

# Risk Management Report

Pillar 3

4<sup>th</sup>

Quarter  
2019

 bradesco

## ► Summary

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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.

## 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 Circular 3,678, of October 31, 2013. 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, 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 institution<sup>1</sup> 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 and the Consolidated Financial Statements, which presents other information about Organization activities. For more information, access our Investors Relations website at [www.bradescori.com.br](http://www.bradescori.com.br).

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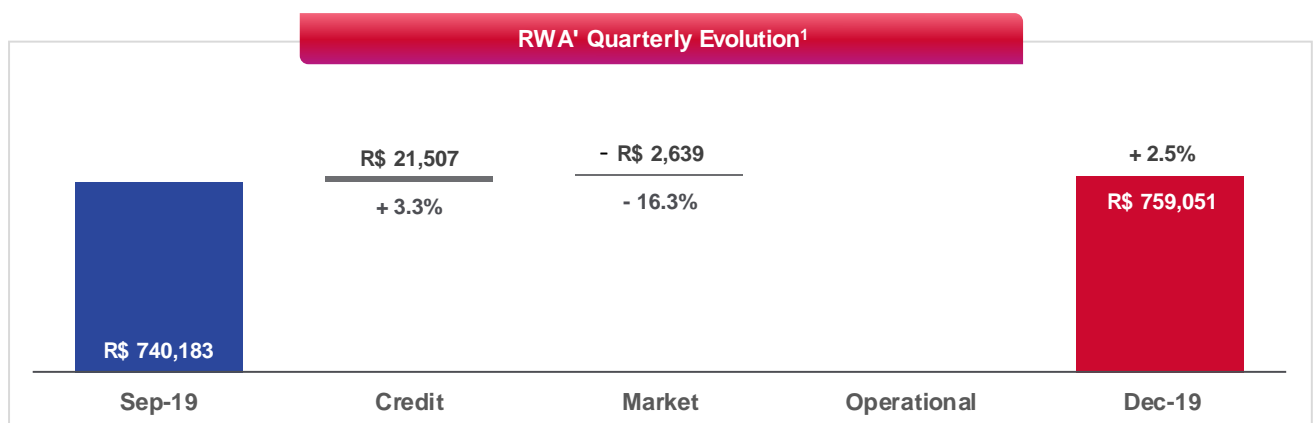
<sup>1</sup> As per BIS document named “Regulatory Consistency Assessment Programme (RCAP) – Assessment of Basel III regulations in Brazil”, of December 2013.

## 1.1. Main Indicators

The Organization carries out the 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 main indicators, obtained under the viewpoint of the Prudential Conglomerate:

<b>Basel Ratio</b> <b>16.5%</b> -1.6 p.p. in the quarter 3Q19: 18.1%	<b>Tier I Ratio</b> <b>13.3%</b> -1.4 p.p. in the quarter 3Q19: 14.7%	<b>Common Equity Ratio</b> <b>12.0%</b> -1.4 p.p. in the quarter 3Q19: 13.4%	<b>Leverage Ratio</b> <b>8.2%</b> -0.7 p.p. in the quarter 3Q19: 8.9%
<b>Total RWA<sup>1</sup></b> <b>R\$ 759,051</b> + 2.5% in the quarter 3Q19: R\$ 740,183	<b>Credit Risk RWA<sup>1</sup></b> <b>R\$ 680,908</b> + 3.3% in the quarter 3Q19: R\$ 659,401	<b>Market Risk RWA<sup>1</sup></b> <b>R\$ 13,571</b> - 16.3% in the quarter 3Q19: R\$ 16,210	<b>Operational Risk RWA<sup>1</sup></b> <b>R\$ 64,572</b> 0.0% in the quarter 3Q19: R\$ 64,572



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

<b>Basel Ratio</b> <b>11.0%</b> in 2018 <b>11.5%</b> as of 2019	<b>Tier I Ratio<sup>2</sup></b> <b>8.4%</b> in 2018 <b>9.5%</b> as of 2019	<b>Common Equity Ratio<sup>2</sup></b> <b>6.9%</b> in 2018 <b>8.0%</b> as of 2019	<b>Leverage Ratio</b> <b>3.0%</b> <small>The minimum requirement was defined by CMN Resolution 4,615, in 30/11/2017, effective as of 1/1/2018.</small>
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<sup>1</sup> Amount in million (BRL).

<sup>2</sup> The Tier I Ratio and the Common Equity Ratio encompass the Additional of Conservation, Systemic and Countercyclical, as per the CMN Resolution 4,193/13 and BCB Circular 3,768/15 e 3,769/15, respectively.

## 2. Regulatory Risk Indicators – Prudential Conglomerate

	Dec-19	Sep-19	Dec-18
<b>Capital Ratios</b>			
<b>Basel Ratio <sup>(1)</sup></b>	<b>16.5%</b>	<b>18.1%</b>	<b>17.8%</b>
Minimum Regulatory Requirement + ACP	11.5%	11.5%	11.0%
<b>Tier I Ratio</b>	<b>13.3%</b>	<b>14.7%</b>	<b>13.7%</b>
Minimum Regulatory Requirement + ACP	9.5%	9.5%	8.4%
<b>Common Equity Ratio</b>	<b>12.0%</b>	<b>13.4%</b>	<b>12.3%</b>
Minimum Regulatory Requirement + ACP	8.0%	8.0%	6.9%
<b>Capital Composition - R\$ million</b>			
<b>Reference Equity (A + B + C)</b>	<b>125,275</b>	<b>134,334</b>	<b>117,940</b>
<b>Tier I Reference Equity (A + B)</b>	<b>100,832</b>	<b>108,818</b>	<b>90,322</b>
<b>Tier II Reference Equity (C)</b>	<b>24,444</b>	<b>25,516</b>	<b>27,618</b>
<b>A. Core Capital</b>	<b>91,272</b>	<b>99,031</b>	<b>81,090</b>
Shareholders' Equity	133,723	138,313	121,121
Prudential Adjustments	(42,452)	(39,282)	(40,031)
<b>B. Additional Capital</b>	<b>9,560</b>	<b>9,787</b>	<b>9,232</b>
<b>C. Tier II</b>	<b>24,444</b>	<b>25,516</b>	<b>27,618</b>
Subordinated Debt	24,444	25,516	27,618
<b>Risk Weighted Assets</b>	<b>759,051</b>	<b>740,183</b>	<b>661,616</b>
Credit Risk Weighted Assets	680,908	659,401	598,058
Market Risk Weighted Assets	13,571	16,210	10,407
Operational Risk Weighted Assets	64,572	64,572	53,151
<b>LEVERAGE RATIO <sup>(2)</sup></b>	<b>8.2%</b>	<b>8.9%</b>	<b>7.8%</b>
Reference Equity Level I	100,832	108,818	90,322
Total Exposure	1,228,715	1,220,473	1,153,552
<b>LIQUIDITY COVERAGE RATIO (LCR)</b>	<b>143.8%</b>	<b>168.2%</b>	<b>171.8%</b>
Minimum Regulatory Requirement <sup>(3)</sup>	100.0%	100.0%	90.0%
<b>NET STABLE FUNDING RATIO (NSFR)</b>	<b>115.2%</b>	<b>117.0%</b>	-
Minimum Regulatory Requirement <sup>(4)</sup>	100.0%	100.0%	-

(1) In terms of margin, the amount totaled R\$ 28.7 billion, allowing for an increase of up to R\$ 461.5 billion in credit exposures (considering the current mix of loans).

(2) The minimum requirement of the Leverage Ratio (Tier 1 Capital / Total Exposure) was defined in 3%, by the CMN Resolution 4,615, of July 30<sup>th</sup>, 2017 effective as of January 1<sup>st</sup>, 2018.

(3) Minimum requirement defined by the CMN Resolution 4,401, of February 27<sup>th</sup>, 2015.

(4) Minimum requirement established by the CMN Resolution 4,616, of November 30<sup>th</sup>, 2017.



### 3. 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.

#### 3.1. Scope of Risk Management

The scope of the Organization risk management achieves a broadest view, allowing the risks of the Economic-Financial Consolidated<sup>2</sup> to be supported by the Risk Management Corporate Process (chapter 3.4) in order to sustain the development of its activities. For this purpose, the Organization is structured through the three lines of defense in which all contributes in order to achieve the objectives with a reasonable margin of security.

- **First line of defense**, 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 of defense**, represented by oversight areas, responsible for establishing risk management policies and compliance procedures for establishment and/or monitoring of first line of defense. In this line of defense, may be highlighted the Integrated Risk Control Department, Compliance, Conduct and Ethics Department, Legal, Corporate Safety, among others;
- **Third line of defense**, represented by General Inspectorate Department (Internal Audit), which is accountable for independently evaluate the effectiveness of the risk management and internal controls, including how the first and second lines of defense reach their objectives, reporting the results of their work to the Board of Directors, Audit Committee, Fiscal Council and Senior Management..

#### 3.2. 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, 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.

The Risk Appetite Statement is annually<sup>3</sup> 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.

<sup>2</sup> Includes the regulatory scope of the Prudential Conglomerate and other companies in the Consolidated.

<sup>3</sup> 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 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 Basel, Tier I, Common Equity and Leverage Ratios must correspond, at least to the regulatory floor, plus the current Capital buffer. Likewise, Grupo Bradesco Seguros (insurance company group) must maintain the minimum Solvency Ratio above the regulatory, in the consolidated view, in accordance with the defined buffers.

**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. The liquidity risk control for the Grupo Bradesco Seguros consists on the Minimum Liquidity Reserve (RML) dimensioning, represented by the amount of funds needed to settle the obligations during turbulence period (30 days) in stress situations and its relation to the Available Cash, which consists primarily on high quality liquid assets.

**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.

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 and an indicator of Credit Risk Economic Capital Margin, with the purpose of monitoring and control the capital in the economic and regulatory perspectives.

**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,  $\Delta$  EVE Internal Model,  $\Delta$  EVE Outlier Test,  $\Delta$  NII Internal Model and Evolution of Market Valued Positions are monitored. The indicators for Grupo Bradesco Seguros are VaR for equity and interest rate risk (EVE).

**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.

### 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.

### 3.3. 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 monitor all the risks in order to provide all 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 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 or geographic region.

■ **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. This definition includes legal risk associated to activities developed by the Organization.

■ **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.

■ **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.

■ **Contagion 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, Conduct and Ethical Risk** – Represented by the possibility of the Organization incur on legal or administrative sanction, financial losses, reputation and other damages due to non-compliance or failure on observing the legal framework, the infralegal regulation, the regulators or self-regulators, ethical and conducts codes or applicable on the activities.

