total)		-
12 Exposures for trades at non-QCCPs (excluding initial margin and default fund contributions); of which	-	-
13 (i) OTC derivatives	-	-
14 (ii) Exchange-traded derivatives	-	-
15 (iii) Asset loans and repurchase operations (repo)	-	-
16 (iv) Other operations	-	-
17 Segregated initial margin	-	
18 Non-segregated initial margin	-	-
19 Pre-funded default fund contributions	-	-
20 Unfunded default fund contributions	-	-

Comments

In relation to the previous quarter, there was a decrease in segregated initial margin and a reduction in operations with OTC derivative financial instruments.

11. Securitisation Exposures

Securitisation is the process in which the cash flows associated with a set of underlying assets is used for the securities remuneration in accordance with the established governance process, using as a form of Balance Sheet composition.

The portfolio comprises CRA - Agribusiness Receivables Certificate, CRI - Real Estate Receivables Certificate and FIDC - Credit Rights Investment Funds, as shown below:

- **CRA - Agribusiness Receivables Certificate:** Instructed by Law 11,076/2004, constitute a registered credit security, issued exclusively by securitisation companies and backed by Agribusiness Credit Rights;
- **CRI - Real Estate Receivables Certificate:** Instructed by Law 9,154/1997, constitute a nominative credit title, freely negotiated, backed by real estate activities, covering transaction financing or improvements;
- **FIDC - Credit Rights Investment Funds:** Complies with CVM instructions, with the pooling of resources allocating a preponderant portion of the respective shareholders' equity for investment in credit rights (sundry receivables).

Such transactions are consolidated in the Organization's Prudential Balance, according to the following categories:

- **Trading Securities:** Securities acquired for the purpose of being actively and frequently traded;
- **Securities available for sale:** Securities that do not fall under the categories of securities for trading and securities held to maturity;
- **Securities held to maturity:** securities that have the intention and financial capacity of the institution to hold them in portfolio until maturity.

Securitized operations with risk retention follow the criteria established by BCB Resolution 3,533/08, in which the seller or assignor retains substantially all the risks and benefits of ownership of the financial asset object of the operation.

The exposures are part of the securitization traditional type, which is the process in which the flow of receipts associated with a set of underlying assets is used for the remuneration of securitisation bonds.

In addition, in the past few years there has been no sale or transfer of assets without substantial risk retention. Since all the assigned operations were subject to substantial risk retention.

11.1. Special Purpose Entity (SPE)

The Special Purpose Entity (SPE) has the institution as a sponsoring counterpart and implicit support, securitized operations with substantial retention of risks and benefits. Below, the SPE(s) that have the Organization as a sponsoring counterpart:

SPE(s)	Consolidation	Activity	Total Assets Dec/21
CIBRASEC - Cia Brasileira de Securitização de Crédito	N/A	Securitisation	R\$ 4,947,076,990.82

11.2. Details of Securitisation Exposures

The total of exposures assigned with substantial risk retention in the last 12 months, which have been honored, repurchase, or written off for losses, broken down by quarter, is detailed below:

Total exposures assigned with substantial risk retention, in the last 12 months (SECAe)

R\$ million	Oct-21 to Dec-21	Jul-21 to Sep-21	Apr-21 to Jun-21	Jan-21 to Mar-21
1 Total exposures assigned with substantial risk retention	10	27	17	13
2 Total honored exposures	-	-	-	-
3 Total repurchased exposures	10	27	17	13
4 Total write-off	-	-	-	-

Securitisation exposures in the banking book (SEC1)

The following table provides information on securitisation exposures classified in the banking book.

R\$ million	a		c		d		e		g		h		i		k		l	
	Dec-21																	
	Bank acts as originator			Bank acts as sponsor			Banks acts as investor											
	Traditional	Synthetic	Sub-total	Traditional	Synthetic	Sub-total	Traditional	Synthetic	Sub-total	Traditional	Synthetic	Sub-total	Traditional	Synthetic	Sub-total	Traditional	Synthetic	Sub-total
1 Retail (total), of which:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2 residential mortgage	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3 credit card	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4 other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5 re-securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6 Wholesale (total), of which:	-	-	-	-	-	-	-	-	-	1,414	-	1,414	-	-	-	-	-	-
7 loans to corporates	-	-	-	-	-	-	-	-	-	1,399	-	1,399	-	-	-	-	-	-
8 commercial mortgage	-	-	-	-	-	-	-	-	-	15	-	15	-	-	-	-	-	-
9 lease and receivables	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10 other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11 re-securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Comments

In relation to the previous quarter, there was a reduction in Credit Rights Funds.

Securitisation exposures in the trading book (SEC2)

Information on securitisation exposures classified in the trading book, which the Organization does not have exposures for this database.

Securitisation exposures in the banking book and associated regulatory capital requirements – bank acting as originator or as sponsor (SEC3)

Information on securitisation exposures classified in the banking book and the associated regulatory capital requirements when the bank is acting as originator or as sponsor, which the Organization does not have exposures for this database.

Securitisation exposures in the banking book and associated capital requirements – bank acting as investor (SEC4)

Information on securitisation exposures classified in the trading book and the associated regulatory capital requirements when the bank is acting as originator or as sponsor.

	a	b	c	d	e	h	i	l	m	p	q
	Dec-21										
	Exposure values (by RW bands)					Exposure values (by regulatory approach)		RWA (by regulatory approach)		Capital charge after cap	
	≤20%	20% < RW < 50%	50% ≤ RW < 100%	100% ≤ RW < 1,250%	1,250%	SA	1,250%	SA	1,250%	SA	1,250%
R\$ million											
1 Total exposures	-	1,397	-	16	-	1,414	-	502	-	40	-
2 Traditional securitisation, of which:	-	1,397	-	16	-	1,414	-	502	-	40	-
3 Securitisation:	-	1,397	-	16	-	1,414	-	502	-	40	-
4 retail underlying assets	-	-	-	-	-	-	-	-	-	-	-
6 non-retail underlying assets	-	1,397	-	16	-	1,414	-	502	-	40	-
8 Re-securitisation:	-	-	-	-	-	-	-	-	-	-	-
9 Synthetic securitisation, of which:	-	-	-	-	-	-	-	-	-	-	-
10 Securitisation:	-	-	-	-	-	-	-	-	-	-	-
11 retail underlying assets	-	-	-	-	-	-	-	-	-	-	-
12 non-retail underlying assets	-	-	-	-	-	-	-	-	-	-	-
13 Re-securitisation:	-	-	-	-	-	-	-	-	-	-	-

Comments

In relation to the previous quarter, there was a reduction in Credit Rights Funds.

12. Market Risk

Market risk is represented by the possibility of financial loss due to fluctuating prices and market interest rates of financial instruments held by the Organization, as its asset and liability transactions may show mismatched amounts, maturities, currencies and indexes.

Market risk is identified, measured, mitigated, controlled and reported. The Organization's exposure profile to market risk is in line with the guidelines established by the governance process, with limits timely monitored on an independently way from the businesses areas.

All transactions that expose the Organization to market risk are mapped, measured and classified according to probability and magnitude, and the whole process is approved by the governance structure.

In line with the best Corporate Governance practices, to preserve and strengthen the management of market risk in the Organization, as well as to meet the requirements of CMN Resolution 4,557, the Board of Directors approved the Market Risk Management Policy, reviewed at least once a year by the competent committees and the Board of Directors itself, providing the main operational guidelines for accepting, controlling and managing market risk. In addition to this policy, the Organization has several specific rules that regulate the market risk management process, as follows:

- Classification of Operations;
- Reclassification of Operations;
- Trading of Government and Private Bonds;
- Use of Derivatives; and
- Hedge.

12.1. Strategies used in Market Risk Management

12.1.1. Limit Definition

The trading book market risk limit proposals are validated by specific committees, ratified by the Integrated Risk Management and Capital Allocation Committee and submitted for approval by the Board of Directors.

Trading Book: it comprises all operations involving financial instruments, including derivatives, held-for-trading or used to hedge other instruments in the Trading Book, which have no trading restrictions. Held-for-trading operations are those destined for resale, to obtain benefits from actual or expected price variations, or for arbitrage. The risks of this portfolio are monitored through of:

- Value at Risk (VaR);
- Stress (negative impact measure of extreme events, based on historical and prospective scenarios);
- P&L (profit and loss); and
- Financial Exposure / Concentration.

12.1.2. Market Risk Measurement Models

Market risk is measured and controlled using the Stress, Value at Risk (VaR) and Sensitivity Analysis methodologies, as well as limits for the Management of P&L and Financial Exposure. Using several methodologies to measure and evaluate risks is of great importance, because they can complement each other and their combination allows the analysis of different scenarios and situations.

Trading and Regulatory Books

Trading Book risks are controlled, principally, using Stress and Value at Risk (VaR) methodologies. The Stress methodology quantifies the negative impact of economic shocks and extreme economic events that are financially unfavorable to the Organization's positions, the analysis uses stress scenarios prepared by the Market Risk area and the Organization's Economic area based on historical and forward looking data for the risk factors in which the Organization holds a position.

The methodology adopted to calculate VaR is the Delta-Normal, with a confidence level of 99% and considering the number of days necessary to unwind the existing exposures. The methodology is applied to the Trading and Regulatory Books (Trading Book positions plus Banking Book foreign currency and commodities exposures). It is worth noting that the historical simulation and the Delta-Gama-Vega models are applied to measure all risk factors to an options portfolio, whichever is the most conservative. A minimum 252-business-day period is adopted to calculate volatilities, correlations and historical returns.

