

# Risk and Capital Management

March 2022



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## INTRODUCTION

This document presents information regarding risk management, the calculation of the amount of risk-weighted assets (RWA<sup>1</sup>), the adequacy of the Total Capital of the Prudential Consolidated, the comparison between Accounting information and Prudential information, the leverage ratio, liquidity indicators, capitalization indicators, and compensation of directors and officers, in line with the requirements of the Brazilian Central Bank (Bacen), through Circular Letter 3.930/19, and in line with Pillar 3 of the Basel Accord rules.

In accordance with Resolution 4.557/17 issued by Brazil's National Monetary Council (CMN), the Institution has a formal disclosure policy as well as institutional frameworks and policies for risk management and capital management approved by the Board of Directors. The basic principles observed in management and control were established pursuant to current regulations and market practices, as detailed in the specific chapters on each of these topics presented in this report.

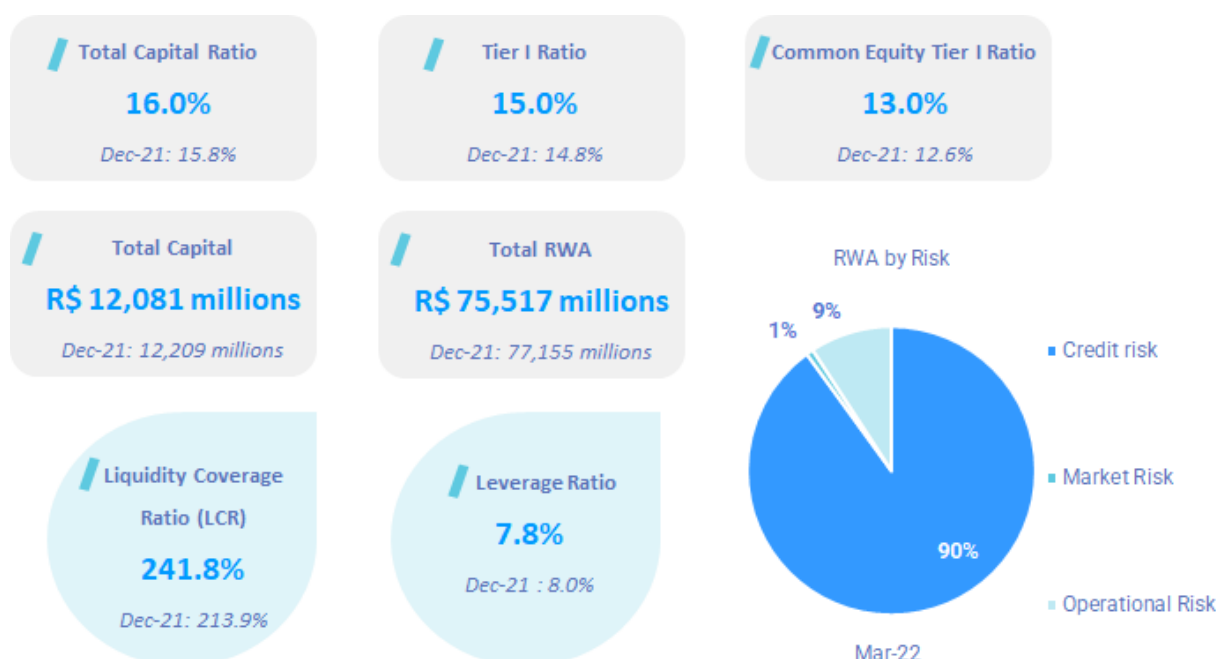
According to the rules established by the regulator, through BCB Resolution 54/20, this document is divided into sections composed of tables, which present qualitative and quantitative information, in fixed or flexible formats, and with different frequency, which are:

- 1st Quarter of the year: disclosure of the quarterly quantitative tables;
- 2nd Quarter of the year: updating of the quarterly tables and dissemination of the quantitative half-yearly tables;
- 3rd Quarter of the year: updating of the quarterly quantitative tables;
- 4th quarter of the year: updating of the quarterly and half-yearly quantitative tables and disclosure of the annual quantitative and qualitative tables.

The coming sections present updated information for the 1<sup>st</sup> quarter, including the KM1, OV1, MR1, LR2, LIQ1 tables, as established in BCB Resolution 54/20. The following tables are outside the scope of updating for S2 Banks: GSIB1 and LIQ2. Additionally, the tables referring to the market risk MRB, MR2, MR3 and MR4 are for exclusive disclosure of institutions authorized to use internal models of market risk for calculating the daily amount referring to the RWA<sub>MINT</sub> portion.