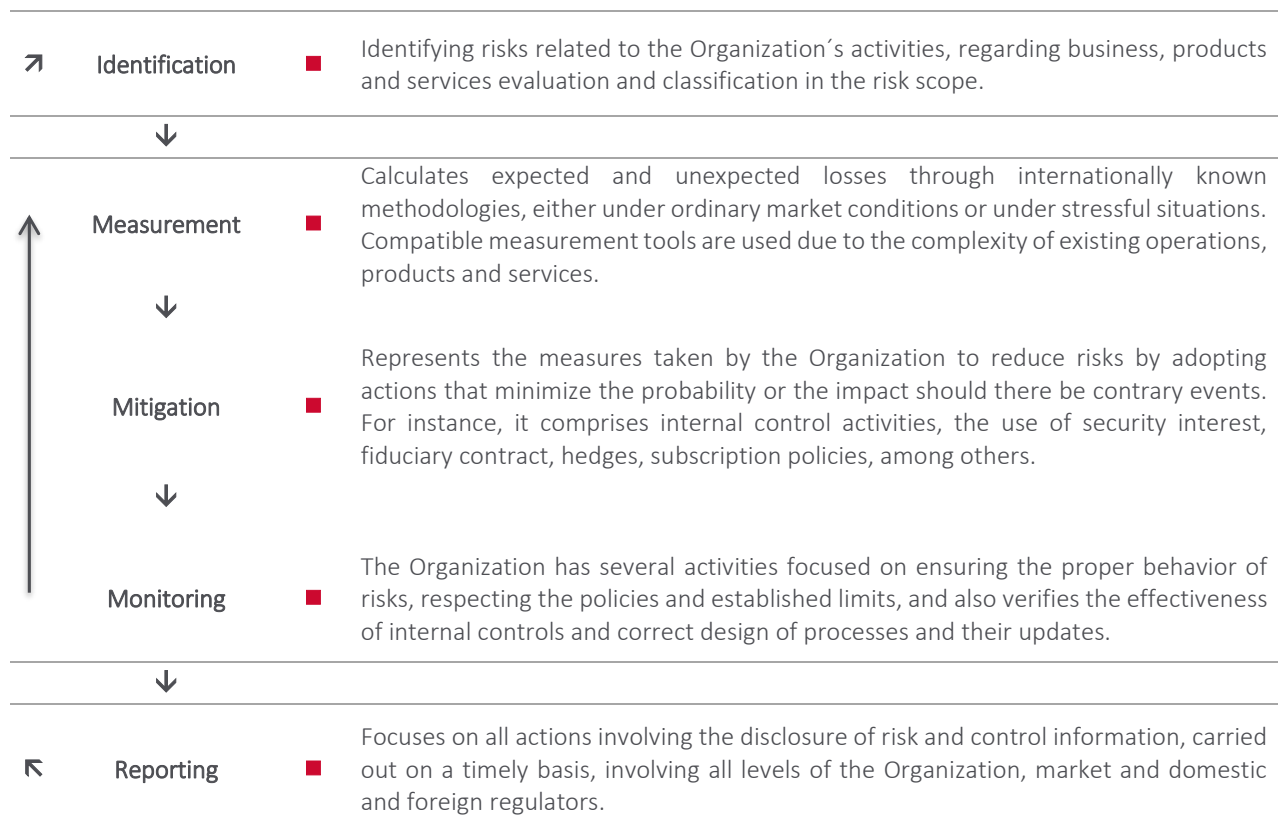
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- **Cyber Risk** – Represented by the possibility of cyber incidents that could compromise the confidentiality, integrity and/or availability of critical Organization’s processes, assets and/or infrastructure.
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In 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:

- **Frustration of global growth:** Uncertainties intensification related mainly to world trade and impacts on developed and emerging countries economic activity;
- **Geopolitical tensions intensification:** Tensions with military conflict potential and oil prices impacts, risk aversion and currencies of emerging countries, with effects on international liquidity and economic growth;
- **Health risks in considerable sections of the population:** Epidemic outbreaks or endemic risks in economically relevant regions, with impacts on global economic activity, risk aversion and asset prices;
- **Environmental risks:** Events related to the environment, with impacts on the perceptions and confidence of economic agents and, consequently, on economy growth;
- **Consistent rise in inflation and high interest rates in the United States:** Acceleration of inflation more intense than expected and possible increase in interest rates in the USA may impact capital flows on emerging countries;
- **Realization of assets prices:** Risk of disorderly realization of prices of financial assets, mainly, on emerging markets, whether due to macroeconomic fragility or fears of a more intense Chinese economic slowdown;
- **Less intense Brazilian economy recovery than expected:** The recovery of the domestic economy may be less intense than anticipated, for example, by impacts of the global economy or by restrictions on the GDP potential acceleration;
- **Economic reform agenda stopping progress:** Possible difficulties on structural advances and productivity gains can affect domestic asset prices and local growth;
- **Economic and political instability in Europe and USA:** It is worth pointing out the political volatility in countries like Italy and Spain. Such risks, together with more moderate growth, may lead to questions about banks' solvency, with impacts on the financial system. In the USA, volatility risk in the markets arising from the majority elections and the president impeachment process.

### 3.4. Risk Management Corporate Process

The risk management corporate process allows the proactive identification, measurement, mitigation, 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:



#### 3.4.1. Risk and Capital Management Policies

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.

#### Risk and Capital Management Policies

- Corporate Governance
- Risk Management
- Credit Risk
- Market Risk
- Liquidity Risk
- Operational Risk
- Insurance Risk

- Model Risk
  - Strategy Risk
  - Business Continuity
  - Hiring and Management of Outsourced Services
  - Corporate Sustainability
  - Capital
  - Internal Control
  - Compliance
- 

### 3.4.2. 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 and Capital Allocation Management Committee – COGIRAC, whose duty are which supports the Board of Directors' on the performance of its attributions related to management policies and risk exposure limits and guarantee the Organization's process, policies, standards and compliance with regulations and laws applicable to the Organization.

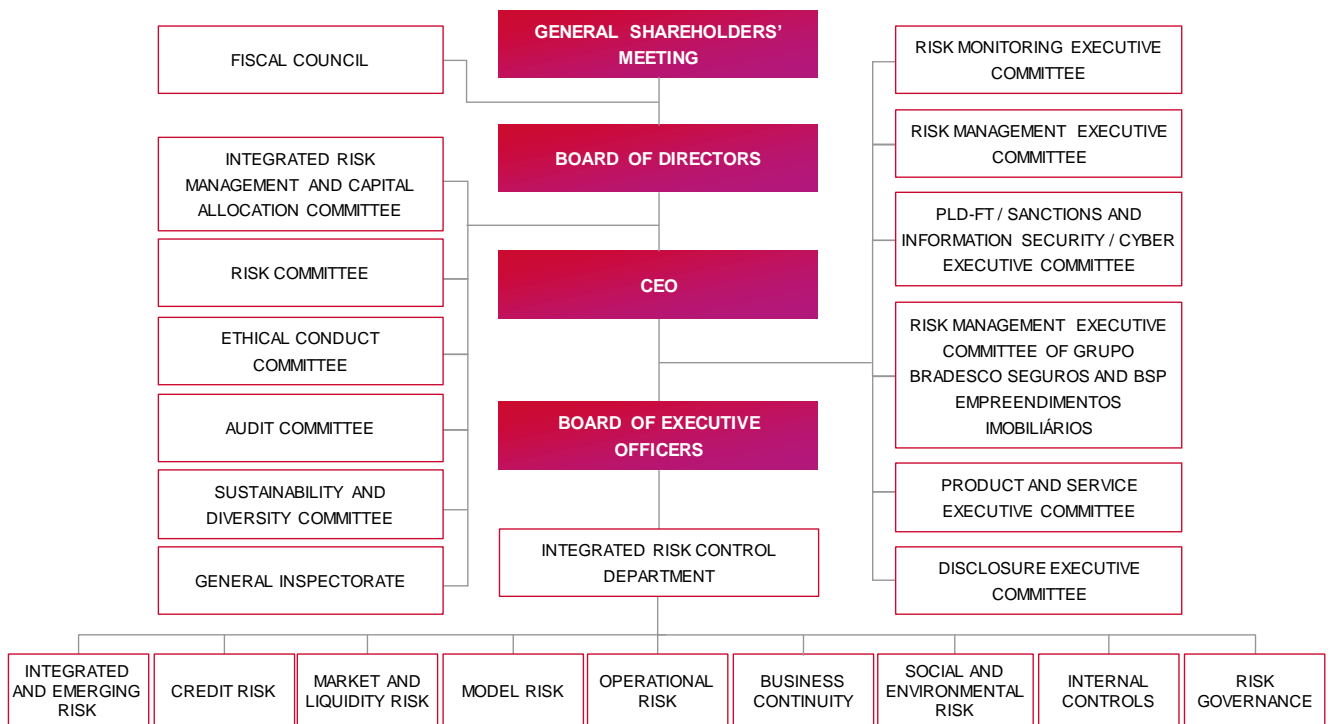
This committee are supported by the following Executive Committees a) Risk Monitoring, b) Risk Management, c) PLD-FT/Sanctions and Information Security/Cyber Executive Committee and d) Grupo Bradesco Seguros and BSP Empreendimentos Imobiliários. In addition, it also is supported by the Products and Services 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 to the Integrated Risk and Capital Allocation Management Committee and the Board of Directors.

In this governance structure, it is worth highlighting the Risk Committee, whose main objective is to evaluate the Organization's risk management framework and, eventually, to propose improvements.

The COGIRAC and the Risk Committee, advise the Board of Directors in the performance of its duties in the management and control of risks, capital, internal controls and compliance.

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.



### 3.4.3. 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"> <li>■ 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.</li> </ul>
Integrated Risk Management and Capital Allocation Committee	<ul style="list-style-type: none"> <li>■ Validates and submits exposure appetite and limits by types of risk for approval by the Board of Directors;</li> <li>■ Validates and submits risk and capital management policies for approval by the Board of Directors;</li> <li>■ Validates and submits for approval by the Board of Directors the stress testing program, including the parameters, scenarios, assumptions, its results and the management mitigating actions for the impacts;</li> <li>■ Ensures compliance with risk management policies;</li> <li>■ Monitors risk profile, performance, capital requirements and sufficiency exposure versus limits and risk control;</li> <li>■ Takes note of the rules issued by the Basel Committee on Banking Supervision (BCBS), estimate the impacts for its adjustment and monitor its implementation;</li> </ul>