For regulatory purposes, the capital requirements relating to shares of the Banking Book Prudential Conglomerate are determined through the credit risk evaluation, as per Central Bank of Brazil resolution, i.e., they are not considered in assessing market risk.

12.1.3. Hedge and Use of Derivatives

In order to standardize the use of financial instruments used to hedge the operations and use of derivatives by the Treasury Department, the Organization created specific rules that were approved by the competent Committees.

The hedge operations executed by Organization's Treasury Department must necessarily cancel or mitigate risks related to mismatches quantities, terms, currencies or indexes of the positions in Treasury's books, for which they must use assets and derivatives authorized to be traded in each of their books to:

- Control and classify the operations, respecting the exposure and risk limits in effect;
- Alter, modify or revert positions due to changes in market and operating strategies; and
- Reduce or mitigate exposure of operations in idle markets, under stress or low liquidity conditions.

12.1.3.1. Hedge Accounting

Implemented in order to reduce the volatility of the accounting result, hedge accounting ensures that a gain or loss on a hedge instrument is recognized in the result in the same period in which the hedged item affects the result.

Transactions with derivative financial instruments for hedging are classified in one of the following categories:

- **Market risk hedge:** financial instruments classified in this category, as well as their related financial assets and liabilities, hedged, have their gains and losses, realized or unrealized, recorded in the income statement;
- **Cash flow hedge:** financial instruments classified in this category have an effective portion of the recorded valuations or devaluations, net of tax effects, in an account detach in shareholders' equity. The non-effective portion of the respective hedge is recognized directly in the income statement; and
- **Net investment hedge abroad:** the financial instruments classified in this category are intended to protect the foreign exchange variation of investments abroad, whose functional currency is different from the national currency, being accounted for in accordance with the accounting procedures applicable to the cash flow hedge category cash, that is, with the effective portion recognized in equity, net of tax effects, and the non-effective portion recognized in income for the period.

For derivatives classified in the hedge accounting category, there is the following: (i) effectiveness of the strategy, through prospective and retrospective effectiveness tests, and (ii) mark-to-market of hedge instruments.

12.1.3.2. Standardized Derivatives and Continued Use Derivatives

The Organization's Treasury Department may use standardized derivatives (traded in stock exchanges) and continued use derivatives (traded in over-the-counter markets) to obtain results and create hedges. The derivatives classified as continuous use, ordinarily traded in over-the-counter markets, such as vanilla swaps (interest rates, currencies, Credit Default Swap, among others), forward contracts (i.e., currencies), vanilla options (currency, Bovespa Index), among others. Non-standardized derivatives not classified as continued use or structured operations depend upon the authorization of the competent Committee.

12.2. Market Risk Management Process

The market risk management process is conducted in a corporate manner, comprising from business areas to the Board of Directors. It involves diverse areas, with specific duties in the process, thereby ensuring an efficient structure, and the measurement and control of market risk is conducted in a centralized and independent manner. This process allowed the Organization to be the first financial institution in Brazil authorized by Central Bank of Brazil to use, since January 2013, its internal market risk models to calculate regulatory capital requirements. This process, approved by the Board of Directors, is also revised at least once a year by the Committees and the Board itself.

12.2.1. Control and Monitoring

Market risk is controlled and monitored by an independent area, the Integrated Risk Control Department (DCIR), which, on a daily basis, measures the risk of outstanding positions, consolidates results and prepares reports required by the existing governance process.

In addition to daily reports, Trading Book positions are discussed on a fortnightly basis by the Treasury Executive Committee, in this meeting, results and risks are assessed and strategies are discussed. Both the governance process and existing thresholds are ratified by the Integrated Risk Management and Capital Allocation Committee and submitted to approval of the Board of Directors, and they are revised at least once a year.

In case of any threshold controlled by the Integrated Risk Control Department (DCIR) being exceeded, the Head of the business area responsible for the position is informed that the threshold was reached, and the Integrated Risk Management and Capital Allocation Committee is called upon in a timely fashion to make a decision. If the Committee decides to raise the threshold and/or maintain the positions, the Board of Directors is called upon to approve the new threshold or revise the strategy position.

12.2.2. Internal Reporting

The Market Risk area provides daily managerial control reports on the positions to the business areas and Senior Management, in addition to weekly reports and periodic presentations to the Board of Directors.

Reporting is conducted through an alert system, which determines the addressees of risk reports as a previously determined risk threshold percentage is reached; therefore, the higher the risk threshold consumption, more Senior Management members receive the reports.

12.3. Main Features of Models Used

12.3.1. Value at Risk – VaR

The methodology adopted to calculate VaR is the Delta-Normal, with a confidence level of 99%, and for the managerial model, the horizon applied takes into account the number of days necessary to dispose of existing exposures. The methodology is applied to the Trading and Regulatory Books (Trading Book positions plus Banking Book foreign currency and commodities exposures). In addition, the historical simulation and the Delta-Gama-Vega models are applied to measure all risk factors to an options portfolio, whichever is the most conservative, with this option risk added to the Portfolio's VaR. It is worth noting that this calculation is carried out daily and, for the regulatory model, the value at risk is extrapolated to the regulatory time horizon (greater between 10 days and the portfolio horizon), through the root of time method.

12.3.2. Stressed VaR – sVaR

The Stressed VaR (sVaR) is calculated daily in order to replicate the VaR calculation that would be obtained in a given historical period of stress, but using the Organization's current portfolio. The volatilities and correlations are calculated as of January 2005 for the risk factors present in the current portfolio, and the model for calculating the volatilities and correlations adopted by the Organization, specifically for the Stressed VaR, does not use decay. Once the history of volatilities and correlations is found, the current position VaR is calculated considering the historical parameters, making it possible to determine the date on which the highest VaR for the portfolio was obtained. The selected stress date will also be applied to the Stressed VaR of the options portfolio. The verification of the stress period to be used in the sVaR calculations is carried out monthly. Besides that, similarly to the daily VaR, the Stressed VaR is also extrapolated to the regulatory time horizon (greater between 10 days and the portfolio horizon) through the root of time method and its pricing approach detailed in item 12.3.7 Financial Instrument Pricing.

12.3.3. VaR Internal Model – Backtesting

The risk methodology applied is continuously assessed using backtesting techniques, which compare the one-day period VaR with the hypothetical and effective results.

In the hypothetical view, the result is calculated through the revaluation of positions at new market prices, assuming the maintenance of the portfolio from one day to the next. In the effective view, the impacts of positions reevaluation, the results of new operations carried out during the day, day trades and other items not related to market price variations, for example, fees, commissions and brokerage costs, are considered.

The main purpose is to monitor, validate and assess the adherence of the VaR model, and the number of disruptions occurred must be compatible with the number of disruptions accepted by the statistical tests conducted for the certain confidence level. Another objective is to improve the models used by the Organization through analyses carried out for different periods and VaR confidence levels, both for Portfolio Total VaR and risk factor.

12.3.4. Models – Utilization in the Prudential Conglomerate

The measurement and control of risks associated with the Trading and Regulatory portfolios is carried out in an analogous and joint manner for all companies that comprise the Organization's Prudential Conglomerate.

12.3.5. Differences between Management Model and Regulatory Model

Of a managerial nature, the stress analysis seeks to quantify the negative impact of shocks and extreme economic events that are significantly unfavorable to the Organization and that are not captured by other market risk measures, such as VaR Delta-Normal, for example. On the other hand, the regulatory model used for stress scenarios is the sVaR, whose objective is to replicate the VaR calculation that would be done in a given historical period of stress, but using the institution's current portfolio.

Also, due to the size of some positions, the Organization, in its management model, seeks to quantify the number of days necessary for a given position to be liquidated or hedged, this assessment being made by risk factor. In light of this, its management model makes use of liquidity factors, calculated daily, to calculate VaR. Such methodology differs from that addressed in the regulatory model, since in the latter, a window corresponding to the highest value between 10 working days and the portfolio horizon is adopted, with this window being fixed and the same for all instruments in the portfolio.

12.3.6. Volatility, Correlation and Return

The model adopted by the Organization to estimate volatility is the Exponentially Weighted Moving Averages (EWMA), with daily update, considering in its calculations the continuous return of 1 working day. To estimate the volatility for the reference date, a w252 working days window is used, starting on the working date immediately before the reference date. The parameter related to the weight given to each return is the exponential decay factor, which determines the rate at which past returns lose importance in volatility calculation. To estimate the most appropriate portfolio' decay factor, at least a biweekly study is carried out, based on the main risk factors that make up the Trading Portfolio plus currency and commodity exposures. Regarding the sample size, a minimum 252 working days window is adopted for the determination of volatilities and correlations.

As for the volatility, the model adopted by the Organization to calculate the correlation is the EWMA, with daily update, emphasizing that the daily returns, the sample size (252 working days) and the decay factor are the same adopted for the calculation volatility. As determined by BCB Circular 3,674, and in accordance with governance approved by the Committee, the highest value between VaR calculated with a decay factor (assigns greater weight to the most recent returns) and VaR without a decay factor (returns have equal weights).