The detailed information is described in the report, in the respective appendices, and in the spreadsheets supporting the tables available on the Investor Relations website at [www.bancovotorantim.com.br/ri](http://www.bancovotorantim.com.br/ri) and in Open Data format, available on the website of the Brazilian Central Bank (Bacen) at [www.dadosabertos.bcb.gov.br](http://www.dadosabertos.bcb.gov.br).

Following are the main indicators on the base date of March 31, 2022, for the Prudential Conglomerate:



<sup>1</sup> Risk Weighted Assets

## I. Prudential Indicators and Risk Management

### 1) KM1: Quantitative information on the prudential requirements

The Institution considers that it is at adequate levels of capitalization, since required capital is lower than available capital and there is sufficient capital margin to support business growth. In March 2022, the Total Capital Ratio was 16.0%, with a capital margin, calculated by the difference between the Total Capital and the required capital, was roughly R\$ 5.7 billion (considering RBAN). The Tier 1 Capital Ratio ended at 14.98% and the Common Equity Tier I Ratio closed at 13.04%.

| Quarterly Update<br>Prudential Consolidated - R\$ million         |  | Mar-22  | Dec-21  | Sep-21  | Jun-21  | Mar-21  |
|---|--|---------|---------|---------|---------|---------|
| <b>Available capital (amounts)</b>                                |  |         |         |         |         |         |
| 1   | Common Equity Tier I (CET1)  | 9,847   | 9,736   | 10,207  | 9,722   | 8,939   |
| 2   | Tier I   | 11,310  | 11,419  | 11,887  | 11,230  | 10,697  |
| 3   | Total Capital  | 12,081  | 12,209  | 12,359  | 11,653  | 11,182  |
| 3b  | Excess of resources invested on permanent assets                     | -       | -       | -       | -       | -       |
| 3c  | Total Capital Detachments  | -       | -       | -       | -       | -       |
| <b>Risk-weighted assets (amounts)</b>                             |  |         |         |         |         |         |
| 4   | Total risk-weighted assets (RWA)                                     | 75,517  | 77,155  | 78,912  | 76,438  | 76,323  |
| <b>Risk-based capital ratios as a percentage of RWA</b>           |  |         |         |         |         |         |
| 5   | CET1 ratio   | 13.04%  | 12.62%  | 12.93%  | 12.72%  | 11.71%  |
| 6   | Tier I ratio   | 14.98%  | 14.80%  | 15.06%  | 14.69%  | 14.02%  |
| 7   | Total Capital Ratio  | 16.00%  | 15.82%  | 15.66%  | 15.25%  | 14.65%  |
| <b>Additional CET1 buffer requirements as a percentage of RWA</b> |  |         |         |         |         |         |
| 8   | Capital conservation buffer requirement                              | 2.00%   | 2.00%   | 1.63%   | 1.63%   | 1.25%   |
| 9   | Countercyclical capital buffer requirement                           | 0.00%   | 0.00%   | 0.00%   | 0.00%   | 0.00%   |
| 10  | Systemic capital buffer requirement                                  | 0.00%   | 0.00%   | 0.00%   | 0.00%   | 0.00%   |
| 11  | Total of bank CET1 specific buffer requirements                      | 2.00%   | 2.00%   | 1.63%   | 1.63%   | 1.25%   |
| 12  | CET1 available after meeting the bank's minimum capital requirements | 6.54%   | 6.12%   | 6.81%   | 6.59%   | 6.00%   |
| <b>Leverage Ratio (LR)</b>  |  |         |         |         |         |         |
| 13  | Total exposure   | 145,987 | 142,329 | 146,711 | 146,495 | 147,459 |
| 14  | LR   | 7.8%    | 8.0%    | 8.1%    | 7.7%    | 7.3%    |
| <b>Liquidity Coverage Ratio (LCR)</b>                             |  |         |         |         |         |         |
| 15  | Total high-quality liquid assets (HQLA)                              | 13,445  | 13,072  | 16,235  | 14,064  | 17,229  |
| 16  | Total net cash outflow   | 5,561   | 6,110   | 6,204   | 5,451   | 7,506   |
| 17  | LCR ratio  | 241.8%  | 213.9%  | 261.7%  | 258.0%  | 229.5%  |
| <b>Net Stable Funding Ratio (NSFR)<sup>1</sup></b>                |  |         |         |         |         |         |
| 18  | Total available stable funding (ASF)                                 |         |         |         |         |         |
| 19  | Total required stable funding (RSF)                                  |         |         |         |         |         |
| 20  | NSFR ratio   |         |         |         |         |         |

1 - Gradual increase of CET1 buffer Conservation (up to 2.5% until April/22), according to CMN Resolution nº 4,783/20.