	<ul style="list-style-type: none"> <li>■ Submits the Annual Reports of Internal Controls and Compliance of the Organization's companies to the Board of Directors;</li> <li>■ Assesses the effectiveness and compliance of Internal Controls System and the compliance risk management of the Organization;</li> </ul> <p>Evaluates the action plans that will mitigate/address the very high level</p> <ul style="list-style-type: none"> <li>■ residual risks and/or the high level residual risks with action plan over than 12 months.</li> </ul>
Risk Committee	<ul style="list-style-type: none"> <li>■ Evaluates risk appetite levels set in the Risk Appetite Statement (RAS) and the strategies for its management;</li> <li>■ Oversees the CRO's activities and performance, and ensures Senior Management's compliance with the terms of the Risk Appetite Statement;</li> <li>■ Evaluates the levels of adherence of the risk management processes structure to established policies;</li> </ul> <p>Proposes recommendations to the Board of Directors on policies, strategies</p> <ul style="list-style-type: none"> <li>■ and limits for risk and capital management, stress testing program, business continuity policy, capital and liquidity contingency plans, and capital planning.</li> </ul>
Audit Committee	<ul style="list-style-type: none"> <li>■ Revises the integrity of financial statements;</li> <li>■ Recommends to the Board of Executive Officers corrections or improvements to policies, practices and procedures identified within the scope of its duties.</li> </ul>
Ethical Conduct Committee	<p>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;</p> <ul style="list-style-type: none"> <li>■ Ensures that the Board of Directors is aware of matters that may have a significant impact on the Organization image;</li> <li>■ Forward for deliberation of the Board of Directors, the subjects related to the Organization Directors.</li> </ul>
Inspectorate/Internal Auditors	<ul style="list-style-type: none"> <li>■ Certifies the business risk management process;</li> <li>■ Ensures compliance with policies, rules, standards, procedures and internal and external regulations;</li> <li>■ Recommends improvements to the internal control environment.</li> </ul>
<b>Executive Committee</b>	
Disclosure	<ul style="list-style-type: none"> <li>■ Supports Senior Management in evaluating the disclosure of transactions and relevant information related to the Organization;</li> <li>■ Evaluates reports to ensure they are prepared in accordance with controls and procedures defined for their preparation.</li> </ul>

<p>Risk</p> <ul style="list-style-type: none"> <li>– Risk Monitoring</li> <li>– Risk Management</li> <li>– Grupo Bradesco Seguros and BSP Empreendimentos Imobiliários</li> </ul>	<ul style="list-style-type: none"> <li>■ Guarantee policies compliance and ensure effectiveness of the risk and capital management;</li> <li>■ Approve, follow up and submit to COGIRAC 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;</li> <li>■ Approve and monitor information on risk exposure level, both consolidated and by area;</li> <li>■ Evaluate and submit policy, structure, roles and responsibilities, risk appetite, adequacy assessment and capital plan to COGIRAC validation;</li> <li>■ Monitor market movements and developments, evaluating the implications and risks and capital;</li> <li>■ Approve action plans that will mitigate/address high residual risks with implementation date of up to 12 months;</li> <li>■ To be aware of the rules, guidelines and orientations issued by national and international regulatory bodies;</li> <li>■ To be aware of the work performed by internal and external audits related to risk management.</li> </ul>
<p>PLD-FT/Sanctions and Information Security/Cyber</p>	<ul style="list-style-type: none"> <li>■ Guarantee policies compliance and ensure the effectiveness of the corporate security, anti-money laundering and counter-terrorism financing processes;</li> <li>■ Evaluate and submit to COGIRAC validation the policy and respective guidelines related to corporate security, information governance, anti-money laundering and counter-terrorism financing.</li> </ul>
<p>Product and Service</p>	<ul style="list-style-type: none"> <li>■ 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.</li> </ul>
<p>Collection and Recovery</p>	<ul style="list-style-type: none"> <li>■ Resolves on proposals for the renegotiation of debts overdue or with potential risk loss;</li> <li>■ Approves corporate rules, procedures, measures and guidelines related to the Credit Collection and Recovery;</li> <li>■ Defines limits of authorization to approve debt renegotiation.</li> </ul>
<p>Credit</p>	<ul style="list-style-type: none"> <li>■ Makes collegiate decisions to verify limits or operations involving credit risk, proposed by Organization's Premises and Companies.</li> </ul>
<p>Treasury for Asset and Liability Management</p>	<ul style="list-style-type: none"> <li>■ Define 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;</li> <li>■ Evaluate external asset hedging strategies;</li> <li>■ Validates the proposed risk exposure tolerance limits and liquidity rule and submit them for approval to the Integrated Risk Management and Capital Allocation Committee.</li> </ul>
<p>Treasury</p>	<ul style="list-style-type: none"> <li>■ Define Treasury strategies to optimize results based on the analysis of domestic and international economic and political scenarios;</li> <li>■ 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;</li> <li>■ Monitors results, behaviors and risks of the Trading Portfolio, the mismatches of assets and liabilities, and the clients' portfolio.</li> </ul>

**Strategic Planning**

- 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.

**3.4.4. 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), Controllershship Department, among other areas. Those scenarios and results are discussed and approved by a specific collegiate body for this topic. Subsequently, they are submitted to the COGIRAC and to the Board of Directors, that besides scenarios and stress tests results are 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.

**4. Risks: Process, Measurement and Control****4.1. 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.

## 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 financial asset trading, including the settlement of derivative financial instruments or reduction of the counterparty's credit standing.

The Organization exercises complete control over its net position (the difference between purchase and sale agreements) and the potential future exposure of operations involving counterparty risk. All exposure to counterparty 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.

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 19<sup>th</sup>, 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 standardized approach (RWA<sub>CPAD</sub>) was updated according the BCB Circular 3,904/18.

### 4.1.1. 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.

The credit risk monitoring area actively participates in improving customer risk rating models, following up large risks by periodically monitoring major delinquencies and the provisioning levels for expected and unexpected losses.

This area 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.

### 4.1.2. Lending Process

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.

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 with analysis from 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.

#### 4.1.3. 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, liens, 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.

#### 4.1.4. Credit Risk Rating

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 (from Portuguese "*Rating Operação Final*" – ROF) 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 and the contracted credit face value.

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

With respect to individuals, customer risk ratings are generally defined based on their registered reference variables, namely: income, equity, restrictions and indebtedness, as well as their past relationship with the Organization, also using statistical models for credit assessment.

The customer risk rating is used for concession and/or renewal analysis of operations and credit limits, as well as for monitoring the economic/financial situation of a company and its ability to repay the contracted loans.

#### **4.1.5. 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, adequacy of allowance for loan losses, loan recoveries, gross and net 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.

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.

#### **4.1.6. 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, 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.

The Organization also has a corporate system of credit risk indicators to provide the lending and loan recovery areas, business areas, regional managers and branches with information on assets by segment, product, region, risk rating, delinquency and expected and unexpected losses, amongst others. This system provides 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).



## 4.2. 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.

### 4.2.1. Social and Environmental Risk Management Process

The social and environmental risk management process permits risks to be identified in advance, measured, minimized, monitored and reported; this is necessary in view of the complexity of the Organization's financial products and the nature of its activities.

In this context, the Organization has issued its Social and Environmental Risk Regulations to determine which credit transactions, real estate guarantees, investments and suppliers, donations and sponsorship should be analyzed in terms of social and environmental risk. These rules fulfill the Organization's commitment to implement Equator Principles III, indicating the situations where credit transactions or financial advice must meet these requirements.

### Equator Principles

A signatory to Equator Principles since 2004, the Organization has since the beginning of 2014 complied with version III, which introduced a number of changes including broadening the scope of application of the commitment to corporate project finance and bridge loans. Among the requirements of Equator Principles III are working conditions and the impact on the community and the environment of projects financed by the Organization, subject to Brazilian law and the standards and guidelines of the International Finance Corporation (IFC). During the credit process, these projects undergo a thorough Social and Environmental Risk analysis that includes the details obtained from studies, licenses, authorizations, information on the project, and data such as the venture's georeferencing.

In granting loans for major projects, the Organization follows the guidelines contained in the Equator Principles III, and assesses and monitors projects that present significant risks covered by these principles.

### Implementation Process of Equator Principles III

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 III 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 III 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 III.

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 III, 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 Brazilian Task Force and attend meetings with other Brazilian bank signatories to update themselves and share experiences in respect of Equator Principles III guidelines.

#### 4.2.2. Control and Monitoring

##### Credit Operations

The Organization oversees the process of analysis, approval, documentation and subsequent monitoring of transactions covered by Equator Principles III. 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\$ 100 million;
  - c) the Organization's individual commitment (as a union member) exceeds US\$ 50 million; or
  - 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.

In addition to complying with Equator Principles III, 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.

### 4.2.3. 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.

## 4.3. 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.

### 4.3.1. 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.

### 4.3.2. Limit Definition

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, according to the business' characteristics, and are classified as follows:

**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 Trading Book is monitored by the limits 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.

**Banking Book:** it comprises operations not classified in the Trading Book, arising from Organization's other businesses and their respective hedges. The Banking Book is monitored by the limit of:

- Economic value variation due to changes in interest rates –  $\Delta$ EVE (Economic Value of Equity); and
- Net interest income variation due to changes in interest rates –  $\Delta$ NII (Net Interest Income).

### 4.3.3. Market Risk Measurement Models

Market risk is measured and controlled using the Stress, Value at Risk (VaR), Economic Value of Equity (EVE), Net Interest Income (NII) 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 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.

### Interest Rate Risk in the Banking Book

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 Delta EVE.

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, through the same scenarios previously mentioned, i.e., 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 Delta NII.

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.

#### 4.3.4. 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.

#### 4.3.5. 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.

For derivatives classified under the 'hedge accounting' category, their effectiveness and accounting implications are monitored.

#### 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.

#### 4.3.6. 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, while Banking Book positions and liquidity reports are examined at the Asset and Liability Management Treasury Executive Committee. At both meetings, 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.

#### **4.3.7. 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.

### **4.4. 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.

#### **4.4.1. Liquidity Risk Management Process**

The liquidity risk management is conducted in a corporate approach. This process involves several areas with specific attributions. The measurement and control of liquidity risk is conducted in a centralized and independent manner, including the daily monitoring of available funds, the compliance with the liquidity levels according to the risk appetite defined by the Board of Directors, in addition to the contingency and recovery plans for possible stress situations.

The Organization has a Liquidity Risk Management Policy approved by the Board of Directors, which has as one of its objectives to ensure the existence of standards, criteria and procedures for the proper monitoring of this kind of risk, as well as the strategy and action plans for liquidity crises. The policy and controls established fully comply with National Monetary Council Resolution 4,557.

#### **4.4.2. Control and Monitoring**

The liquidity risk management process is conducted by the Treasury Department following the positions determined by independent area. The Integrated Risk Control Department (DCIR) is responsible for the methodology for measuring, controlling the established limits for each entity of the Group, including non-financial firms, and for each type of currency, reviewing the policies, rules, criteria and procedures; and conducting studies for new recommendations.

Liquidity risk is daily monitored by the business and control areas and at the meetings of the Treasury for Asset and Liability Management Executive Committee, which manages liquidity reserves, with term and currency mismatches. Monitoring is also observed by the Risk Committee, the Integrated Risk Management and Capital Allocation Committee and the Board of Directors.

Since October 2017, the Organization has adopted as a metric, the Liquidity Coverage Ratio (LCR), even for internal management, as provided by National Monetary Council Resolution 4,401/2015 and Central Bank of Brazil Circular 3,749/2015.

In the third quarter of 2018, the Organization started to use also in the internal management the structural risk of long-term liquidity, through NSFR (Net Stable Funding Ratio), according to the National Monetary Council Resolution 4,616/2017 and Central Bank of Brazil Circular 3,869/2017.

#### 4.4.3. 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:

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

\*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
<b>% Required</b>	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.

#### 4.4.4. 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.

#### 4.4.5. Internal Reporting

The liquidity risk management process, submits reports on a daily basis to the areas involved in its management and control, as well as the 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 the number and echelon of Senior Management members who receive the reports.