12.3.7. Financial Instrument Pricing

To adopt the best market prices related to the assessment of financial instruments' market value, was established the Mark-to-Market Commission (CMM), which is responsible for approving or submitting mark-to-market models to the Market and Liquidity Risk Commission. CMM is composed of business, back-office and risk representatives, and the risks area responsible for the coordination of the Commission and for the submission of the matters assessed to the Risk Management Executive Committee, for reporting or approval, whichever is the case.

Whenever possible, the Bank adopts prices and rates practiced by the Securities, Commodities and Futures Exchanges and the Secondary Markets. Should these market references not be found, prices made available by other sources (such as Bloomberg, Reuters and Brokerage Firms) are used. As a last option, proprietary models are adopted to price instruments, which also follow the Mark-to-Market Commission (CMM) approval procedure and are submitted to the Organization's validation and assessment processes.

Mark-to-market criteria are periodically reviewed, according to the governance process, and may vary due to changes in market conditions, creation of new classes of instruments, establishment of new sources of data or the development of models considered more appropriate.

The financial instruments to be included in the Trading Book must be approved by the Treasury Executive Committee or the Product and Service Executive Committee and their pricing criteria must be defined by the CMM.

The following principles for the mark-to-market process are adopted by the Organization:

- **Commitment:** The Organization is engaged in guaranteeing that the prices used reflect the market value of the operations. Should information not be found, the Organization will use its best efforts to estimate the market value of the financial instruments;
- **Frequency:** the formalized mark-to-market criteria are applied on a daily basis;
- **Formality:** the CMM is responsible for ensuring the methodological quality and the formalization of the mark-to-market criteria;
- **Consistency:** the process to gather and apply prices is carried out consistently, to guarantee equal price to a type of instrument within the Organization;
- **Transparency:** the methodology must be accessible by the Internal and External Audit and Independent Model Validation areas and by Regulatory Agencies.

In December 2014, the Brazilian National Monetary Council published Resolution 4,389, which amended Resolution 4,277. These resolutions set forth the basic procedures that entities must follow in pricing financial instruments to market value and the guidelines to apply prudential adjustments to these instruments. According to the abovementioned procedures, the Organization is already aligned with these resolutions' guidelines, including applying due prudential adjustments required by regulations.

12.4. Details of Market Risk Exposures

The MR1 table provides the components of the capital requirement under the standardised approach – SA (RWA_{MPAD}) for market risk.

Market risk under the standardised approach (MR1)

R\$ million	a		
	Dec-21	Sep-21	Dec-20
	RWA_{MPAD}	RWA_{MPAD}	RWA_{MPAD}
1 Interest rate	5,691	15,685	5,974
1a Fixed Rate in Reais (RWA_{JUR1})	949	5,233	1,362
1b Foreign Currency Coupon (RWA_{JUR2})	2,636	8,967	3,933
1c Price Index Coupon (RWA_{JUR3})	2,106	1,486	679
1d Interest Rate Coupon (RWA_{JUR4})	-	-	-
2 Shares (RWA_{ACS})	20	119	751
3 Foreign exchange (RWA_{CAM})	1,704	2,862	1,331
4 Commodity (RWA_{COM})	778	616	749
9 Total	8,193	19,282	8,805

Comments

In relation to the previous period, the main factor that contributed to the reduction in the Market Risk RWA for the standardised approach ($RWAMPAD$) was the decrease in exposure to foreign currency coupon.

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The MR2 table provides the components of the capital requirement under the internal model approaches – IMA (RWA_{MINT}) for market risk, according to Circular 3,646/13, for calculating the capital requirement.

RWA_{MINT} flow statements of market risk exposures under an IMA (MR2)

R\$ million	a	b	e	f
	VaR	Stressed VaR	Other	Total RWA_{MINT}
	Dec-21			
1 RWAmint at previous data base (Sep-21)	3,836	9,693	-	13,529
2 Movement in risk levels	(1,927)	(1,874)	-	(3,802)
3 Updates/changes to the internal model	-	-	-	-
4 Methodology and regulation	-	-	-	-
5 Acquisitions and disposals	-	-	-	-
6 Foreign exchange movements	9	8	-	17
7 Other	(7)	(6)	-	(13)
Regulatory Adjustment	904	(2,640)	-	(1,736)
8 RWAmint at end of reporting period (Dec-21)	2,815	5,180	-	7,995

Comments

Compared to the previous period, the main factor that contributed to the reduction in the Market Risk RWA for the internal model approach (RWA_{MINT}) was the decrease in exposure to foreign currency coupon.

MR3 table, display the values (maximum, average, minimum and end of quarter) resulting from the IMA.

IMA values for trading portfolios (MR3)

R\$ million	a		
	Dec-21	Sep-21	Dec-20
\\ VaR (10 day 99%)			
1 Maximum value	78.5	101.5	133.1
2 Average value	42.5	56.8	90.2
3 Minimum value	16.4	36.0	44.0
4 Quarter end	30.7	78.1	44.0
\\ Stressed VaR (10 day 99%)			
5 Maximum value	130.0	276.8	161.8
6 Average value	78.2	143.0	95.4
7 Minimum value	27.4	109.3	53.9
8 Quarter end	40.7	138.9	53.9

Comments

The decrease in exposure to foreign currency coupon influenced the average VaR observed in the quarter, compared to the previous period.

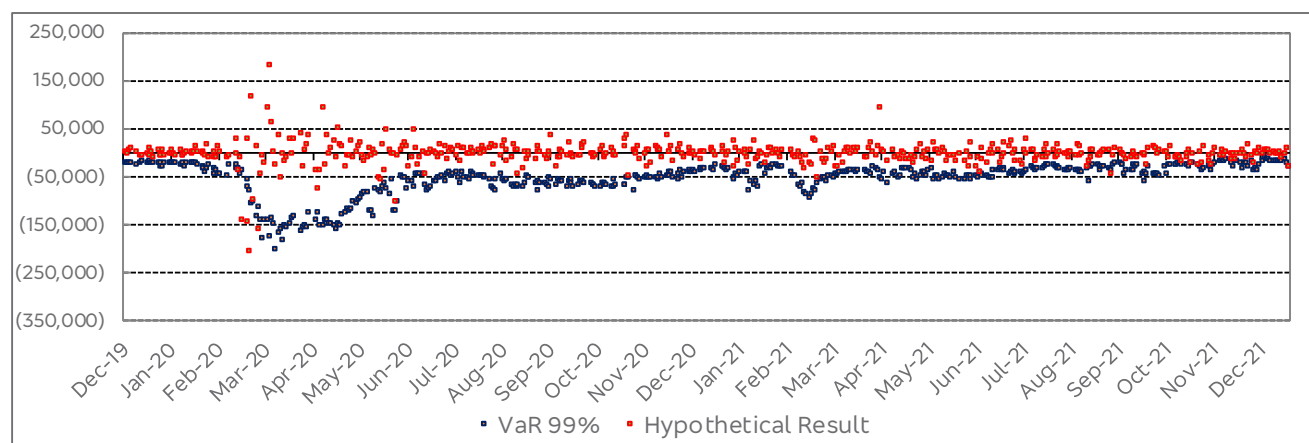
The MR4 table presents a comparison of the results of estimates from the regulatory VaR model with both hypothetical and actual trading outcomes, in market risk RWA determined under the IMA, according to Circular 3,646/13.

Comparison of VaR estimates with gains/losses (MR4)

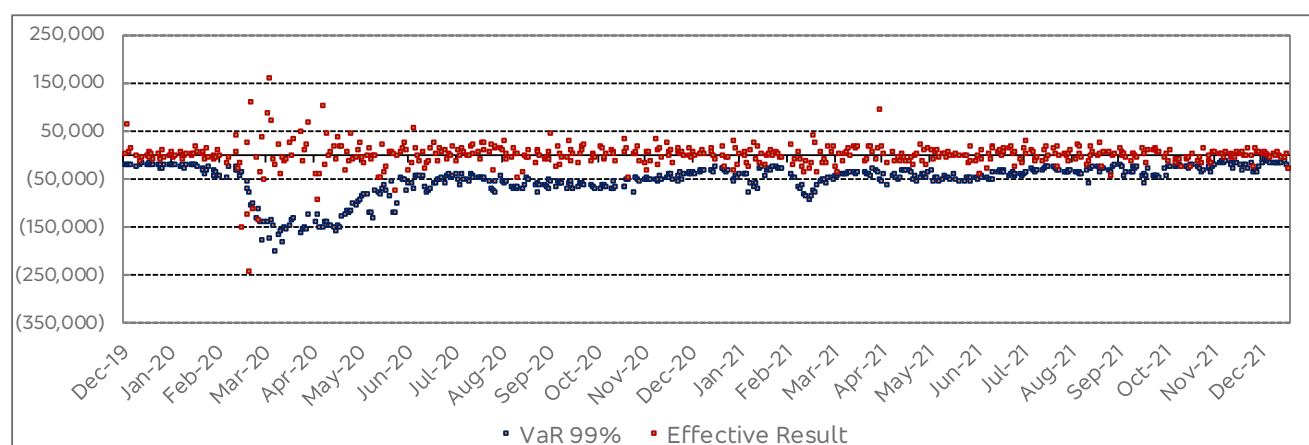
The following two graphs show the VaR of the Regulatory Portfolio for 1 day and the hypothetical and effective results, calculated daily. The actual result includes fees, brokerage, emoluments and commissions.

