Report on Social, Environmental and Climate Risks and Opportunities

June 2023

Contents

Governance of Social, Environmental and Climate Risk Management

GVR Table

Purpose: To describe the governance of social, environmental and climate risk management. Content: Qualitative information. Frequency: Yearly. It must describe the role of the board of directors (BoD), the Institution's executive office, the chief risk officer (CRO), and the risk committee in the process of governance to identify, measure, assess, monitor, report, control and mitigate social, environmental, and climate risks, pursuant to Resolution 4,557, of February 23, 2017.

A. Identification of the Institution's governance bodies responsible for managing social, environmental and climate risks.

Key roles in structuring social, environmental and climate risk management at Banrisul are incumbent upon the following bodies: Board of Directors; Risk Committee; Social, Environmental and Climate Responsibility Committee; Audit Committee; Executive Board; Chief Risk Officer; Corporate Risk Committee; Sustainability Committee; Corporate Risk Management Unit; Administrative Areas of the General Management and Subsidiaries of Grupo Banrisul; Department of Operational and Socioenvironmental Risks of the Corporate Risk Management Unit; Control and Compliance Unit; and Internal Audit. The main responsibilities assigned to each body are described in item "B".

B. Description of responsibilities assigned to the bodies identified in item "A", and the relationship among them.

Board of Directors - (BoD)

The Board of Directors (BoD) is the general body that guides the business, guidelines and institutional objectives. For the purposes of managing capital and corporate risks, its main duties are to define the Institution's risk appetite levels in the Risk Appetite Statement - RAS and revise them with the support of the Risk Committee, the Executive Board, and the Chief Risk Officer.

Risk Committee - RC

The Risk Committee's duties include proposing recommendations to the Board of Directors concerning policies, strategies and limits on capital and risk management, assessing the risk appetite levels defined in the RAS and the actions to manage such risks individually and collectively.

The Risk Committee shall also coordinate its activities together with the Audit Committee, in order to facilitate the exchange of information, the necessary adjustments to the risk governance framework, and the effective handling of risks to which the Institution is exposed.

Social, Environmental, and Climate Responsibility Committee - SECRC

The activities of the SECRC are coordinated together with the Risk Committee and it has a duty to propose recommendations to the Board of Directors as to the establishment, revision and improvement of the Social, Environmental and Climate Responsibility Policy, in addition to assessing adherence of the implemented actions to such Policy.

Audit Committee

The Audit Committee is a permanent statutory collegiate body reporting directly to the Board of Directors tasked with advising on audit, supervision and inspection-related activities within the scope of Banrisul and its Subsidiaries. It also has a duty to, among others, contribute to the activities performed by the Risk Committee, facilitating exchange of information, in order to make the necessary adjustments to the risk governance framework and the effective handling of risks to which the Institution is exposed.

Executive Board

The Executive Board shall perform activities entailing risk assumption in compliance with the Institution's policies and strategies. The Executive Board must also actively engage in the stress testing program, indicating the guidelines to follow and approving risk scenarios when utilizing the methodology for analyzing scenarios.

Chief Risk Officer - CRO

The CRO is in charge of ensuring that the policies, processes, reports, systems and models used to manage risks are in line with the RAS and the Institution's strategic objectives. The CRO is also responsible for coordinating the process of defining the Institution's risk appetite.

Corporate Risk Committee

The Corporate Risk Committee is a propositional and advisory body that is part of the Institutional Capital and Risk Management Framework, with the purpose of ensuring the correct implementation of said framework. It is the charge of the Corporate Risk Committee, within the scope of Integrated Capital and Corporate Risk Management, to approve the methodologies applied to measure corporate risks and to assess and monitor the Institution's risks in view of the strategic objectives, ensuring alignment between such risks and objectives.

Sustainability Committee

The Sustainability Committee is a strategic engagement and advisory body to the Executive Board tasked with ensuring the transversality of sustainability, covering economic, financial, social, environmental, climate and governance aspects related to the business strategy.

Corporate Risk Management Unit

The Corporate Risk Management Unit is responsible for coordinating the processes for capital management and risks involving credit, market, IRRBB, liquidity, operational, social, environmental and climate matters for all institutions of the Prudential Conglomerate. It also considers the possible impacts from risks associated with other entities controlled by companies of the Conglomerate, in addition to other relevant identified risks.

Administrative Areas of the General Management and Subsidiaries of Grupo Banrisul

As a first line of defense, these areas shall monitor the processes and activities performed under their responsibility, with a view to identifying and managing their risks.

Department of Operational and Socioenvironmental Risks of the Corporate Risk Management Unit

As a second line of defense, it has a duty to manage social, environmental and climate risks within the Subsidiaries of Grupo Banrisul, providing methodologies and tools so that the business areas can work as a first line of defense to manage social, environmental and climate risks inherent in their frameworks.

Control and Compliance Unit

It is the charge of the Control and Compliance Unit to monitor the definition of internal control and monitor compliance with corporate policies, as well as to monitor the execution of the actions proposed by the first line of defense to handle social, environmental and climate risks.

Internal Audit

The Internal Audit performs third line of defense activities, managing social, environmental and climate risks, in compliance with the provisions provided for in CMN Resolutions 4,557/17 and 4,879/20.