2 - Capital conservation buffer requirement is established by the Financial Stability Committee (Comef) and is currently set to zero, according to BACEN nº 37.942/21).

3 - Institutions classified in segment 1 (S1) are subject to compliance with the Systemic Capital Buffer portion, pursuant to CMN Resolution No. 4,553/17).

4 - NSFR information not applicable through segmentation provided for by BACEN No. 3,390.

The Total Capital (TC) ended the period at R\$ 12.1 billion, showing a reduction of R\$ 128 million compared to the previous quarter's TC, with 93.6% of the TC amount being composed of Tier 1 Capital. The Common Equity Tier I (CET 1) ended the period at R\$9.8 billion, an increase of R\$110 million in relation to the previous quarter.

## 2) OV1: Overview of risk-weighted assets (RWA)

RWA, as defined by CMN Resolution No. 4.958/21, is comprised of the sum of risk-weighted assets referring to the credit, market and operational risks:

$$\text{RWA} = \text{RWA}_{\text{CPAD}} + \text{RWA}_{\text{CAM}} + \text{RWA}_{\text{JUR}} + \text{RWA}_{\text{COM}} + \text{RWA}_{\text{ACS}} + \text{RWA}_{\text{OPAD}}$$

**RWA<sub>CPAD</sub>**: meaning the portion of risk-weighted assets (RWA) relating to credit risk exposures subject to the calculation of capital requirement using a standardized approach;

**RWA<sub>CAM</sub>**: portion of risk-weighted assets (RWA) relating to exposures in gold, in foreign currency and in assets subject to exchange-rate change;

**RWA<sub>JUR</sub>**: portion of risk-weighted assets (RWA) relating to exposures subject to the variation of interest rates classified in the trading portfolio;

**RWA<sub>COM</sub>**: portion of risk-weighted assets (RWA) relating to exposures subject to the change of commodity prices;

**RWA<sub>ACS</sub>**: portion of risk-weighted assets (RWA) relating to exposures subject to the change in the price of shares classified in the trading portfolio;

**RWA<sub>OPAD</sub>**: portion of risk-weighted assets (RWA) relating to the calculation of capital required for operational risk using a standardized approach.

| Quarterly Update<br>Prudential Consolidated - R\$ million |  | RWA           |               | Minimum capital requirements |
|---|--|---------------|---------------|------------------------------|
|   |  | Mar-22        | Dec-21        | Mar-22                       |
| 0   | <b>Credit Risk- standardized approach</b>  | <b>67,967</b> | <b>69,308</b> | <b>5,437</b>                 |
| 2   | Credit Risk  | 56,472        | 57,621        | 4,518                        |
| 6   | Counterparty credit risk (CCR)   | 1,996         | 1,829         | 160                          |
| 7   | <u>Of which:</u> standardized approach for counterparty credit risk (SA-CCR)   | -             | -             | -                            |
| 7a  | <u>Of which:</u> CEM approach  | 1,451         | 1,376         | 116                          |
| 9   | <u>Of which:</u> other CCR   | 545           | 453           | 44                           |
| 10  | Increase related to the adjustment associated with the variation in the derivatives value due to the credit valuation adjustment (CVA) | 246           | 796           | 20                           |
| 12  | Equity investments in funds – look-through approach  | 449           | 403           | 36                           |
| 13  | Equity investments in funds – mandate-based approach   | -             | -             | -                            |
| 14  | Equity investments in funds – fall-back approach   | -             | -             | -                            |
| 16  | Securitisation exposures in banking book   | 537           | 372           | 43                           |
| 25  | Amounts for exposures not deducted from total capital calculation  | 8,268         | 8,286         | 661                          |
| 20  | <b>Market Risk</b>   | <b>602</b>    | <b>909</b>    | <b>48</b>                    |
| 21  | <u>Of which:</u> standardized approach (SA)  | 602           | 909           | 48                           |
| 22  | <u>Of which:</u> internal model approach (IMA)   | -             | -             | -                            |
| 24  | <b>Operational risk</b>  | <b>6,948</b>  | <b>6,938</b>  | <b>556</b>                   |
| 27  | <b>Total (2+6+10+12+13+14+16+25+20+24)</b>   | <b>75,517</b> | <b>77,155</b> | <b>6,041</b>                 |