The Organization uses an internal market risk model, so the capital requirement associated with the model is 100%.

Daily VaR and Hypothetical Regulatory Result



Daily VaR and Regulatory Effective Result



Opening date	R\$ thousand			Reasons
	1-day VaR	Effective Result	Hypothetical Result	
03/05/20	31,160	30,600	36,387	Coronavirus increase the risk of a credit crisis and stocks fall.
03/09/20	36,393	138,141	140,660	Collapse in negotiations of Organization of the Petroleum Exporting Countries (OPEC).
03/11/20	53,400	123,441	141,495	WHO decrees that coronavirus is a global pandemic.
03/12/20	77,386	239,412	205,750	Global stock markets fall with a lack of action by governments and financial authorities.
03/18/20	111,437	147,334	157,756	Running for liquidity generates a generalized drop in risk and protection assets on the international stage.
06/17/21	50,630	52,722	54,559	Interest rate curve rises after Copom signals greater monetary tightening.
09/09/21	34,490	44,830	45,033	Manifestations on September 7th and higher-than-expected inflation increase risk aversion.
10/29/21	18,457	24,019	18,669	Market concern with fiscal responsibility leads to a rise in the yield curve and losses in Brazilian assets.

Total exposure associated with derivatives is presented in the table below.

Total exposure associated with derivatives (OPD)

	a	b	c	d	e	f	g	h
R\$ million	Dec-21							
Position	Long				Short			
Risk Factor	Central Counterparty		Non Central Counterparty		Central Counterparty		Non Central Counterparty	
	Brazil	Abroad	Brazil	Abroad	Brazil	Exterior	Brazil	Abroad
1 Interest Rate	48,476	0	97,481	16,374	(139,778)	(134)	(86,016)	(17,161)
2 Exchange Rate	23,316	-	48,298	12,128	(30,502)	-	(33,182)	(16,333)
3 Stock Prices	0	-	53	16	(325)	-	(1,006)	(26)
4 Commodities Prices	0	-	631	308	(315)	-	(276)	(355)

Comments

Trading and Banking Book Derivatives.

13. Interest Rate Risk in the Banking Book (IRRBB)

The interest rate risk in the banking book (IRRBB) can be understood as the possibility of an institution being negatively impacted in its results and in its capital, due to eventual variations in the level of interest rates and their respective impacts on the bank portfolio.

Banking Book: it comprises operations not classified in the Trading Book, arising from Organization's other businesses and their respective hedges.

13.1. IRRBB Management Process

The interest rate risk in the Banking Book is measured and controlled, mainly, using the Economic Value of Equity (EVE) variation methodologies, and the Net Interest Income (NII), which respectively measure, the economic impact on the positions and the impact on the result of the Organization, according to scenarios prepared by the Organization's economic area. These scenarios determine the positive and negative movements of interest rate curves that may affect Organization's investments and capital raising.

The EVE methodology consists of re-pricing the portfolio subject to interest rate variation based on increases or decreases in the rates used to calculate the present value and the total term of assets and liabilities. Thus, the economic value of the portfolio is calculated both based on the market interest rates on the analysis date as well as on scenarios projected. Thus, the difference between the amounts obtained for the portfolio will be ΔEVE .

For NII, the methodology aims to determine the variation in the net interest income of the Organization (gross margin), due to eventual variations in the level of interest rate, in other words, the difference between the NII calculated in the base scenario and the NII calculated in the increase or decrease of the interest rate scenario, will be ΔNII .

To measure the interest rate risk in the Banking Book, the premises related to the customer behavior, are used when necessary. As a reference, for demand and savings deposits with undetermined maturity, it is studied their historical behaviors and the possibility of maintaining them. Through these studies, are defined the stable amount (core portion), as well as, its criteria for the long-term allocation.

13.1.1. Calculation Metrics

All the mentioned metrics are calculated to meet the Governance of the Treasury for Asset and Liability Management Executive Committee, which provides for a fortnightly measurement. The reassessment of the shock scenarios occurs after each meeting of the Monetary Policy Committee (COPOM). If necessary, due to some specific demand, it is also possible to update the calculation in other periods.

13.1.2. Shock and Stress Scenarios

In addition to the standardized scenarios defined by the Regulator, the Organization's shock scenario generation process, used by the internal model in IRRBB calculating, includes quantitative approaches, based on statistical studies and simulations, as well as a prospective approach, which is under the direct responsibility of Studies and Economic Research Department (DEPEC).

The analysis period is between January 2004 and the end of the month prior to the revaluation of the scenario. This cut-off date was chosen so that, simultaneously: (i) capturing the most recent period of Brazilian economy, considering the various structural changes that occurred and the consequent downward trend of variables under analysis; and (ii) to capture the 2008 global crisis, which, by characterizing a period of stress per se, includes most of the maximum fluctuations observed in the risk factors in question.

13.1.3. IRRBB Measurement

Internal Model

The Organization has, in addition to the standardized methodology defined by the regulator, its own internal models that consider premises similar to the regulatory model. Among these premises, the following stand out:

- The Non Maturity Deposits (NMDs) are based on statistical studies that take into account evolution and behavior historical;
- Shocks are defined by the Studies and Economic Research Department (DEPEC) and validated by the Treasury for Asset and Liability Management Executive Committee based on historical data, statistical studies and prospective analyzes;
- The free shareholders' equity is used to calculate metrics.

Modeling and Standardization

We chose to consider the average spread of each product in the discount rate used in the calculation of its present value, that is, the discount rate includes the risk-free rate with the addition of the respective product spread.

The prepayment and early redemption models were based on statistical studies considering harvests and historical evolution of each product.

It is also important to mention that the internal shock scenarios consider consistencies between the risk factors, so that all the results or sensitivities generated can be added up.

Non Maturity Deposits (NMD)

Regarding NMD, both the internal model and the regulatory model have a similar maturity profile according to statistical studies based on aggregate balances. However, the regulatory model respects the average term defined by Circular 3,876.

13.1.4. Hedge and Use of Derivatives

The assets and liabilities mismatches management generated by the Organization's business in Brazil and abroad, in addition to hedging external assets, is carried out based on the analysis of the political-economic, national and international scenarios.

The results, strategies, behaviors and risks of mismatches and indexes maintained by the Organization are monitored and endorsed by the Treasury for Asset and Liability Management Executive Committee.

Asset and Liability management seeks to adjust the accounting treatment of the operations used for hedging with the behavior of the underlying assets and liabilities, in addition to aligning the strategic objective of maintaining the hedge.

13.2. IRRBB Details

The following table provides the variation metrics of Economic Value (Δ EVE) and variation of the result of financial intermediation (Δ NII), as established in Circular 3,876/18, under each of the prescribed interest rate standardized scenarios⁸.

Quantitative information on IRRBB (IRRBB1)

R\$ million Period	Δ EVE		Δ NII	
	Dec-21	Dec-20	Dec-21	Dec-20
Parallel up	10,125	12,599	6,093	3,709
Parallel down	(13,638)	(12,176)	(7,481)	(5,223)
Short rate up	10,453	10,409		
Short rate down	(12,084)	(11,310)		
Steepener	(6,061)	(3,433)		
Flattener	8,091	6,869		
Maximum	10,453	12,599	6,093	3,709
Period	Dec-21		Dec-20	
\ \ Tier 1 capital	130,565		118,282	

Comments

The decrease observed in the Outlier Test (maximum), from R\$ 12.6 billion in the 4Q20 to R\$ 10.4 billion in the 4Q21 is mainly due to the increase of the spot curve and the implementation of the BCB Resolution 48 (02/01/2021).

⁸ Δ EVE variations were affected by the implementation of BCB Resolution 48 (02/01/2021).

14. Social and Environmental Risk

Social and environmental risk refers to the potential damage that an economic activity can cause to society and the environment. Those risks associated with financial institutions are mainly indirect ones, arising from business relationships, including those in the supply chain and with customers, in the form of financing and investment activities.

14.1. Social and Environmental Risk Management Process

The social and environmental risk management process relies on a governance structure composed of committees, policies, rules and procedures, which proactively ensure proper identification, measurement, mitigation, monitoring and reporting of this risk. This process complies with BCB Resolution 4,327/14 and observes the principles of relevance and proportionality, which are necessary in view of the complexity of the Organization's financial products and the nature of its activities.

The Organization seeks to constantly incorporate and improve the criteria for managing the social and environmental risk arising from business relationships with customers, through credit and financing operations, with the application of a questionnaire that addresses environmental, social and governance aspects, in addition to analyzes of guarantees, suppliers and investments, which make up the scope of analysis reflected in the Organization's Social and Environmental Risk Standard.

The Organization assumed several commitments related to environmental and social aspects, such as the Carbon Disclosure Project (CDP), the Principles for Responsible Investment (PRI), the Business Charter for Human Rights and the Promotion of Decent Work (Ethos), the United Nations Global Compact (UNGC), the United Nations Environment Programme (UNEP-FI), the Global Compact, among others.

Equator Principles

Signatory to Equator Principles since 2004, which assesses, among other requirements, the working conditions, human rights, impacts on traditional communities and the environment of the projects financed by the Organization, observing the Brazilian legislation and the guidelines of the International Finance Corporation (IFC) and World Bank Group Health, Safety, and Environment Guidelines.