### 4.5. 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.

#### 4.5.1. 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.

#### 4.5.2. 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.

#### 4.5.3. 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.

## 4.6. Operational Risk

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

### 4.6.1. Operational Risk Management Process

The Organization adopt the Three Lines of Defense 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.

### 4.6.2. Operational Risk Methodology Measure

Pursuant to Central Bank of Brazil Circular 3,640, the Organization adopted the Alternative Standardized 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).

### 4.6.3. 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.

### 4.6.4. 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.

## 4.7. 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 an 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 Third Parties”.

These policies and standards are in line with the Central Bank of Brazil (BCB) 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).

### 4.7.1. 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 critical business processes based on the Business Impact Assessment (BIA) on a quarterly 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 third parties 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.



#### 4.7.2. 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.

#### 4.7.3. Internal Reporting

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

### 5. Capital Management

#### 5.1. 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 3 (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 institutions. A summarized version is available at the Investors Relationship website ([www.bradescori.com.br](http://www.bradescori.com.br)), Market information, Risk Management section.

## 5.2. 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 core capital (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).

## 5.3. 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 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.

## 6. Details of Assets and Risk Exposure

### 6.1. Capital Breakdown

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

R\$ million	Dec-19	Sep-19	Dec-18
<b>Tier I Capital</b>	<b>100,832</b>	<b>108,818</b>	<b>90,322</b>
<b>Common Equity</b>	<b>91,272</b>	<b>99,031</b>	<b>81,090</b>
Shareholders' Equity	133,723	138,313	121,121
Non-controlling Interest	106	230	170
Prudential Adjustments <sup>(1)</sup>	(42,558)	(39,512)	(40,200)
<b>Additional Capital</b>	<b>9,560</b>	<b>9,787</b>	<b>9,232</b>
Subordinated Debt (according to CMN Resolution 4,192/13)	9,560	9,787	9,232
<b>Eligible Instruments for Tier II Capital</b>	<b>24,444</b>	<b>25,516</b>	<b>27,618</b>
Subordinated Debt (according to CMN Resolution 4,192/13)	21,324	22,280	22,417
Subordinated Debt (previous to CMN Resolution 4,192/13)	3,119	3,236	5,201
<b>Total Capital</b>	<b>125,275</b>	<b>134,334</b>	<b>117,940</b>

(1) According to CMN Resolution 4,192/13, from January 2018, the factor applied to the prudential adjustments is 100%.

For more information on Capital and details of subordinated debts, see “Exhibit 1 – Breakdown of Regulatory Capital and information on adjustments to Capital” and “Exhibit 2 - Key Features of the Instruments of the Total Capital”, available on the website [www.bradescom.br](http://www.bradescom.br).

## 6.2. Risk-Weighted Assets (RWA)

Below is the evolution of Risk-Weighted Assets (RWA) for the Prudential Conglomerate, regulatory approach:

R\$ million RWA	Dec-19	Sep-19	Dec-18
<b>Credit Risk</b>	<b>680,908</b>	<b>659,401</b>	<b>598,058</b>
Risk Weight of 0%	-	-	-
Risk Weight of 2%	-	-	83
Risk Weight of 20%	2,014	2,009	3,230
Risk Weight of 35%	13,637	13,248	11,394
Risk Weight of 50%	34,585	32,087	32,072
Risk Weight of 60% <sup>(1)</sup>	-	-	-
Risk Weight of 70% <sup>(1)</sup>	78	84	-
Risk Weight of 75%	152,408	145,988	130,209
Risk Weight of 85%	136,880	132,690	115,192
Risk Weight of 100%	274,131	259,425	265,578
Risk Weight of 150% <sup>(2)</sup>	22	25	-
Risk Weight of 250%	34,227	37,137	30,409
Risk Weight of 300%	7,119	8,597	6,634
Formulas <sup>(3)</sup>	21,818	23,965	7
Risk Weight to 1250%	3,990	4,146	3,250
<b>Market Risk<sup>(4)</sup></b>	<b>13,571</b>	<b>16,210</b>	<b>10,407</b>
Fixed Rate in Reais	2,138	7,376	3,622
Foreign Currency Coupon	3,230	3,246	6,950
Price Index Coupon	2,349	2,092	1,399
Interest Rate Coupon	-	-	-
Shares	694	1,338	1,088
Commodities	1,016	3,102	757
Exposure to Gold, Foreign Currencies and Exchange	11,148	9,469	4,424
<b>Operational Risk</b>	<b>64,572</b>	<b>64,572</b>	<b>53,151</b>
Retail	11,414	11,414	10,032
Commercial	26,452	26,452	23,508
Corporate Finance	1,879	1,879	1,656
Trading and Sales	7,427	7,427	2,444
Payment and Settlement	7,661	7,661	6,835
Financial Agent Services	4,265	4,265	4,056
Asset Management	5,311	5,311	4,466
Retail Brokerage	162	162	155
<b>Total Risk Weight Asset</b>	<b>759,051</b>	<b>740,183</b>	<b>661,616</b>
<b>Total Capital Requirement</b>	<b>60,724</b>	<b>59,215</b>	<b>57,064</b>
<b>Banking Book's Interest Rate Risk</b>	<b>3,536</b>	<b>3,722</b>	<b>5,180</b>
<b>Additional Principal Capital (ACPs)<sup>(5)</sup></b>	<b>26,567</b>	<b>25,906</b>	<b>15,713</b>
ACP <sub>Conservation</sub>	18,976	18,505	12,405
ACP <sub>Systemic</sub>	7,591	7,402	3,308

(1) Risk weight factor defined in Articles 23-A and 23-B of BCB Circular 3,644/13, as amended by BCB Circular 3,949 of 06/25/2019.

(2) Risk weight factor defined in Article 26-A of BCB Circular 3,644/13, as amended by BCB Circular 3,921 of 12/05/2019.

(3) According to established by BCB, through the Circular 3,848 and 3,849.

(4) In order to calculate the portion relating to exposures to market risk, the capital requirement will be the maximum between the internal model and 80% of the standard model, according to Central Bank of Brazil Circular 3,646 and 3,674.

(5) In 2019, the amount of the ACP-Conservation represents 2.5% of the RWA amount. The ACP-Systemic represents 1.0% of the RWA amount (Systemically Importance Factor calculated according to Central Bank of Brazil Circular 3,768 - Total Exposure: R\$1.1 trillion and GDP: R\$6.6 trillion). The ACP-Countercyclical remains 0% of the RWA amount, according to Central Bank of Brazil Statement 34,724/19, with RWA of credit risk to the private sector non-banking (RWACPrNB) of R\$ 601 billion in Brazil.



### 6.3. Leverage Ratio (LR)

In compliance with Basel Committee's recommendations, the Leverage Ratio (LR) started on October 2015. This ratio, combined with Basel 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. Below, a comparison is presented between total exposure and the Organization's financial statements, followed by the LR calculation statement:

#### Comparative Summary of Published Financial Statements and Leverage Ratio

R\$ million	Dec-19	Sep-19	Dec-18
<b>1 Total assets according to published financial statements</b>	1,359,139	1,353,507	1,287,611
<b>2 Adjustment for differences in account consolidation</b>	(226,657)	(226,385)	(223,897)
<b>3 Adjustment for assets assigned or transferred with substantial transfer of risks and benefits and recognized in the books</b>	(6,478)	(6,747)	(8,059)
<b>4 Adjustment for changes in reference values and potential future gains on derivative financial instruments</b>	1,108	375	3,331
<b>5 Adjustment for repurchase transactions and securities lending</b>	22,558	23,157	23,328
<b>6 Adjustment for transactions not booked in the prudential conglomerate total assets</b>	113,781	112,391	107,197
<b>7 Other adjustments</b>	(34,736)	(35,825)	(35,958)
<b>8 Total Exposure</b>	<b>1,228,715</b>	<b>1,220,473</b>	<b>1,153,552</b>
<b>Leverage Ratio (LR)</b>			
R\$ million	Dec-19	Sep-19	Dec-18
<b>Items accounted in the Balance Sheet</b>			
<b>1 Balance sheet items other than derivative financial instruments, securities received on loan and resales for settlement under repurchase transactions</b>	1,079,193	1,055,317	957,341
<b>2 Adjustments for equity items deducted in calculating Level I</b>	(47,114)	(44,271)	(42,537)
<b>3 Total exposure accounted in the Balance Sheet</b>	<b>1,032,079</b>	<b>1,011,045</b>	<b>914,804</b>
<b>Transactions using Derivative Financial Instruments</b>			
<b>4 Replacement value for derivatives transactions</b>	12,635	12,364	14,141
<b>5 Potential future gains from derivatives transactions</b>	7,380	7,402	7,485
<b>6 Adjustment for collateral in derivatives transactions</b>	-	-	-
<b>7 Adjustment for daily margin held as collateral</b>	-	-	-
<b>8 Derivatives in the name of customers where there is no contractual obligation to reimburse in the event of bankruptcy or default of the entities responsible for the settlement system</b>	(6,102)	(5,906)	(5,414)
<b>9 Reference value adjusted for credit derivatives</b>	1,108	375	3,331
<b>10 Adjustment of reference value calculated for credit derivatives</b>	-	-	-
<b>11 Total exposure for derivative financial instruments</b>	<b>15,022</b>	<b>14,235</b>	<b>19,542</b>
<b>Repurchase Transactions and Securities Lending</b>			
<b>12 Investments in repurchase transactions and securities lending</b>	48,112	63,550	88,211
<b>13 Adjustment for repurchases for settlement and creditors of securities lending</b>	-	-	-
<b>14 Amount of counterparty credit risk</b>	2,289	2,087	7,995
<b>15 Amount of counterparty credit risk in transactions as intermediary</b>	-	-	6,310
<b>16 Total Exposure on Repurchase Transactions and Securities Lending</b>	<b>50,402</b>	<b>65,638</b>	<b>102,516</b>
<b>Off-balance sheet items</b>			
<b>17 Reference value of off-balance sheet transactions</b>	344,689	343,779	311,493
<b>18 Adjustment for application of FCC specific to off-balance sheet transactions</b>	(213,476)	(214,224)	(194,803)
<b>19 Total off-balance sheet exposure</b>	<b>131,213</b>	<b>129,555</b>	<b>116,690</b>
<b>Capital and Total Exposure</b>			
<b>20 Level I (A)</b>	100,832	108,818	90,322
<b>21 Total Exposure (B)</b>	1,228,715	1,220,473	1,153,552
<b>22 Leverage Ratio (A/B)</b>	<b>8.2%</b>	<b>8.9%</b>	<b>7.8%</b>

## 6.4. Credit Risk

The tables below show the total exposure of assets for the purpose of ascertaining capital needs by Type of Exposure, Country, Region and Economic Sector.