### 3) MR1: Market Risk under Standardized Approach

Base Date: Mar-22  
Quarterly Update  
Prudential Consolidated - R\$ million

|          | Risk factors                                   | RWA <sub>MPAD</sub> |
|----------|--|---------------------|
| 1        | Interest rate                                  | 356                 |
| 1a       | Fixed Rate in Reais (RWA <sub>JUR1</sub> )     | 108                 |
| 1b       | Foreign Currency Coupon (RWA <sub>JUR2</sub> ) | 139                 |
| 1c       | Price Index Coupon (RWA <sub>JUR3</sub> )      | 109                 |
| 1d       | Interest Rate Coupon (RWA <sub>JUR4</sub> )    | 0                   |
| 2        | Shares (RWA <sub>ACS</sub> )                   | 0                   |
| 3        | Foreign exchange (RWA <sub>CAM</sub> )         | 246                 |
| 4        | Commodity (RWA <sub>COM</sub> )                | 0                   |
| <b>9</b> | <b>Total</b>                                   | <b>602</b>          |

## II. Leverage ratio

Circular Letter 3.748/15 sets out the methodology for calculating the Leverage Ratio (LR), which is in line with the recommendations contained in the Basel III documents. The aim of this indicator is to improve financial institutions' ability to absorb shocks from the financial system itself or from other sectors of the economy, enabling financial stability to be maintained. The Leverage Ratio (RA) is defined by the ratio of Level I on Institution's Total Exposure:

$$RA = \frac{\text{Tier I}}{\text{Total exposure}}$$

- Tier I: corresponds to the sum of Common Equity Tier I and Complementary Capital, as defined in CMN Resolution 4.955/21;
- Total exposure: it is determined by accounting information net of allowances, advances received, and unearned income, and without the deduction of any type of mitigator, as defined by Circular Letter 3.748/15.

The minimum limit of the Leverage Ratio (LR) is 3%, according to CMN Resolution 4.615/17 issued by the National Monetary Council.

#### 4) LR2: Detailed information on the Leverage Ratio

| Quarterly Update<br>Prudential Consolidated - R\$ million |  | Mar-22         | Dec-21         |
|---|--|----------------|----------------|
|   | <b>Items shown in the Balance Sheet</b>  |                |                |
| 1   | Balance sheet items except derivative financial instruments, securities received on loan and resales for settlement under repurchase transactions  | 112,749        | 112,787        |
| 2   | Adjustments for equity items deducted in the calculation of Tier I   | 2,357          | 2,210          |
| <b>3</b>  | <b>Total exposure shown in the Balance Sheet</b>   | <b>110,392</b> | <b>110,576</b> |
|   | <b>Transactions using Derivative Financial Instruments</b>   |                |                |
| 4   | Replacement value for derivatives transactions   | 5,456          | 3,940          |
| 5   | Potential future gains from derivatives transactions   | 953            | 1,227          |
| 7   | Adjustment for collateral in derivatives transactions  | 0              | 0              |
| 8   | Adjustment related to the deduction of the exposure because of the qualified central counterparty (QCCP) in derivative transactions on behalf of clients in which there is no contractual obligation to reimburse due to bankruptcy or default of the entities responsible for the settlement and compensation of transactions | 7              | 8              |
| 9   | Reference value for credit derivatives   | 0              | 0              |
| 10  | Adjustment of reference value calculated for credit derivatives  | 0              | 0              |
| <b>11</b>   | <b>Total exposure for derivative financial instruments</b>   | <b>6,402</b>   | <b>5,159</b>   |
|   | <b>Repurchase Transactions and Securities Lending (TVM)</b>  |                |                |
| 12  | Investments in repurchase transactions and securities lending  | 965            | 639            |
| 13  | Adjustment for repurchases for settlement and creditors of securities lending  | 0              | 0              |
| 14  | Amount of counterparty credit risk   | 22,530         | 19,835         |
| 15  | Amount of counterparty credit risk in transactions as intermediary   | 0              | 0              |
| <b>16</b>   | <b>Total exposure for repurchase transactions and securities lending</b>   | <b>23,495</b>  | <b>20,474</b>  |
|   | <b>Off-balance sheet items</b>   |                |                |
| 17  | Reference value of off-balance sheet transactions  | 13,269         | 13,126         |
| 18  | Adjustment for application of FCC specific to off-balance sheet transactions   | -7,572         | -7,006         |
| <b>19</b>   | <b>Total off-balance sheet exposure</b>  | <b>5,698</b>   | <b>6,120</b>   |
|   | <b>Capital and Total Exposure</b>  |                |                |
| 20  | Tier I   | 11,310         | 11,419         |
| <b>21</b>   | <b>Total Exposure</b>  | <b>145,987</b> | <b>142,329</b> |
|   | <b>Leverage Ratio</b>  |                |                |
| <b>22</b>   | <b>Basel III Leverage Ratio</b>  | <b>7.75%</b>   | <b>8.02%</b>   |