Implementation Process of Equator Principles

For implementation, the Organization's Financial Advisory and Project Finance service is performed by Banco Bradesco de Investimentos – BBI, with the support of the Social and Environmental Risk Control Area, part of Integrated Risk Control Department (DCIR) in presenting the content, application and benefits of compliance with Equator Principles by the proposed project.

Transactions involving Project Finance, Project Related Corporate Loans and Bridge Loans are structured mainly for the Corporate customers, which is responsible for obtaining and registering business by means of credit proposals. The economic and financial aspects of these proposals are analyzed by the Credit Department and social and environmental risk is assessed by the Social and Environmental Risk Control Area.

This area assesses proposals, analyzes documents, and categorizes projects under Equator Principles classifications of High Risk (Category A), Moderate Risk (Category B) or Low Risk (Category C). It then issues an opinion on social and environmental risk, according to the guidelines contained in the principles:

- **High Risk (Category A)** – Projects with potential for significant risks and/or social or environmental impact, which are multiple, irreversible or unprecedented.
- **Moderate Risk (Category B)** – Projects with potential for limited risks and/or social or environmental impact, in small numbers, limited in area, easily reversible and speedily controlled by mitigation measures.
- **Low Risk (Category C)** – Projects with no or very little risk or negative social or environmental impact, or with minimal, reversible risks that can be mitigated.

Loan agreements for transactions approved according to the established internal flow contain social and environmental obligations, which are monitored periodically.

The period that elapsed between the publication of the Principles and their implementation was very important in terms of lessons learned. During this period, it was possible to hold meetings with other Brazilian bank signatories to discuss the issues involved in implementing Equator Principles.

Internally, it was possible to plan for suitable processes, training the staff who would be dealing with the issue and involving the executive forums that are part of the social and environmental risk management process in the Organization.

For training on the new processes and procedures arising from Equator Principles, meetings were arranged with the analysts and managers of the areas involved within the Organization.

To add value to the analysis and control of social and environmental risk, and to help train the team, the analysts are allocated to working groups on specific issues such as: Contaminated Areas, Sustainable Finance, Biodiversity and so on. They are also members of the Equator Principles LATAM Task Force and attend meetings with other Brazilian bank signatories to update themselves and share experiences in respect of Equator Principles guidelines.

14.2. Control and Monitoring

Credit Operations

The Organization oversees the process of analysis, approval, documentation and subsequent monitoring of transactions covered by Equator Principles. To this end, the following items are analyzed:

- Project Finance Advisory Services for transactions exceeding US\$ 10 million;
- Project Finance for transactions exceeding US\$ 10 million;
- Corporate Project Lending where:
 - a) the greater part of the loan is directed towards a single project over which the customer has effective operating control;
 - b) the total value of the transaction exceeds US\$ 50 million;
 - c) the Organization's individual commitment (as a union member) is exceeds US\$ 50 million; and
 - d) the loan has a duration over two years.
- Bridge loans for less than two years to be refinanced by Project Finance or Corporate Project Lending;
- Refinancing Related to Projects and Acquisition Financing Related to Projects where:
 - a) The referred Project was financed in accordance with the Equator Principles framework;

- b) There was no significant change in the scale or scope of the Project;
- c) The physical completion of the project had not yet occurred at the time of signing the credit or loan agreement.

In addition to complying with Equator Principles, the Organization also obeys a set of criteria applying to social and environmental issues in credit analysis for projects where there is potential social or environmental risk.

This analysis includes checking for the existence of contaminated areas, embargoed areas, licenses, certificates and environmental studies. These information help to identify potential social and environmental risks, to be discussed with the customers.

Decisions taken by the Executive Credit Committee take into consideration social and environmental risks as well as other economic and financial aspects. Once a loan has been approved, negotiations take place with the customer and the loan agreement will include social and environmental obligations. Thereafter, projects that represent potential social and environmental risks are regularly monitored to ensure that these contractual obligations are fulfilled.

The subjects related to social and environmental risk are discussed in the Risk Management Executive Committee.

The Sustainability and Diversity Committee is responsible for validating the Corporate Sustainability Policy, and helps senior management to define strategies where involving organizational sustainability, and reports to the Board of Directors.

Supply Chain

The Organization conducts a Social and Environmental Assessment for suppliers, to ensure that social and environmental risks in the supply chain are minimized. Under this program, suppliers are constantly and permanently assessed for compliance with environmental, labor and occupational health and safety legislation, and with the international standards and internal guidelines adopted by the Organization.

14.2.1. Transactions required from Equator Principles (October to December 2021)

In the fourth quarter of 2021, the Advisory and Financing Services for Project Finance were not contracted, as well as Corporate Loan to Projects under the criteria of Equator Principles.

14.3. Internal Reporting

The topics relating to the analysis and monitoring of social and environmental risks are reported to the areas involved in the credit transaction and supplier processes, being regularly reported to the Executive Board and to the Board of Directors.

15. Model Risk

The Organization defines model as Quantitative estimation or Standard Rule, of regular or non-regular use, which affects the decision process. In this context, model risk is represented by the possibility of loss due to models with failures, deficiencies or inadequacies in the development process and/or use.

15.1. Model Management and Model Risk Process

The use of models to support the decision making for business is more and more frequent practice, it makes easier the structure of critical subjects, creates and improves processes, standardize and streamline decisions in the context that are inserted, besides being an important mean of knowledge retention.

On the other hand, there is a potential risk associated to its inadequate conception, development and maintenance, being necessary a suitable structure of roles and responsibilities, besides processes to identify and mitigate risks arising from the models use.

In the Organization, to support and respond for this process there are two areas that perform in an integrated and coordinated manner: Model Management area, responsible for the Independent Validation of Models activity and for the Models Governance, and Model Risk Control area.

Model Governance

It's main role is the establishment of rules and procedures, aiming the procedures standardization, management of the models inventory of the Organization, as well as to provide inputs to the Integrated Risk Control Department – DCIR, providing the due rating and control of the model risk.

Independent Validation of Models

The main purpose of the Independent Model Validation Area – AVIM, is to assess whether the models are working as expected as well as whether their results are suitable to the use, which they have been designed for.

The Independent Models Validation adopts a methodology that includes quantitative and qualitative aspects, assessing the adaptation of processes, governance, construction of models and their assumptions and the use and monitoring of models.

Model Risk Control

The Model Risk Control area is responsible for the assessment and classification of model risk and for establishing the governance process, control and periodic reporting of model risk.

15.2. Model Risk Methodology

The model methodology comprises the relevance classification of each model: Tier I, Tier II or Tier III, with Tier I being the most relevant and Tier III, the lowest. This classification occurs through the analysis of three dimensions, being the impact on decisions, materiality and complexity of the model. The model classification determines its prioritization and the criticality, which it will be assessed: review frequency, challenge forms, as well as the required control levels or minimum requirements to be met for model risk mitigation.

The assessment approach of the model risk is through a qualitative analysis through the main dimensions that make up the models. The dimensions are: methodology, data, technology environment, performance and governance. In assessing these dimensions, a rating model is assigned that will result in one of the five levels: Minimal Risk, Low Risk, Moderate Risk, High Risk, and Very High Risk.

15.3. Control and Monitoring

The Model Management process includes assignments of defining process changes and independent validation methodology and also prepare validation schedule based on prioritization criteria, both activities are reported to the Integrated Risk Management and Capital Allocation Committee, in addition to timely update the model inventory and revising model rating relevance (Tier).

Additionally, the Organization's model risk has its corporate control and monitoring by the Model Risk area of the Integrated Risk Control Department (DCIR). The Department advises the Risk Monitoring Executive Committee, where model risk monitoring is reported and also advises the Risk Management Executive Committee, where the methodologies for controlling and evaluating are discussed and formalized. Executive Committees report to the Integrated Risk Management and Capital Allocation Committee.

16. Operational Risk

Operational risk is represented by the possibility of losses resulting from failure, deficient or inadequate internal processes, people, systems, or external events.

16.1. Operational Risk Management Process

The Organization adopt the Three Lines model, which consist on identify and assign specific responsibilities to the Departments in a way that the essential tasks of operational risk management are carried out in an integrated and coordinated manner. Therefore, the following activities are carried out:

- Identify, evaluate and monitor operational risks inherent to the Organization activities;
- Assess the inherent operational risks to new products and services in order to adapt to legislation and procedures and controls;
- Map and treat the operational losses records to compose the internal databases;
- Supply analyzes that provide quality information to the Departments, aiming the operational risk management improvement;
- Evaluate scenarios and indicators for the purpose of economic capital composition and Organization's risk map improvement;
- Operational risk regulatory and economic capital assessment and calculation; and
- Report the operational risk and its main aspects reporting in order to support the Organization's strategic decisions.

These procedures are supported by several internal controls, independently certified as to their efficacy and execution, in order to achieve risk appetite limits established by the Organization.

16.2. Operational Risk Methodology Measure

Pursuant to Central Bank of Brazil Circular 3,640/13, the Organization adopted the Alternative Standardised Approach to calculate the risk-weighted assets corresponding to the Operational Risk (RWA_{OPAD}).