### By Type of Exposure, Country and Region

R\$ million	Dec-19	%	Sep-19	%	Dec-18	%
<b>By Type</b>						
Credit Operations (Non-Retail)	152,116	9.9	152,087	10.1	152,855	10.5
Credit Operations (Retail)	249,178	16.2	238,095	15.8	205,658	14.1
Guarantees	57,756	3.8	56,602	3.8	54,890	3.8
Credit Limit	105,108	6.8	107,301	7.1	103,616	7.1
Repurchased operations	416,839	27.1	420,785	27.9	445,810	30.5
Securities, Derivatives and Interbank Investments	353,800	23	330,905	22	312,916	21.4
Other Assets <sup>(1)</sup>	202,558	13.2	199,726	13.3	184,762	12.7
<b>By Country</b>						
External Market	57,394	3.7	49,204	3.3	46,911	3.2
Internal Market	1,479,961	96.3	1,456,297	96.7	1,413,596	96.8
<b>By Region (Domestic Market)</b>						
Southeast	1,237,233	83.6	1,224,325	84.1	1,186,838	84
South	92,231	6.2	88,452	6.1	85,754	6.1
North	23,360	1.6	22,483	1.5	21,200	1.5
Northeast	80,096	5.4	76,886	5.3	72,697	5.1
Midw est	47,042	3.2	44,151	3	47,107	3.3
<b>Total Exposure</b>	<b>1,537,355</b>		<b>1,505,502</b>		<b>1,460,507</b>	
<b>Quarter Average</b>	<b>1,519,566</b>		<b>1,518,020</b>		<b>1,446,560</b>	

(1) Other Assets refer to Tax Credits and Advances Granted, among others.

## Sector of the Economic Activity

R\$ millions	Dec-19		Sep-19		Dec-18	
Sector of the economic activity		%		%		%
<b>Public Sector</b>	<b>193,193</b>	<b>12.6</b>	<b>160,798</b>	<b>10.7</b>	<b>264,331</b>	<b>18.1</b>
Government	175,864	11.4	143,688	9.5	249,551	17.1
Oil and Petrochemical	11,729	0.8	11,371	0.8	10,747	0.7
Electrical Energy	4,785	0.3	1,918	0.1	3,236	0.2
Other Sectors	815	0.1	3,821	0.3	797	0.1
<b>Private Sector</b>	<b>902,909</b>	<b>58.7</b>	<b>920,757</b>	<b>61.2</b>	<b>800,625</b>	<b>54.8</b>
Legal Entity	625,115	40.7	651,509	43.3	532,722	36.5
Financial	232,573	15.1	271,900	18.1	175,060	12
Real Estate and Construction Activities	41,968	2.7	41,955	2.8	40,518	2.8
Retail	41,688	2.7	40,266	2.7	40,184	2.8
Miscellaneous Services	39,251	2.6	35,476	2.4	33,233	2.3
Transportation and Concession	31,707	2.1	28,115	1.9	31,182	2.1
Electrical energy	12,080	0.8	13,172	0.9	22,693	1.6
Holding	22,818	1.5	23,089	1.5	21,113	1.4
Wholesale	21,114	1.4	18,108	1.2	17,651	1.2
Automotive industry	18,750	1.2	19,194	1.3	15,875	1.1
Food Industry	14,353	0.9	12,983	0.9	14,133	1
Steel and Metallurgy	13,568	0.9	14,737	1	11,695	0.8
Extraction	11,544	0.8	13,881	0.9	9,869	0.7
Smoke and drinks	12,800	0.8	12,609	0.8	9,073	0.6
Sugar and Alcohol	9,771	0.6	8,076	0.5	8,532	0.6
Health	14,218	0.9	11,413	0.8	8,091	0.6
Construction Material	5,254	0.3	5,495	0.4	7,540	0.5
Telecommunications	10,405	0.7	11,441	0.8	7,482	0.5
Chemistry	7,544	0.5	7,028	0.5	7,209	0.5
Paper and Pulp	12,520	0.8	12,816	0.9	5,923	0.4
Other sectors	51,190	3.3	49,753	3.3	45,665	3.1
Individual	277,794	18.1	269,248	17.9	267,903	18.3
<b>Other Exposures</b>	<b>441,252</b>	<b>28.7</b>	<b>423,947</b>	<b>28.2</b>	<b>395,551</b>	<b>27.1</b>
<b>Total Exposure</b>	<b>1,537,355</b>	<b>100</b>	<b>1,505,502</b>	<b>100</b>	<b>1,460,507</b>	<b>100</b>

## 6.4.1. Credit Transactions

The following charts contain information on the loan portfolio (concept defined by the Central Bank of Brazil), including exposure to individual credit card limits.

## By Type and Industry

R\$ million	Dec-19							Sep-19	Dec-18
	Public Sector	Agribusiness	Commerce	Industry	Services	Individuals	Total	Total	Total
Rural Loan	-	2,023	483	2,834	258	8,545	14,143	13,289	13,446
BNDES/Finame Onlending	-	634	1,958	3,418	10,661	5,879	22,550	22,817	25,170
Imports and Exports	4,026	4,942	1,985	37,487	7,666	-	56,106	58,136	54,477
Working Capital, Discount of Bills and Overdraft Account	13	601	24,145	13,603	31,929	-	70,291	69,903	67,656
Other	4,861	775	21,278	13,013	34,494	234,352	308,774	296,874	268,150
<b>Total</b>	<b>8,900</b>	<b>8,975</b>	<b>49,849</b>	<b>70,356</b>	<b>85,008</b>	<b>248,777</b>	<b>471,865</b>	<b>461,018</b>	<b>428,900</b>

Note: In Individuals, includes the balances of limits in the Credit Card segment.

## By Type and Region

R\$ million	Dec-19							Sep-19	Dec-18	
	Domestic Market					Foreign Market	Total	Quarter Average	Total	Total
	Southeast	South	North	Northeast	Mid-West					
<b>Individuals</b>	<b>151,479</b>	<b>26,410</b>	<b>11,594</b>	<b>36,378</b>	<b>21,444</b>	<b>1,471</b>	<b>248,777</b>	<b>243,857</b>	<b>238,937</b>	<b>214,955</b>
Rural Loan	3,240	1,537	451	334	2,983	-	8,545	8,313	8,080	7,979
Mortgage	25,060	6,616	1,820	5,573	5,220	-	44,288	43,609	42,931	38,284
Personal Line of Credit (including payroll-deductible loan)	48,191	8,384	5,649	21,572	5,868	0	89,664	87,949	86,235	70,608
CDC/Vehicle Leasing	23,817	1,594	727	1,637	1,213	-	28,987	28,233	27,480	23,696
Credit Card	42,114	5,331	2,009	5,541	3,063	1,303	59,359	57,899	56,439	58,163
BNDES/Finame Onlending	1,702	1,403	338	342	2,094	-	5,879	5,842	5,804	6,229
Other	7,357	1,545	600	1,380	1,004	168	12,053	12,011	11,968	9,995
<b>Corporate</b>	<b>140,353</b>	<b>29,229</b>	<b>4,204</b>	<b>11,760</b>	<b>9,165</b>	<b>28,376</b>	<b>223,088</b>	<b>222,585</b>	<b>222,082</b>	<b>213,945</b>
Rural Loan	2,630	2,522	13	135	297	-	5,598	5,403	5,208	5,467
BNDES/Finame Onlending	11,206	3,194	303	993	974	-	16,671	16,842	17,013	18,941
Imports and Exports	32,804	6,595	64	571	606	15,467	56,106	57,121	58,136	54,477
Working Capital, Discount of Bills and Overdraft Account	35,433	10,025	2,381	5,732	4,800	11,921	70,291	70,097	69,903	67,656
Other	58,280	6,893	1,444	4,329	2,487	989	74,422	73,122	71,822	67,404
<b>Total</b>	<b>291,833</b>	<b>55,639</b>	<b>15,799</b>	<b>48,138</b>	<b>30,610</b>	<b>29,847</b>	<b>471,865</b>	<b>466,442</b>	<b>461,018</b>	<b>428,900</b>

Note: In Individuals, includes the balance of limits in the Credit Card segment.

## By Type and Remaining Maturity

R\$ million	Dec-19					Sep-19	Dec-18
	Contracts with Remaining Maturity					Total	Total
	Up to 6 months	Between 6 months and 1 year	Between 1 year and 5 years	Above 5 years	Total		
<b>Individuals</b>	<b>47,461</b>	<b>32,941</b>	<b>82,625</b>	<b>85,750</b>	<b>248,777</b>	<b>238,937</b>	<b>214,955</b>
Rural Loan	2,147	3,454	2,925	20	8,545	8,080	7,979
Mortgage	120	37	944	43,187	44,288	42,931	38,284
Personal Line of Credit (includes payroll-deductible loan)	4,272	3,626	42,745	39,021	89,664	86,235	70,608
CDC/Vehicle Leasing	431	1,294	26,958	304	28,987	27,480	23,696
Credit Card	34,101	23,152	2,081	25	59,359	56,439	58,163
BNDES/Finame Onlending	127	129	2,978	2,646	5,879	5,804	6,229
Other	6,264	1,249	3,995	546	12,053	11,968	9,995
<b>Corporate</b>	<b>73,701</b>	<b>25,075</b>	<b>87,042</b>	<b>37,270</b>	<b>223,088</b>	<b>222,082</b>	<b>213,945</b>
Rural Loan	2,197	2,798	602	-	5,598	5,208	5,467
BNDES/Finame Onlending	313	530	8,209	7,619	16,671	17,013	18,941
Imports and Exports	24,224	8,311	13,628	9,943	56,106	58,136	54,477
Working Capital, Discount of Bills and Overdraft Account	18,359	9,236	39,153	3,543	70,291	69,903	67,656
Other	28,607	4,200	25,451	16,165	74,422	71,822	67,404
<b>Total</b>	<b>121,162</b>	<b>58,016</b>	<b>169,667</b>	<b>123,020</b>	<b>471,865</b>	<b>461,018</b>	<b>428,900</b>

Note: In Individuals, includes the balance of limits in the Credit Card segment.