### III. Liquidity risk

#### 5) LIQ1: Liquidity Coverage Ratio (LCR)

BACEN Circular Letter 3.749/15 establishes the methodology for calculating the Liquidity Coverage Ratio (LCR). This Circular Letter is in line with the recommendations contained in the Basel III documents, published with the aim of showing that large financial institutions have high liquidity resources to withstand a scenario of standardized month-long acute financial stress, through pre-established criteria in the regulations.

The LCR, as defined by the Circular Letter, is the ratio between the stocks of high-quality liquid assets (HQLA) and the total net cash outflows planned for a 30-day period.

In accordance with Circular Letter 3.905/18, the Institution started to send to the Brazilian Central Bank the calculation of the LCR referring to the last business day of each month, in the specific layout for institutions in the S2 segment. It is worth emphasizing that, in the management controls, the Institution maintained the daily calculation of the index internally, using the same weights used by institutions in the S1 segment. The Institution established the risk appetite for the LCR, which consists of comparing the current LCR and the projection of the index for the next six months with a pre-established minimum index. Additionally, it is important to emphasize that the Bank has a credit facility at Banco do Brasil since 2009, which represents a significant liquidity reserve and that has never been used.

| <i>Base Date: Mar-22</i><br><i>Quarterly Update</i><br><i>Prudential Consolidated - R\$ million</i> |  | Total<br>unweighted<br>value | Total<br>weighted<br>value |
|---|--|------------------------------|----------------------------|
|   | <b>High Quality Liquidity Assets (HQLA)</b>  |                              |                            |
| 1   | Total High Quality Liquid Assets (HQLA)  |                              | 13,445                     |
|   | <b>Cash Outflows</b>   |                              |                            |
| 2   | Retail deposits and deposits from small business customers, of which:                                  | 1,832                        | 313                        |
| 3   | Stable deposits  | 0                            | 0                          |
| 4   | Less stable deposits   | 1,832                        | 313                        |
| 5   | Unsecured wholesale funding, of which:   | 12,333                       | 6,354                      |
| 6   | Operational deposits (all counterparties) and deposits in networks of cooperative banks                | 0                            | 0                          |
| 7   | Non-operational deposits (all counterparties)  | 12,264                       | 6,284                      |
| 8   | Unsecured debt   | 69                           | 69                         |
| 9   | Secured wholesale funding  | 0                            | 1,250                      |
| 10  | Additional requirements, of which:   | 5,003                        | 495                        |
| 11  | Outflows related to derivative exposures and other collateral requirements                             | 614                          | 275                        |
| 12  | Outflows related to loss of funding on debt products   | 0                            | 0                          |
| 13  | Credit and liquidity facilities  | 4,389                        | 219                        |
| 14  | Other contractual funding obligations  | 1,559                        | 1,559                      |
| 15  | Other contingent funding obligations   | 7,667                        | 399                        |
| 16  | <b>Total Cash Outflows</b>   | <b>28,394</b>                | <b>10,369</b>              |
|   | <b>Cash Inflows</b>  |                              |                            |
| 17  | Secured lending (eg reverse repos)   | 3,785                        | 0                          |
| 18  | Inflows from fully performing exposures  | 2,778                        | 1,842                      |
| 19  | Other cash inflows   | 3,084                        | 2,967                      |
| 20  | <b>TOTAL CASH INFLOWS</b>  | <b>9,647</b>                 | <b>4,808</b>               |
|   | <b>Adjusted Total value</b>  |                              |                            |
| 21  | <b>Total HQLA</b>  |                              | <b>13,445</b>              |
| 22  | <b>Total net cash outflows</b>   |                              | <b>5,561</b>               |
| 23  | <b>Liquidity Coverage Ratio (%)</b>  |                              | <b>241.8%</b>              |
| Comments  | Considered the simple average of the closing dates for the months of January, February and March 2022. |                              |                            |