Moreover, the Organization uses the operational losses internal data, which are used to measure the operational risk economic capital based on internal models. In this context, the Organization classifies the operational risk events as follows:

Operational Risk Events

■ Internal Fraud	■ External Events
■ External Fraud	■ Information Technology
■ Human Resources	■ Processes
■ Commercial Relations	■ Activity Interruption

Another component that is part of economic capital calculation, and its information is used to analyze scenarios and compare operational losses events against major global banks, are the external data and, therefore, the Organization uses an operational losses database of worldwide consortium called Operational Riskdata Exchange (ORX).

16.3. Control and Monitoring

The operational risk is mainly controlled and monitored by the Integrated Risk Control Department (DCIR), an independent area supported by several areas composing the risk management process.

16.4. Internal Reporting

Issues related to operational losses, as well as controls and initiatives adopted for their mitigation, are presented and discussed periodically with the areas involved in the operational risk management process, including the Senior Management.

17. Business Continuity Management (BCM)

The Organization establish the Business Continuity program according to ABNT NBR ISO 22301, which defines as “the ability of the Organization to keep on delivering goods or services according to previously defined and acceptable levels after disruption incidents”.

The procedures adopted after a disruption, which must ensure an acceptable operational level for critical business processes – whether internal or outsourced –, are included into a Business Continuity Plan (BCP) or in a defined continuity strategy whose purpose is to recovery the activities reducing potential impacts for our customers.

The organizational and the governance structures established regarding Business Continuity include policies and standards that define the roles and responsibilities that must ensure the update and efficiency of the plans and strategies in use through the application of tests and exercises in business units on a regular basis. This process also takes into account the critical processes carried out by service providers who are considered “Material Providers Parties”.

These policies and standards are in line with the Central Bank of Brazil regulations and the recommendations of the Basel Committee on Banking Supervision. Business Continuity Management process is under the responsibility of the Business Continuity Management area, part of Integrated Risk Control Department (DCIR).

17.1. Business Continuity Management Process

The business continuity management process is carried out in a corporate and integrated manner, in order to accomplish the annual cycle of this activity in the Organization. According to this process, the units must:

- Review business processes based on the Business Impact Assessment (BIA) on a timely basis;
- Assess Business Continuity strategies;
- Keep all plans duly reviewed and updated in a corporate tool;
- Promote awareness on Business Continuity to the persons involved in the activities;
- Test all plans and strategies according to the annual planning;
- Analyze the outcomes and make the adjustments and improvements required;
- Identify, assess and handle all continuity procedures that involve providers and systems that are deemed material for the unit’s activities.

The business continuity actions are developed internally, based on the best practices issued by the key international entities in the sector: DRI International (USA) and BCI – Business Continuity Institute (UK). It also takes into account national rulings and frameworks, such as ABNT NBR ISO 22301 and ABNT NBR ISO 22313 standards.

17.2. Control and Monitoring

All stages of the Management process are controlled and followed up through tests and exercises, whose results are assessed and provided to the respective departments and to forums of the Organization, making available to the Regulatory Agencies, and Internal and External Audits.

17.3. Internal Reporting

All communication actions are accessible to all departments and employees through: Policies and Standards on Business Continuity and Material Providers, available at the Normative system; On-line training programs offered in the corporate intranet system; Meetings held with BCM Representatives; and awareness trainings.

18. Corporate Crisis Management

A “crisis” is characterized as the occurrence of an adverse event extremely rare, unstable and complex that may result in a relationship deterioration with stakeholders and also, represent a potential threat to strategic objectives, reputation or even the Organization existence.

18.1. Corporate Crisis Management Process

The corporate crisis management process contributes so that any signs of crisis are timely identified, evaluated, classified according to their severity, in order to actions are promptly taken to reestablish the normal activities course and strengthen the Organization's operational resilience.

The corporate Crisis Management process comprises the following stages:

- **Prevention:** Identify vulnerabilities and develop scenarios that could result in a crisis;
- **Preparation:** Develop crisis response plans and conduct training;
- **Response:** Trigger crisis management and execute response plans;
- **Recovery:** Identify opportunities to improve processes and crisis management plans.

In order to harmonize the severity of a crisis perception, the Organization established 4 ‘Impacts Levels’ that support the resources optimization and dimensioning of the necessary efforts in light of the event that is presented, being low, medium, high or critical impact.

18.2. Corporate Crisis Management Structure

The corporate crisis management structure comprises a robust control process, composed by forums that support the Crisis Management Executive Committee in decision-making, informing and proposing necessary actions and reporting the effectiveness of the actions taken.

18.3. Internal Reporting

The internal communication of corporate crisis management is carried out in a timely manner, through the issuance of newsletters and reports to the Crisis Management Executive Committee and other involved areas.

As necessary, the Organization carries out timely communication with stakeholders informing about the occurrence, ongoing actions and guidance to customers.

19. Step-in Risk

Step-in risk is represented by the possibility of financial loss resulting from the Organization's (contractual or non-contractual) relationships with controlled, affiliated companies, parallel structures, parent companies, investment funds, foundations, suppliers and unconsolidated partners in the Prudential Conglomerate.

19.1. Step-in Risk Management Process

The Organization, in view of the complexity and variety of its activities, interacts with several entities not present in the consolidation of the financial statements and, therefore, is also exposed to various types of risks, whether they arise from internal or external factors.

The step-in risk management process is carried out in a corporate and integrated manner, comprising the evaluation of unconsolidated relationships in the Prudential Conglomerate, in which, regardless of whether or not there is participation in the capital, they may generate a need for a future financial contribution, even if there is no legal or contractual obligation to do so, other than the possibility of impacting the Organization's reputation. With this in mind, this process contributes so that any signs of contagion are identified in a timely manner, evaluated and classified according to their severity, so that actions are promptly adopted in order to subsidize Senior Management in decision-making.

Therefore, the Organization recognized this theme in the Step-in Risk Policy and Guideline, which deals with the scope of assessment, methodology and governance of step-in risk. The methodology comprises a set of financial indicators, the control environment, management and materiality of the entity that aim to capture the probability and impact of a potential step-in risk of the assessed entity, resulting in classification in one of the following levels: Minimum, Low, Moderate, High and Very High.

19.2. Control and Monitoring

The Organization's step-in risk is controlled and monitored by the Step-in Risk Area at the Integrated Risk Control Department - DCIR. The Department is responsible for the Risk Control Commission, where aspects related to methodology, governance and monitoring of step-in risk are discussed. This Commission also advises the Risk Monitoring Executive Committee, where the step-in risk monitoring is reported and also advises the Risk Management Executive Committee, where the methodologies for controlling and assessing the step-in risk are formalized, and these Executive Committees are subordinate to the Integrated Risk Management and Capital Allocation Committee.

19.3. Internal Reporting

Matters related to step-in risk events are reported periodically in the Organization's risk control forums, in a timely manner, including timely communication with stakeholders.

20. Cyber Security Risk

Cyber Security Risk is represented by the possibility of cyber incidents, including attacks, intrusions and leakage, that could compromise the confidentiality, integrity and/or availability of critical Organization's processes, assets and/or infrastructure.

20.1. Cyber Security Risk Management Process

The cyber security risk management framework aims to ensure governance compatible with the Organization's size, risk profile and business model, so that critical IT assets and infrastructure are able to resist cyber attacks. This structure is adopted in a corporate manner and involves Organization's several areas, which have specific attributions, ensuring an efficient structure in the control and mitigation of these risks, allowing them to be identified, measured, manage and communicated, contributing to the achievement of strategic objectives.

To ensure the proper management of cyber security risk, which allows for an adequate assessment of risks and support managers and Senior Management in decision-making, the Organization is based on the pillars of Information Security and Cybernetics:

- **Confidentiality:** With proper classification, encryption, access controls and network segmentation so that the right to read, copy and use information is granted only when necessary and to authorized persons, protecting the Organization against misuse or data leakage;
- **Availability:** With proper backup, contingency and redundancy procedures, so that critical business processes can be performed properly, protecting the Organization's assets against cyber attacks that deplete the capacity of the technology infrastructure and cause instability, deactivation or unavailability services;
- **Integrity:** With proper authentication, traceability and data protection controls to ensure accuracy, consistency and reliability of information, protecting the Organization's assets against malicious software or cyber attacks that cause data to be corrupted, altered or destroyed.

The above principles are followed in adopting the best market practices in processes, methodology and controls for the identification and management of cyber security risk, as well as the prevention and treatment of information security and cyber incidents. For this, the following activities are carried out:

- **Threat Identification:** Detect and identify threats and vulnerabilities, as well as identify and assess risks and define potential scenarios that could affect the Organization's cyber environment. This stage also comprises the continuous governance indicators monitoring that contribute to improve the trends identification and anticipate possible incidents;
- **Protection Against Attacks:** Take preventive actions to mitigate or transfer cyber security risk and safeguard critical assets, such as information and cyber security awareness and training, as well as implement security updates, protection against viruses, files and malicious software, managed and periodically updated;
- **Attack Detection:** Timely monitor and identify the risk materialized in attacks or information leakage, with monitoring tools and investigation processes that inform those responsible for response actions;
- **Attack Response and Recovery:** Record, analyze the origin and relevant incidents effects, duly detailed actions in specific Incident Management regulations, defining the criticality assessment, designation of persons responsible and expected action to contain the incident, restore the assets and mitigating the impacts in addition to guiding the actions to be taken in the post-incident to support decision-making that prevents the new similar attacks occurrence.