## By Past due Loans, Industry and Region

R\$ million	Dec-19						Sep-19	Dec-18
	Past due 15 to 60 days	Past due 61 to 90 days	Past due 91 to 180 days	Past due 181 to 360 days	Past due more than 360 days	Total	Total	Total
<b>Sector</b>								
<b>Government</b>	0	0	2	0	-	2	1	2
State	0	0	2	0	-	2	1	2
<b>Private Sector</b>	12,394	4,011	6,486	8,369	128	31,388	31,574	28,976
Agribusiness	80	51	138	260	1	529	420	352
Commerce	897	308	717	740	40	2,703	2,685	2,722
Industry	570	196	280	368	6	1,420	1,807	2,761
Services	1,789	1,326	1,053	1,183	28	5,379	6,324	4,961
Individuals	9,059	2,130	4,297	5,818	53	21,358	20,337	18,180
<b>Overall Total</b>	12,395	4,011	6,487	8,369	128	31,390	31,575	28,978
<b>% Total</b>	39.5%	12.8%	20.7%	26.7%	0.4%	100%	100%	100%
<b>Domestic Market</b>	12,216	3,951	6,415	8,272	128	30,981	30,896	27,729
Southeast	7,615	2,792	4,038	5,567	62	20,074	20,189	18,402
South	1,461	397	770	811	40	3,479	3,495	3,264
North	568	137	455	393	4	1,557	1,348	1,126
Northeast	1,501	376	714	974	13	3,579	3,490	2,940
Mid-West	1,070	248	438	527	9	2,292	2,375	1,998
<b>Foreign Market</b>	179	60	73	98	0	409	678	1,248
<b>Overall Total</b>	12,395	4,011	6,487	8,369	128	31,390	31,575	28,978

## By Borrower Concentration

% From the total book	Prudential Conglomerate				
	Dec-19	Sep-19	Jun-19	Mar-19	Dec-18
largest debtor	2	2	2.1	2.1	2.2
10 largest	7.7	8	8.6	9.1	9.1
20 largest	11.4	11.7	12.4	13.3	12.9
50 largest	16.8	17.2	18.3	19.1	18.7
100 largest	20.3	21.5	22.7	23.5	23.1

## 6.4.2. Changes in Allowance for Loan Losses (ALL)

The changes in allowance for loan losses, including the flow of write-off of the loan portfolio (concept defined by Central Bank of Brazil):

R\$ million	Government	Private Sector					Total
	Public	Agribusiness	Commerce	Industry	Services	Individuals	
<b>Opening balance - ALL as of Sep-19</b>	1	941	3,524	5,239	11,107	15,232	36,045
Net Additions	1	(7)	203	157	1,500	3,103	4,956
Write-offs	(0)	(0)	(53)	(295)	(1,611)	(2,377)	(4,336)
<b>Closing balance - ALL as of Dec-19</b>	2	934	3,674	5,101	10,997	15,958	36,665

Note: Include, on December 31<sup>st</sup>, 2019, the amount of R\$ 571,053 thousand, related to the surplus provision of the loan operations covered by standby letter of credit.

### 6.4.3. Loan Assignments and Securitization

A loan assignment is a bilateral agreement by which a financial institution transfers its receivables to another institution. The Organization uses these operations to seek opportunities in the financial market. Assignment for real estate financing operations is one of the most used instruments, and is conducted with securitization companies, as well as loan assignments to FIDCs (Credit Rights Investment Funds), which create an alternative to raising funds from investors.

#### Financial asset acquisition, sale or transfer operations, and securitization

R\$ million	Dec-19	Sep-19	Dec-18	
<b>Operations assigned with co-obligation recorded in memorandum accounts</b>	61	72	815	
<b>Exposures assigned with substantial retention of risk and benefits</b>	7,767	8,047	9,344	
FIDC	-	-	-	
Securitization companies	-	-	-	
Financial institutions	-	-	-	
Special Purpose Entity	6,287	6,547	7,644	
Other	1,480	1,500	1,700	
	<b>Oct-19 a Dec-19</b>	<b>Jul-19 a Sep-19</b>	<b>Apr-19 a Jun-19</b>	<b>Jan-19 a Mar-19</b>
<b>Exposures assigned over the last 12 months which have been honored or repurchased</b>	14	13	16	1,551
<b>Exposures acquired - Risk Retention <sup>(1)</sup></b>	<b>Dec-19</b>	<b>Sep-19</b>	<b>Dec-18</b>	
<b>Type of exposure</b>	26,437	22,351	20,627	
Working Capital	-	-	20	
CDC Vehicles	547	415	207	
Payroll-deductible Loans	3,972	3,719	3,024	
Credit Card	317	223	235	
Real Estate Credit	-	-	-	
Finame	1	1	20	
Leasing	-	-	-	
Sundry Receivables	21,601	17,992	17,121	
<b>Type of assignor</b>	<b>26,437</b>	<b>22,351</b>	<b>20,627</b>	
Financial Institutions	3,978	3,720	3,041	
Companies	22,460	18,630	17,586	
<b>Exposures acquired - Without risk Retention <sup>(2)</sup></b>	<b>Dec-19</b>	<b>Sep-19</b>	<b>Dec-18</b>	
<b>Type of exposure</b>	513	576	1,011	
Working Capital	-	-	-	
CDC Vehicles	513	576	1,011	
Payroll-deductible Loans	-	-	-	
Credit Card	-	-	-	
Real Estate Credit	-	-	-	
Finame	-	-	-	
Leasing	-	-	-	
Sundry Receivables	-	-	-	
<b>Type of assignor</b>	<b>513</b>	<b>576</b>	<b>1,011</b>	
Financial Institutions	513	576	1,011	
Companies	-	-	-	

(1) Risk retention: Operations in which seller or assignor retains all or substantial part of the risk and transfer the benefits of the underlying financial assets (CMN Resolution 3,533).

(2) Without risk retention: Operations in which the seller or assignor transfers all or substantial part of the risk along with the benefits of the underlying financial assets (CMN Resolution 3,533).



Bellow, we present the information related to proprietary operations assigned with substantial risk retention and benefits:

R\$ million	Dec-19	Sep-19	Dec-18
<b>Securitized Exposures - Type of underlying asset</b>	<b>7,767</b>	<b>8,047</b>	<b>9,344</b>
Mortgage	6,287	6,547	7,644
Rural Loan <sup>(1)</sup>	1,480	1,500	1,700

(1) Compliant to the requirements of CMN Resolution 2,238.

Below is the total of securitization exposures composed of investments in securities:

R\$ million	Dec-19	Sep-19	Dec-18
<b>Type of securitization</b>			
<b>Traditional Securitization <sup>(1)</sup></b>	<b>4,343</b>	<b>7,315</b>	<b>7,512</b>
<b>Type of securitization bond <sup>(2)</sup></b>	<b>4,343</b>	<b>7,315</b>	<b>7,512</b>
FIDC - Without subordination <sup>(3)</sup>	2,157	2,112	2,153
Sundry Receivables <sup>(4)</sup>	2,157	2,112	2,153
CRI - Without subordination <sup>(3)</sup>	2,185	5,203	5,358
Mortgage <sup>(4)</sup>	2,185	5,203	5,358

(1) Traditional securitization is the process where the receivables flow associated with a group of underlying assets is used to remunerate securitization bonds.

(2) Securities derived from securitization process (CRI, FIDC).

(3) Class of security and its subordination to the others for redemption purposes: without subordination. The Organization has no credit exposures assigned without any transfer or substantial retention of risks and benefits on the dates referred in this report.

(4) Type of underlying asset backing the issuance: flow of receivables from customers, rentals, purchase and sale agreements between parties, as well as apartment, houses and lot mortgage contracts.

#### 6.4.4. Risk Mitigation Instruments

In order to calculate capital requirement for credit risk, following is the total mitigated amount pursuant to instruments provided in the Central Bank of Brazil Circular 3,809, by type of mitigation instrument and risk weight:

R\$ million	Risk Weight	Dec-19	Sep-19	Dec-18
<b>Type of Mitigation Instrument</b>				
Demand, time and savings account deposits, gold or government securities	0%	264,063	277,853	305,624
Financial Institution Guarantee	50%	32,113	31,274	27,348

#### 6.4.5. Counterparty Credit Risk Exposure

Below is the notional value of agreements subject to counterparty credit risk to be settled in the clearing houses where they act as the central counterparty and the amounts related to agreements in which the clearing houses do not act as the central counterparty, classified as secured and unsecured agreements:

R\$ million	Dec-19	Sep-19	Dec-18
<b>Agreements in which the clearing house:</b>			
Acts as a central counterparty	450,762	438,185	442,985
Does not act as a central counterparty (secured agreements)	660,906	565,483	700,728
Does not act as a central counterparty (unsecured agreements)	45,814	72,212	40,732

Below is the positive gross amount of collaterals received at operations subject to credit risk:

R\$ million	Dec-19	Sep-19	Dec-18
Collaterals amounts	607,488	603,654	626,151

Below, is the net overall exposure to counterparty credit risk:

R\$ million	Dec-19	Sep-19	Dec-18
Net Global Exposure	12,610	12,349	14,073

Below, is the notional value of credit derivatives held in the institution's portfolio:

R\$ million	Dec-19	Sep-19	Dec-18
<b>Transferred Risk</b>	<b>3,895</b>	<b>3,182</b>	-
Credit Default Sw ap (CDS)	3,895	3,182	-
<b>Received Risk</b>	<b>1,108</b>	<b>375</b>	<b>3,331</b>
Credit Default Sw ap (CDS)	1,108	375	3,331
<b>Total</b>	<b>5,003</b>	<b>3,557</b>	<b>3,331</b>

Below is the positive gross amount of collaterals received at operations subject to counterparty credit risk:

R\$ million	Dec-19	Sep-19	Dec-18
Gross positive amount of collaterals	245,034	261,060	292,969

## 6.5. Social and Environmental Risk

### 6.5.1. Transactions required from Equator Principles (October to December 2019)

In the fourth quarter of 2019, the Advisory and Financing Services for Project Finance were not contracted, as well as Corporate Loan to Projects under the criteria of Equator III Principles.

## 6.6. Market Risk

In this section, we present the evolution of the financial exposure, the VaR calculated using the internal model and its backtesting, and the Stress Analysis.

### 6.6.1. Financial Exposure – Trading Book

R\$ million Risk Factors	Dec-19		Sep-19		Dec-18	
	Asset	Liability	Asset	Liability	Asset	Liability
Fixed Rate	15,620	12,955	19,744	13,400	8,132	6,082
IPCA / IGP-M	889	1,476	1,301	752	250	191
Exchange Coupon	221	1,135	581	874	1,090	786
Foreign Currency	759	1,438	1,447	1,389	1,472	1,611
Equity	462	428	662	703	776	777
Sovereign/Eurobonds and Treasuries	3,783	5,007	3,972	1,498	3,805	1,100
Other	384	26	529	349	686	32
<b>Total at the End of the Quarter</b>	<b>22,119</b>	<b>22,465</b>	<b>28,236</b>	<b>18,964</b>	<b>16,211</b>	<b>10,578</b>

### 6.6.2. VaR Internal Model – Trading Book

The VaR of Trading Book, net of tax effects and on a one-day horizon in the end of the fourth quarter of 2019 was R\$ 10 million. A decrease has been observed on VaR mainly, due to a reduce on exposure on “Fixed” risk factor, when compared against the third quarter of 2019.

R\$ million Risk Factors	Dec-19	Sep-19	Dec-18
Fixed	1.6	5.8	0.8
IPCA / IGP-M	2.8	4.4	0.3
Exchange Coupon	0.4	0.6	0.1
Foreign Currency	5.3	4.6	0.7
Equity	0.7	1.4	0.7
Sovereign / Eurobonds and Treasury	3.8	1.6	3.8
Other	2.1	2.1	1.6
<b>Correlation / Diversification Effect</b>	<b>(6.8)</b>	<b>(9.8)</b>	<b>(2.2)</b>
<b>VaR at the end of the quarter</b>	<b>10.0</b>	<b>10.7</b>	<b>5.8</b>
<b>Average VaR in the quarter</b>	<b>10.3</b>	<b>16.2</b>	<b>13.7</b>
<b>Minimum VaR in the quarter</b>	<b>6.5</b>	<b>10.0</b>	<b>4.3</b>
<b>Maximum VaR in the quarter</b>	<b>15.3</b>	<b>24.3</b>	<b>23.5</b>

The risk factor “Others” comprises investment funds, commodities, non-linear instruments and unencumbered public securities (Financial Treasury Bills).