20.2. Cyber Security Risk Methodology Measure

The Organization uses internal and external information sources about new threats types, vulnerabilities and cyber attacks, in addition to market standards such as ISO/IEC 27005:2018 - Information Security Risk Management, NIST Cybersecurity Framework - NIST CSF (Guide to Improving Cyber Security for Critical Infrastructure) and the Information Security Forum (ISF) for the development of an internal cyber security risk assessment model.

Incident Severity Classification

Information and cyber security incidents are classified according to the severity factors defined in the Information Security Incident Severity Matrix, considering the potential impacts on related parties, financial, regulatory, reputational and availability of systems or services.

Tactical Actions Group for Information and Cyber Security Incidents (GATI)

When setting the severity of an information security or cyber security incident as critical, the Information and Cyber Security Incident Management (GIS), Computer Security Incident Response Team (CSIRT) or Security Operation Center (SOC) teams trigger the Tactical Actions Group for Information and Cyber Security Incidents (GATI), this multidisciplinary group is formed by members of the Legal, IT Infrastructure, Digital Channels, Marketing, Compliance, Conduct and Ethics, Integrated Risk Control, Retail, high-income individuals and Wholesale departments, whose objective is to conduct the technical analysis and take steps to deal with prioritized incidents.

Hiring Relevant Service Providers

To ensure cyber security of relevant services whose process involves the service providers participation in data processing and storage and cloud computing, the contracting process must comply with the security requirements indicated by the Technical Cloud Assessment Group (GTAN) constituted by the departments of Systems, Legal, Research and Innovation, IT Infrastructure, Integrated Risk Control and Information Security for Third Parties in order to observe the risks inherent to the service to be provided.

20.3. Control and Monitoring

The Organization's Cyber Security Risk is controlled and monitored by the Risk Control Commission, where aspects related to methodology, governance and monitoring of cyber security risk are discussed. This Commission also advises the Risk Monitoring Executive Committee, where cyber security risk monitoring is reported, and also advises the Risk Management Executive Committee, where methodologies for cyber security risk control and assessment are formalized, and these Executive Committees are subordinates to the Integrated Risk Management and Capital Allocation Committee.

In compliance with BCB Resolution 4,893/21, the Organization uses various means such as internal policies and standards revised annually, training and awareness activities in information and cyber security, communication of threats and incidents to stakeholders, Information Security and Cybernetics indicator management process, issuing an annual report, in addition to independent effectiveness tests and periodic carried out in key controls to control and monitor cyber security risk.

20.4. Internal Reporting

Matters related to cyber security risk events are reported periodically in the Organization's risk control forums, in a timely manner, including timely communication with stakeholders.

21. Compliance Risk

It is the risk arising from legal or administrative sanctions, financial losses, reputational and other damages due to non-compliance or failure to observe the legal framework, the infralegal regulation, the recommendations of regulatory bodies and of self-regulatory organizations and ethical conduct codes applicable to the activities.

21.1. Management Process

The Organization adopts the three lines model, which consists of identifying and assigning specific responsibilities to areas so that essential compliance risk management activities are carried out in an integrated and coordinated manner. In this way, the following activities are carried out:

- Evaluating the legal and regulatory aspects concerning the Organization's products and services;
- Monitoring and internally disclosing new regulations and legislation applicable to the Organization's activities;
- Advising the Organization on compliance matters;
- Monitoring the implementation of policies and procedures;
- Identifying, assessing and monitoring compliance risks inherent to the Organization's activities;
- Establishing rules and procedures aimed at the Organization's adherence to the Code of Ethical Conduct and to external rules on conduct with the customer, competition and anti-corruption;
- Managing the Expected Conduct Program through the implementation/follow-up of monitoring of misconduct not tolerated by the Organization.

These procedures are aligned with the Compliance Activities Management Cycle, distributed in actions focused on strategy, prevention, detection, response and remediation and reporting. The Compliance area performance is guided by the Annual Work Plan, prepared annually considering criteria and assumptions based on risk analysis and submitted for approval by the Integrated Risk Management and Capital Allocation Committee – COGIRAC.

21.2. Control and Monitoring

Compliance Risk is primarily controlled and monitored by an independent area, the Compliance, Conduct and Ethics Department – DCCE, and is supported by several areas that are part of the risk management process.

21.3. Internal Reporting

Matters related to compliance are presented and discussed periodically with the areas involved in the compliance risk management process, including the Senior Management.

22. Administrators Compensation

22.1. Remuneration Committee

The Committee shall be composed of three (3) to seven (7) members, chosen from among the members of the Banco Bradesco S.A.'s Board of Directors, except for one (1) member that will be, necessarily, a non-manager, all with two (2) year term of office, and one of them shall be designated as Coordinator.

This Committee has as purpose to assist the Board of Directors in the conduct of the administrator's compensation policy, pursuant to the current legislation.

The Remuneration Committee is composed of the following members (base date December/2021):

Members	Function
Luiz Carlos Trabuco Cappi	Coordinator
Carlos Alberto Rodrigues Guilherme	Member
Milton Matsumoto	Member
Alexandre da Silva Gluher	Member
Maurício Machado de Minas	Member
Fábio Augusto Iwasaki	Non-Managing Member

22.2. Remuneration Structure

22.2.1. Compensation Policy

Its objective policy:

- To assure that the remuneration practice is in accordance with the legislation, principles and regulations that control the matters, based on Administrators responsibilities, considering their different positions and functions; the time dedicated to their functions; the professional competency and reputation, considering their experience and qualification; and the value of their services in the market;
- To provide the alignment between the Administrator's remuneration practices and the Organization's interests, so that the decisions made are the best possible, aiming to create value for its shareholders and investors; and
- To guarantee that the remuneration practice is related to objectives that seek the Organization's appreciation, not motivating behaviors that increase the exposure to risks considered above a prudent level, in the short, mid and long term adopted strategies.

The Compensation Policy is revised once a year, the last revision being carried out in March 2021.

22.2.2. Assessment Process

22.2.2.1. Corporate Assessment Process

The uniformity in the treatment of work areas is one of the keys to the Organization's effectiveness, as a way of inhibiting propensities to individualism, maintaining a more favorable environment for teamwork.

The Organization maintains a collegiate management culture, in which all relevant business or administrative decisions are made through committees composed mainly of Administrators.

Thus, even with the establishment of targets and goals for all areas, individually, for the remuneration purpose, the overall performance of the Organization prevails, without distinction of area, whether it is considered to be support or business, technical or relationship.

This overall performance, referred to in the Corporate Rule as the Corporate Assessment Process, takes into consideration the outcome of performance indicators, as follows:

- ROAE – Return On Average Equity;
- Overall Customer Satisfaction Index;
- Tier I Ratio;
- Operating Efficiency Ratio (ER);
- Social and Environmental Dimension of Market Indexes; and
- Coverage Ratio.

22.2.2.2. Individual Assessment Process

The individual performance of the Administrators, as well as their corresponding areas, is monitored by their respective superiors, according to the formal assessment process, in compliance with the requirements of CMN Resolution 3,921/10.

For the formal assessment process, specific indicators are defined for the evaluation of the areas and for individual evaluation, according to the Administrator's functions, considering the business areas, control areas and other support areas.

For **areas assessment**, at least the following groups of indicators are considered:

- **Main activity actions:** are indicators that refer to the target and goals of the main activities of the area;
- **Actions aimed at operational efficiency:** are indicators that measure the operational efficiency, in order to maximize their results with minimum use of resources;
- **Actions focused on risk management:** are corporate indicators that measure exposure to risks and internal controls, properly monitored by the responsible Area (Integrated Risk Control Department - DCIR);
- **Actions aimed at customer service:** are indicators that assess the results / levels of satisfaction of internal and/or external customers; and
- **Actions focused on socio and environmental aspects:** are indicators that assess the degree of adherence to the Strategy of Corporate Sustainability, in conducting the area objectives, considering ESG aspects (Environmental, including Climate Change, Social and Governance) and the performance in the main Sustainability Indexes and Ratings.

For **individual assessment**, at least the following indicators are considered:

- **Quality of products/services:** aims to evaluate the quality standards of products/services offered/provided according to the area of the assessed Administrator;

- **Commitment to the strategy:** aims to evaluate whether its performance reflected positively with material contributions to Strategic Planning in the period;
- **Participation in collegiate decisions:** aims to evaluate the active participation in summoned meetings and committees, with opinions that contributed to the submitted decisions;
- **Team leadership:** evaluates the team management process;
- **Planning:** assesses the ability to plan the activities of their area in the medium and long term;
- **Overview:** evaluates, mainly, the Administrators' vision about future trends to meet the market demands; and
- The indicators listed above apply to the Board of Directors and its respective members, where applicable.

The Administrators performance assessment of the internal control and risk management areas must be based on the achievement of the objectives of their own functions and not specifically on the overall performance of the Organization. Internal control and risk areas within the Organization are considered, the Integrated Risk Control Department – DCIR and the General Inspectorate Department – IGL, as well as the related areas of the other companies of the Bradesco Organization.

22.2.3. Remuneration X Organization Objectives

One of the guidelines of the Administrators Compensation Policy is to ensure that the practice of remuneration is related to objectives that seek to enhance the Bradesco Organization and the individual, not encouraging behaviors that increase the exposure to risks above the levels considered prudent in the strategies of short, medium and long term adopted by the Bradesco Organization.

In view of this, through the payment of fixed remuneration, Bradesco seeks, in the short term, to align the interests of its administrators with its own.

In order to encourage the alignment of interests in the medium term, Bradesco may pay variable remuneration to its managers, as detailed in chapter 22.2.4, which will be deliberated after verifying the satisfaction of the specific indicators.

22.2.4. Remuneration of the Board of Directors and Executive Board

The remuneration structure of Bradesco's administrators, consisting of fixed remuneration (monthly fees) and variable remuneration (multiple fixed fees), in line with the guidelines established in its Administrators Compensation Policy, which takes into account the requirements of CMN Resolution 3,921/10, and, in addition, the post-employment benefit in the Supplementary Pension Plan, seek to align the interests of administrators with Bradesco's projects and results.

The remuneration composition of the Board of Directors and Executive Board is detailed below:

- **Fixed Remuneration or Monthly Fees:** fixed monthly remunerations established for the term of the Administrator's mandate;
- **Variable Remuneration:** value attributed to the Administrators, as performance remuneration, in addition to the Fixed Remuneration, based on the target criteria and performance indicators. It should be noted that the total Variable Remuneration will be paid on a date to be defined by the Board of Directors, and 50% (fifty per cent) of the net value of the Variable Remuneration will be in cash and 50% (fifty percent) allocated to the acquisition of PN shares (Preferred Shares) issued by Bradesco or PNB shares issued by BBD Participações S.A (a member of Bradesco's control group),

which are recorded and unavailable (“Restricted Shares”). The Restricted Shares are subject to adjustments if there is a significant reduction in Bradesco's recurring realized profit, or if the financial result is negative, during the deferral period, which become available in 3 (three) equal, annual and successive installments, the first installment being due one year after the date of acquisition of the shares;

- **Overall Amount:** comprises the total remuneration (fixed and variable remuneration);
- Additionally, the administrators are entitled to a Pension Plan that aims to ensure their performance in line with the continuity of business and the creation of long-term value for the Organization. This system binds the administrators to a cautious management and in line with the long-term risks, leading to an increase in the amounts distributed to the Organization's shareholders.

For the definition of the global amount of remuneration, the Organization observes the following criteria:

- **Organization Remuneration Committee:** proposes to the Board of Directors the Global Amount of remuneration (Monthly Remuneration and Variable Remuneration). The payment of the Variable Remuneration will observe the criteria of goals and performance indicators to be established and will be limited to the Global Amount, to be distributed to the Administrators.

To define the Overall Remuneration Amount (Monthly Remuneration and Variable Remuneration), the Remuneration Committee shall observe the following aspects:

- Size and result of the company compared to its competitors;
- Domestic and international economic conditions, considering the past, present and future scenarios;
- Internal and external factors that may affect the Bradesco Organization's businesses (current and potential risks); and
- The Organization's overall performance, involving recurring realized profits and the ability to generate cash flows.

The Remuneration Committee will use other indicators when deemed necessary and appropriate. In addition, it will use studies, evaluations, surveys and other materials prepared by the technical areas, such as the Studies and Economic Research Department – DEPEC, Controllership Department, General Accounting Department and Integrated Risk Control Department – DCIR, besides other departments the Committee deem convenient.

- **Board of Directors:** the Organization's top management body, which is responsible for evaluating the Remuneration Committee's proposals and deliberating on them;
- **General Shareholders' Meeting:** it is incumbent upon the General Shareholders' Meeting to approve the Overall Amount of the Company's remuneration.

Once all the steps of determining and approving the Overall Amount of remuneration have been fulfilled, it is the responsibility of Bradesco's Board of Directors to define the remuneration of each of its Managers, composed of Monthly Remuneration and, based on the fulfilment of the target criteria and indicators, Variable Remuneration.

22.3. Remuneration attributed

REM1: Remuneration awarded during the financial year

The table below shows the remuneration attributed to the senior management and members of the board of directors during the reference year.

R\$ million		a	b
		2021	
Remuneration amount		Senior management	Board of Directors
1	Number of employees (qty)	140	10
2	Total fixed remuneration (3 + 4 + 5)	252	23
3	Fixed remuneration Of which: cash-based	252	23
4	Of which: shares or other share-linked instruments	-	-
5	Of which: other forms	-	-
6	Number of employees (qty)	140	10
7	Total variable remuneration (8 + 10 + 12)	568	50
8	Of which: cash-based	284	25
9	Variable remuneration Of which: deferred	-	-
10	Of which: shares or other share-linked instruments	284	25
11	Of which: deferred	284	25
12	Of which: other forms	-	-
13	Of which: deferred	-	-
14	Total remuneration (2 + 7)	819	74

REM2: Special payments

The Organization does not practice extraordinary payments to employees dismissed.

REM3: Deferred remuneration

The table below shows the total deferred remuneration during the reference year.

	a	b	c	d	e
Deferred Remuneration (R\$ million)	Total amount of outstanding deferred remuneration	Of which: Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment	Total amount of amendment during the year due to ex post explicit adjustments	Total amount of amendment during the year due to ex post implicit adjustments	Total amount of deferred remuneration paid out in the financial year
\\ Senior management	183	183	-	-	79
Cash	-	-	-	-	-
Shares	183	183	-	-	79
Cash-linked instruments	-	-	-	-	-
Others	-	-	-	-	-
\\ Board of Directors	36	36	-	-	12
Cash	-	-	-	-	-
Shares	36	36	-	-	12
Cash-linked instruments	-	-	-	-	-
Others	-	-	-	-	-
\\ Total	219	219	-	-	91

I. Appendix

The appendix described below are available on the Investor Relations website (bradescom.br – Market Information – Risk Management – Exhibits Pillar 3), as well as all the tables listed in this document.

Institutions Participating in the Prudential Conglomerate – IPCP

Show the scope of the publication, in addition to the Prudential Conglomerate's institutions, the following companies are also part of the consolidation.

Relevant Institutions – IREL

List of the main companies, with a direct and indirect interest, included in the accounting statements.

Equity Interests – PS

Information on the companies' equity interests.

II. Normative References

At the time of editing this Report, the Resolutions and Circular listed below were in effect. However, they were revoked as of January/2022 by the corresponding Resolutions.

Resolution/ Circular in effect on base date of this publication	Revocation as of January/2022
■ Resolution CMN 2,554/98	■ Resolution CMN 4,968/21
■ Resolution CMN 4,192/13	■ Resolution CMN 4,955/21
■ Resolution CMN 4,193/13 ■ Resolution CMN 4,783/20	■ Resolution CMN 4,958/21
■ Circular 3,751/15	■ Resolution BCB 171/21

III. Glossary

A

ABNT – *Associação Brasileira de Normas Técnicas* (Brazilian Technical Standards Association)

ACP – *Adicional de Capital Principal* (Additional CET1 buffer requirements)

AML/CFT – Prevention and Combating of Money Laundering and to Terrorist Financing

ANS – National Regulatory Agency for Private Health Insurance and Plans

ASF – Available Stable Funding

AVIM – Independent Model Validation Area

B

BBI – *Banco Bradesco de Investimentos*

BCB – Central Bank of Brazil

BCBS – Basel Committee on Banking Supervision

BCI – Business Continuity Institute

BCM – Business Continuity Management

BCP – Business Continuity Plan

BIA – Business Impact Assessment

C

CCF – Credit Conversion Factors

CCR – Counterparty Credit Risk

CEO – Chief Executive Officer

CET1 – Common Equity Tier I

CMM – Mark-to-Market Commission

CMN – National Monetary Council's

COGIRAC – Integrated Risk Management and Capital Allocation Committee

CONTROLLERSHIP – Controllership Department

CRI – *Certificado de Recebível Imobiliário* (Securitized Real Estate Loans)

CRM – Credit Risk Mitigation

CRO – Chief Risk Officer

CVA – Credit Value Adjustment

D

DCCE – Compliance, Conduct and Ethics Department

DCIR – Integrated Risk Control Department

DEPEC – Studies and Economic Research Department

E

EVE – Economic Value of Equity

F

FIDC – *Fundo de Investimento em Direito Creditório* (Credit Rights Investment Funds)

FSB – Financial Stability Board

H

HQLA – High Quality Liquid Assets

I

ICAAP – Internal Capital Adequacy Assessment Process

IFC – International Finance Corporation

IMA – Internal Model Approaches

ISO – International Organization for Standardization

L

LCR – Liquidity Coverage Ratio

LR – Leverage Ratio

N

NBR – *Norma Brasileira* (Brazilian Rule)

NII – Net Interest Income

NSFR – Net Stable Funding Ratio

O

ORX – Operational Riskdata Exchange

OTC – Over-the-counter

P

P&L – Profit and Loss

R

RAS – Risk Appetite Statement

RML – *Reserva Mínima de Liquidez* (Minimum Liquidity Reserve)

RSF – Required Stable Funding

RWA – Risk-Weighted Assets

RWA_{CPAD} – Risk-weighted assets portion relating to credit risk, standard approach

RWA_{MPAD} – Risk-weighted assets portion relating to market risk, standard approach

RWA_{MINT} – Risk-weighted assets portion relating to market risk, internal approach

RWA_{OPAD} – Risk-weighted assets portion relating to operational risk, standard approach

S

SA – Standardized Approach

SUSEP – Superintendence of Private Insurance

U

UK – United Kingdom

USA – United States of America

V

VaR – Value at Risk



bradesco