### 6.6.3. VaR Internal Model – Regulatory Book

This capital is calculated by the Delta-Normal VaR model based on the Regulatory Book composed by the Trading Book and the Foreign Exchange and Commodities exposures of the Banking Book. In addition, the historical simulation and the Delta-Gama-Vega VaR models are applied to measure all risk factors to an options portfolio, and the most conservative model is utilized, and this options risk is added to the VaR of the Portfolio. It is worth noting that the value at risk is extrapolated to the regulatory time horizon (the greater between 10 days and the portfolio horizon), through the root of time method. The VaR and Stressed VaR values shown below are net of tax effects.

R\$ million Risk Factors	Dec-19		Sep-19		Dec-18	
	VaR	Stressed VaR	VaR	Stressed VaR	VaR	Stressed VaR
Interest rate	14.7	58.6	32.0	130.5	8.1	47.9
Exchange rate	34.6	104.4	69.6	175.9	5.7	21.0
Commodity price	0.5	1.6	29.1	31.5	8.2	14.7
Share prices	2.8	3.8	5.4	7.3	3.4	4.8
<b>Correlation / Diversification Effect</b>	<b>(10.0)</b>	<b>(29.9)</b>	<b>(63.1)</b>	<b>(157.9)</b>	<b>(7.6)</b>	<b>33.2</b>
<b>VaR at the end of the quarter</b>	<b>42.6</b>	<b>138.6</b>	<b>73.0</b>	<b>187.3</b>	<b>17.8</b>	<b>121.5</b>
<b>Average VaR in the quarter</b>	<b>53.8</b>	<b>149.3</b>	<b>73.1</b>	<b>168.9</b>	<b>42.1</b>	<b>122.6</b>
<b>Minimum VaR in the quarter</b>	<b>53.5</b>	<b>140.9</b>	<b>34.0</b>	<b>80.2</b>	<b>17.8</b>	<b>57.5</b>
<b>Maximum VaR in the quarter</b>	<b>54.1</b>	<b>157.8</b>	<b>144.1</b>	<b>320.1</b>	<b>90.1</b>	<b>174.4</b>

To calculate the regulatory capital requirement according to the internal model, it is necessary to take into consideration the rules described by BCB Circular 3,646 and 3,674, such as the use of VaR and Stressed VaR net of tax effects, the average in the last 60 days and its multiplier.

#### 6.6.4. VaR Internal Model – Backtesting

The risk methodology applied is continuously assessed using backtesting techniques, which compare the one-day period VaR with the hypothetical P&L, obtained from the same positions used in the VaR calculation, and with the effective P&L, also considering the intraday operations for which VaR was estimated.

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 confidence level established. 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.

Daily hypothetical and effective P&L over the last 250 business days not surpassed their respective VaR with a confidence level of 99%.

#### 6.6.5. Stress Analysis – Trading Book

The Organization assesses daily the possible impacts on positions in stress scenarios for the next 20 days, with the limit established via the governance process. Thus, considering the effect of diverse risk factors and amounts net of tax effects, the possibility of average loss estimated in a stress situation would be R\$ 150 million in the fourth quarter of 2019, and the maximum estimated loss would be R\$ 230 million.

R\$ million	Dec-19	Sep-19	Dec-18
Quarter-end	106	196	59
Quarter average	150	185	134
Quarter minimum	87	123	53
Quarter maximum	230	277	205



### 6.6.6. Derivatives

The tables below present the exposures to derivative financial instruments held by the Organization, according to its place of operation (Brazil or abroad) and the portfolio where it is booked (Trading or Banking). Exposures are segregated by risk factor (interest rate, exchange rate, stock price and commodities) and market (over-the-counter and stock market):

R\$ million				Dec-19		Sep-19		Dec-18	
Brazil Portfolio	Risk Factor	Market	Long Position	Short Position	Long Position	Short Position	Long Position	Short Position	
TRADING	Interest Rate	OTC	24	(66)	306	(0)	0	-	
		Exchange	914	(13,942)	7,624	(13,295)	3,586	(6,741)	
	Exchange Rate	OTC	-	(826)	1	(720)	0	-	
		Exchange	220	(303)	583	(157)	1,903	(1,400)	
	Stock Price	OTC	0	(13)	-	-	-	-	
		Exchange	164	(161)	228	(250)	125	(32)	
Commodities Prices	OTC	-	-	-	-	-	-		
	Exchange	-	-	-	-	-	-		
BANKING	Interest Rate	OTC	49,158	(56,833)	52,329	(63,377)	45,710	(53,584)	
		Exchange	62,513	(141,061)	70,660	(131,774)	77,758	(93,899)	
	Exchange Rate	OTC	29,663	(33,523)	28,963	(41,301)	20,126	(41,375)	
		Exchange	21,699	(70,710)	26,974	(71,671)	21,669	(43,132)	
	Stock Price	OTC	5	(159)	15	(760)	50	(608)	
		Exchange	5	(458)	7	(325)	3	(217)	
	Commodities Prices	OTC	544	(216)	448	(453)	153	(107)	
		Exchange	0	(11)	-	-	1	(0)	

R\$ million				Dec-19		Sep-19		Dec-18	
Abroad Portfolio	Risk Factor	Market	Long Position	Short Position	Long Position	Short Position	Long Position	Short Position	
TRADING	Interest Rate	OTC	600	(596)	468	(551)	89	(149)	
		Exchange	128	(2,004)	157	(296)	-	(163)	
	Exchange Rate	OTC	172	(171)	333	(331)	89	(88)	
		Exchange	102	(102)	157	(157)	45	(36)	
	Stock Price	OTC	-	-	-	-	-	-	
		Exchange	-	(13)	-	-	4	-	
Commodities Prices	OTC	-	-	-	-	-	-		
	Exchange	-	-	-	-	-	-		
BANKING	Interest Rate	OTC	16,317	(17,756)	12,915	(9,220)	11,324	(14,111)	
		Exchange	5,620	(7,139)	6,257	(11,696)	5	(22,160)	
	Exchange Rate	OTC	10,278	(16,882)	12,494	(9,220)	12,375	(14,024)	
		Exchange	-	-	-	-	0	(4)	
	Stock Price	OTC	0	(560)	-	-	-	-	
		Exchange	-	-	-	-	1	(0)	
	Commodities Prices	OTC	272	(599)	-	-	-	-	
		Exchange	-	-	4	(0)	191	(169)	

It is worth pointing out that the derivative positions registered in the Banking portfolio have the strict intention of serving as a hedge for the Organization's commercial portfolio.

## 6.7. Liquidity Risk – LCR

The table below shows the average LCR of the Prudential Conglomerate for the third and fourth quarter of 2019 and fourth quarter of 2018:

R\$ thousand	Dec-19 <sup>1</sup>		Sep-19 <sup>2</sup>		Dec-18 <sup>3</sup>	
	Average Amount <sup>(4)</sup>	Weighted Average Amount <sup>(5)</sup>	Average Amount <sup>(4)</sup>	Weighted Average Amount <sup>(5)</sup>	Average Amount <sup>(4)</sup>	Weighted Average Amount <sup>(5)</sup>
<b>High Quality Liquid Assets (HQLA)</b>						
<b>1 Total High Quality Liquid Assets (HQLA)</b>		112,872,809		126,432,661		140,377,669
<b>Cash Outflows</b>						
<b>2 Retail funding:</b>	239,379,478	21,636,197	233,860,644	21,148,803	235,539,799	21,919,302
3 Stable funding	129,085,762	6,454,288	124,937,958	6,246,898	119,809,242	5,990,462
4 Less stable funding	110,293,716	15,181,908	108,922,687	14,901,905	115,730,557	15,928,840
<b>5 Non-collateralized wholesale funding:</b>	132,504,666	53,070,146	124,639,655	49,142,406	125,136,834	50,927,871
6 Operating deposits (all counterparties) and affiliated cooperative deposits	9,638,912	481,946	9,086,787	454,339	8,648,728	432,436
7 Non-operating deposits (all counterparties)	121,673,837	51,396,283	114,195,779	47,330,978	115,864,088	49,871,416
8 Other non-collateralized w holesale funding	1,191,917	1,191,917	1,357,088	1,357,088	624,019	624,019
<b>9 Collateralized wholesale funding</b>		3,828,662		5,816,254		5,361,781
<b>10 Additional requirements:</b>	113,180,203	14,729,075	111,348,703	14,121,872	104,341,246	14,181,344
11 Related to exposure to derivatives and other collateral requirements	14,457,167	6,617,026	12,428,370	6,042,829	14,419,270	6,741,269
12 Related to funding losses through the issue of debt instruments	765,093	765,093	661,364	661,364	554,811	554,811
13 Related to lines of credit and liquidity	97,957,944	7,346,956	98,258,969	7,417,678	89,367,165	6,885,263
<b>14 Other contractual obligations</b>	37,020,644	35,080,897	34,591,968	32,589,270	33,875,647	31,857,396
<b>15 Oher contingent obligations</b>	132,713,942	5,420,129	131,633,662	4,667,284	122,319,336	4,915,397
<b>16 Total cash outflows</b>		133,765,105		127,485,888		129,163,091
<b>Cash Inflows</b>						
17 Collateralized loans	65,979,377	896,126	90,194,722	607,789	95,238,798	-
18 Outstanding loans w hose payments are fully up-to-date	32,730,607	20,645,466	31,574,891	19,882,088	30,039,902	16,950,831
19 Other cash inflow s	41,453,133	33,730,321	39,241,268	31,844,157	37,235,944	30,511,989
<b>20 Total cash intlows</b>	140,163,117	55,271,914	161,010,881	52,334,034	162,514,644	47,462,820
		<b>Total Adjust. Amount<sup>(6)</sup></b>		<b>Total Adjust. Amount<sup>(6)</sup></b>		<b>Total Adjust. Amount<sup>(6)</sup></b>
21 Total HQLA		112,872,809		126,432,661		140,377,669
22 Total net cash outflow		78,493,191		75,151,854		81,700,271
<b>23 LCR (%)</b>		<b>143.8%</b>		<b>168.2%</b>		<b>171.8%</b>

(1) Calculated based on the simple daily average of the quarters (64 observations).

(2) Calculated based on the simple daily average of the quarters (66 observations).

(3) Calculated based on the simple daily average of the quarters (62 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 reported amount of net assets (HQLA) comprises besides returns from compulsory and reserves in the Central Bank of Brazil, essentially from federal public securities. These net assets amounted R\$ 112.9 billion, on average, in the fourth quarter of 2019, versus R\$ 126.4 billion, on average, in the third quarter of 2019 and R\$ 140.4 billion on average, in the fourth quarter of 2018.

Related to the cash outflows, based on the regulatory stress scenario (item 16), about 55.8% are redemptions and non-renewal retail and wholesale funding without collateral (unsecured), as shown in items 2 and 5 in the above 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 cash inflows, corresponding to R\$ 55.3 billion on average in the fourth quarter of 2019, 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.



## 6.8. Liquidity Risk – NSFR

The following table shows the Prudential Conglomerate NSFR related to the third and fourth quarter of 2019:

R\$ thousand	Dec-19				Sep-19	
	Amount per effective term of residual maturity <sup>(1)</sup>				Weighted Amount <sup>(2)</sup>	Weighted Amount <sup>(2)</sup>
	No maturity	Less than 6 months	More or equal to 6 months and less than 1 year	More or equal to 1 (one) year		
<b>Available Stable Funding (ASF)</b>						
<b>1 Capital:</b>	<b>164,713,771</b>	-	-	<b>17,470,233</b>	<b>182,184,004</b>	<b>186,739,415</b>
2 Total Capital, gross of regulatory deductions	164,713,771	-	-	-	164,713,771	170,609,797
3 Other instrument not included on line 2	-	-	-	17,470,233	17,470,233	16,129,618
<b>4 Retail funding, of which:</b>	<b>129,074,811</b>	<b>125,089,118</b>	<b>754,368</b>	<b>2,945,468</b>	<b>239,166,745</b>	<b>230,996,111</b>
5 Stable funding	82,488,995	53,407,198	-	-	129,101,383	123,589,546
6 Less stable funding	46,585,816	71,681,920	754,368	2,945,468	110,065,362	107,406,565
<b>7 Wholesale funding, of which:</b>	<b>26,437,635</b>	<b>386,140,576</b>	<b>37,228,191</b>	<b>111,749,390</b>	<b>209,696,926</b>	<b>199,334,386</b>
8 Operating deposits and affiliated cooperative deposits	10,314,521	-	-	-	4,511,764	4,129,034
9 Other w wholesale funding	16,123,114	386,140,576	37,228,191	111,749,390	205,185,163	195,205,353
<b>10 Operations that the institution acts exclusively as an intermediary, assuming no rights or obligations, even if contingent:</b>	-	<b>30,383,414</b>	<b>2,173</b>	<b>152,583</b>	-	-
<b>11 Other Liabilities, of which:</b>	<b>62,506,583</b>	<b>24,950,622</b>	-	-	<b>4,576,256</b>	<b>4,789,376</b>
12 Derivatives in w hich replacement value is less than zero	-	41,608	-	-	-	-
13 Other liabilities elements or shareholders' equity not included in the previous lines	62,506,583	24,909,013	-	-	4,576,256	4,789,376
<b>14 Total Available Stable Funding (ASF)</b>					<b>635,623,931</b>	<b>621,859,288</b>
<b>Required Stable Funding (RSF)</b>						
<b>15 Total High-Quality Liquid Assets (HQLA)</b>					<b>14,866,127</b>	<b>10,560,473</b>
<b>16 Operational deposits held in other financial institution</b>	-	-	-	-	-	-
<b>17 Bonds, securities and operations with financial institutions, non-financial institutions and central banks, of which:</b>	<b>5,981,349</b>	<b>205,884,884</b>	<b>75,927,001</b>	<b>268,592,666</b>	<b>344,672,986</b>	<b>327,275,585</b>
18 Operations with financial institutions collateralized by Level 1 HQLA	-	15,293,610	-	-	1,529,361	559,126
19 Operations with financial institutions collateralized by Level 2A, 2B HQLA or non-collateralized	-	43,860,573	3,874,055	2,465,669	6,274,154	5,413,939
20 Loans and financing granted for retail and w wholesale customers, central government and central banks operations, of w hich:	-	127,338,475	61,937,442	159,986,927	234,947,530	229,830,186
21 The Risk Weighting Factor, referred by Central Bank Circular 3,644, from 2013, is less than or equal to 35% (thirty five percent)	-	-	-	266,821	174,162	186,425
<b>22 Mortgages, of which:</b>	-	<b>2,671,136</b>	<b>2,402,256</b>	<b>33,290,208</b>	<b>24,175,331</b>	<b>23,887,866</b>
23 Referred by Central Bank Circular 3,644 from 2013, article 22	-	2,671,136	2,402,256	33,290,208	24,175,331	23,887,866
24 Bonds and securities non eligible to HQLA, including shares traded in the Stock Market	5,981,349	16,721,090	7,713,249	72,849,861	77,572,446	67,398,043
<b>25 Operations that the institution acts exclusively as an intermediary, assuming no rights or obligations, even if contingent</b>	-	<b>29,846,713</b>	<b>2,437,311</b>	<b>57,664</b>	-	-
<b>26 Other assets, of which:</b>	<b>189,213,031</b>	<b>23,574,416</b>	<b>255,784</b>	<b>14,064,499</b>	<b>180,400,297</b>	<b>182,001,737</b>
27 Gold and commodities transaction, including ones w ith 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	-	-	-	12,305,556	10,459,722	9,006,330
29 Derivatives in w hich replacement value is more than or equal to zero	-	1,704,628	-	-	-	-
30 Derivatives in w hich replacement value is less than zero, gross of any collateral deduction due to deposit for variation margin	-	-	-	-	1,577,581	751,433
31 Other assets not included in the previous lines	189,213,031	21,869,787	255,784	1,758,944	168,362,993	172,243,973
<b>32 Off-balance sheet operations</b>		<b>328,019,623</b>	-	-	<b>11,792,062</b>	<b>11,783,000</b>
<b>33 Total Required Stable Funding (RSF)</b>					<b>551,731,471</b>	<b>531,620,795</b>
<b>34 NSFR (%)</b>					<b>115.2%</b>	<b>117%</b>

(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\$ 84 billion, resulting the indicator in 115.2%.

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/2019, presented a sharing of 38%, originated from Retail funding and 33% 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/2019, the lending operations (item 20) represented 43% out of the total of RSF, while other assets (Item 31) shared 31% of the RSF.

## 7. Exhibits

The exhibits described below are available at [www.bradescori.com.br](http://www.bradescori.com.br)

### **Total Capital Structure and Suitability Information of Total Capital (Exhibit 1)**

Exhibit 1 shows the calculation of the Total Capital.

### **Key features - Total Capital Instruments (Exhibit 2)**

Exhibit 2 shows the information about each integral instrument according to the Total Capital.

### **Balance sheet (Exhibit 3)**

Exhibit 3 presents a comparison between the Prudential Conglomerate balance sheet and the balance sheet published in the Full Accounting Statements.

### **Institutions Participating in the Prudential Conglomerate (Exhibit 4.a.)**

Exhibit 4.a. shows the scope of the publication, in addition to the Prudential Conglomerate's institutions, the following companies are also part of the consolidation.

The regulatory scope to measure capital sufficiency since January 2015 is the Prudential Conglomerate, according to Central Bank of Brazil's rules. However, it is worth noting that other companies of the Economic and Financial Consolidated Group also participate in the Organization's risk management process. For these companies, all the risks inherent to their activities are evaluated, especially Grupo Bradesco Seguros, which also comply with regulatory capital rules, either through the rules of Superintendence of Private Insurance (SUSEP) or National Regulatory Agency for Private Health Insurance and Plans (ANS), depending on their operating segment.

At Grupo Bradesco Seguros, besides market, credit, operational, liquidity risk, among others, we point out the insurance risk, which is the main risk an insurance company is exposed. This risk results from an adverse economic situation that would go against the insurance company's expectations, at the time of preparing the insurance policy, with regard to existing uncertainties, both in terms of definition of actuarial premises and the creation of technical provisions and calculation of premiums and contributions. Thus, it is the risk that the frequency or severity of claims or benefits is greater than those estimated by the Organization.

Insurance risks are managed by the General Risk Management Directors, Grupo Bradesco Seguros, which also belongs to the Organization's risk management structure. One of its main duties is to develop an internal model for the calculation of economic capital based on insurance risks. The management process complies with all policies, rules and procedures of the Organization and seeks to diversify insurance operations in order to ensure a balanced portfolio sustained by the grouping of risks with similar characteristics, thereby reducing the impact of isolated risks.

### **Relevant Institutions (Exhibit 4.b.)**

In Exhibit 4.b., we present the list of the main companies, with a direct and indirect interest, included in the accounting statements.

### **Equity Interests (Exhibit 4.c.)**

We highlight in Exhibit 4.c. the information on the companies' equity interests.

The equity interests are measured by the equity method or by the cost method. The equity interests abroad are recorded by the original amount in foreign currency, converted into Brazilian Reais, by the conversion rate on the investment acquisition

date. The foreign exchange rate is updated by the variation of PTAX selling rate released by Central Bank of Brazil related to foreign currencies in countries where investments are made.

The selection of the method to be used observes prevailing laws, namely:

**Equity method:** the investment measured by the equity method is calculated monthly based on the statement of financial position or interim statement of financial position drawn up on the same date, or until, at most, two months before, and in this assumption, the necessary adjustments are made to consider the non-recurring and/or relevant facts impacts in the period. The statement of financial position or interim statement of financial position of investments abroad are adjusted to the accounting criteria effective in Brazil and converted into Real (by the closing quote), and its effects recognized in the net income for the period.

**Cost method:** investments in equity instruments of other entities are measured by cost, when classified in the sub-group Non-Current Asset Investments, provided that these entities are not considered associated companies or subsidiaries (including jointly controlled entities). Through this method, the investments are recorded by acquisition cost, less provisions for losses.

## 8. Glossary

### A

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

**ACP** – Additional Principal Capital

**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

**BNDES** – *Banco Nacional de Desenvolvimento Econômico e Social* (National Economic and Social Development Bank)

### C

**CDC** – Crédito Direto ao Consumidor (Direct Consumer Credit)

**CDS** – Credit Default Swap

**CEO** – Chief Executive Officer

**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)

**CRO** – Chief Risk Officer

**CVA** – Credit Value Adjustment

### D

**DCCE** – Compliance, Conduct and Ethics Department

**DCIR** – Integrated Risk Control Department

**DLO** – *Demonstrativo de Limites Operacionais* (Operational Limit Demonstration)

**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

**G**

GDP – Gross Domestic Product

**H**

HQLA – High Quality Liquid Assets

**I**

ICAAP – Internal Capital Adequacy Assessment Process

IFC – International Finance Corporation

IGP-M – *Índice Geral de Preços do Mercado* (Brazilian Market Price Index)

IPCA – *Índice Nacional de Preços ao Consumidor Amplo* (Brazilian Broad Consumer Price Index)

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**

PLDFT – *Prevenção e Combate à Lavagem de Dinheiro e ao Financiamento ao Terrorismo* (Money laundering and terrorism funding prevention)

P&L – Profit and Loss

**R**

RAS – Risk Appetite Statement

ROF – *Rating Operação Final*

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

RSF – Required Stable Funding

RWA – Risk-Weighted Assets

RWA<sub>CPAD</sub> – Risk-weighted assets portion relating to credit risk, standard approach

RWA<sub>MPAD</sub> – Risk-weighted assets portion relating to market risk, standard approach

RWA<sub>MINT</sub> – Risk-weighted assets portion relating to market risk, internal approach

RWA<sub>OPAD</sub> – Risk-weighted assets portion relating to operational risk, standard approach



**S**

SUSEP – Superintendence of Private Insurance

**U**

UK – United Kingdom

USA – United States of America

**V**

VaR – Value at Risk





**bradesco**