C. Process and frequency of receipt of social, environmental and climate risk information by the Board of Directs, and in the event of its absence, by the executive board, considering what was described in item "B".

The Report on Social, Environmental and Climate Risks shall be prepared on an annual basis and aims to inform the Corporate Risk Committee, the Executive Board, the Risk Committee and the Board of Directors of the management of such risks within the Institution, addressing the risk management context and listing the main activities performed in the period by the Department of Operational and Socioenvironmental Risks of the Corporate Risk Management Unit.

The annual report of the Internal Capital Adjustment Assessment Process (Icaap), which encompasses risk identification, management and measurement, including measurement of capital needs to cover losses amid severe crisis scenarios, is submitted to the Corporate Risk Committee, the Executive Board, the Risk Committee and the Board of Directors for approval, together with the results of the Stress Testing Program.

Risk exposures are monitored on a monthly basis through the RAS indicators, being reported to the Chief Risk Officer, the Risk Committee and the Board of Directors.

D. Description of the criteria used by the Board of Directors and, in its absence, by the executive board, to ensure that social, environmental and climate risks, when relevant, will be considered in the approval and revision processes:

Risk appetite levels of the Institution

Banrisul has developed a series of indicators and flags to monitor its risk appetite, which are periodically monitored and reported to higher bodies through reports and a dashboard. The purpose is to maintain indicators in accordance with the established appetites and identify potential and necessary corrective actions, according to the existing scenario, in relation to the Institution's pursued strategy.

Risk and capital management policies, strategies and limits

The Board of Directors revises and approves Capital and Corporate Risk Management Frameworks and Policies, considering social, environmental and climate risks that are relevant to the Institution, with specific policies for their management, thereby ensuring alignment with other institutional policies.

Stress testing program

The Stress Testing Program is yearly revised and approved by the Board of Directors, considering social, environmental and climate risks, based on two stress approaches – sensitivity and scenario.

Sensitivity stress testing for Environmental and Climate Risks consists of increasing provision through the depreciation of the guarantees given to client operations classified as "high climate and/or environmental exposure".

When analyzing risk scenarios, we have the ad hoc scenario with downgraded risk levels for all operations classified as "high risk exposure," thereby increasing provision.

Business continuity management policies

The integrated management framework enables the adequate identification of social, environmental and climate risks associated with the Institution's processes, considering such aspects when managing business continuity.

Liquidity contingency plan

Banrisul adopts the Liquidity Contingency Plan with the purpose of identifying, in advance, and adjusting its capacity to face internal and/or external liquidity crises, including those arising from stress events associated with possible social, environmental and climate risks, minimizing potential effects on the Company's business continuity, its capacity to produce results and its image.

Capital plan and capital contingency plan

The Institution considers that the SAC risks are covered by the Pilar I risks, being covered by the Capital Plan.

Compensation policy

The Institution adopts an instrument to monitor employee results and appreciate their performance at the Bank. It consists of Indicators of Performance (goals) and Competencies (competency assessment). The implementation of the Sustainability Agenda composes the Indicators of Performance.

E. **Methods employed by the Board of Directors – and in the absence of said body, by the executive board – to monitor strategic objectives and, if applicable, the Institution's goals related to social, environmental and climate aspects.**

At the start of each calendar year, the Board of Directors adopts its thematic agenda which includes social, environmental and climate aspects. Since 2023, quarterly reports on the main activities pending before the Social, Environmental and Climate Responsibility Committee have been included at the Board of Directors' meetings. As a result, the climate agenda has been increasingly supervised by the Board of Directors, with major remarks and greater relevance to resolutions and advances in Banrisul's projects.

As the highest body at the Institution in relation to the Risk Appetite Statement (RAS), the Board of Directors defines the risk appetite levels and revises them on an annual basis, with the support of the Chief Risk Officer, the Executive Board, and the Risk Committee. The RAS reflects Banrisul's operational environment, strategy and business objectives. It defines the different and acceptable levels of all risks taken by the Institution and guides their rigorous monitoring and control in order for them to be in line with the pursued strategy. As a result, each level of operation within the organization plays a role in identifying, measuring, assessing, monitoring, reporting, controlling and mitigating risks. The Board of Directors is responsible for yearly revising and approving risk management policies, strategies, and limits to maintain the exposure levels defined in the RAS.

Strategies utilized to handle Social, Environmental and Climate Risks

EST Table

Purpose: To identify and describe real and potential impacts, when considered relevant, of social, environmental and climate risks on the Institution's business, strategies, and risk and capital management. Content: Qualitative information. Frequency: Yearly. It must describe social, environmental and climate risks with potential impacts, when considered relevant, on the business, strategies, and risk and capital management, pursuant to Resolution 4,557, of February 23, 2017.

A. Identification of social, environmental and climate risks that could generate relevant losses for the Institution over different time horizons.

Social, environmental and climate risk events identified over short-, medium- and long-term horizons and their respective sources of information are listed below. Operational risks falling into the SAC risk scope have an integrated management process, being duly flagged in the Operational Loss Database.

(a.1) Social

Short term:

- Possible occurrences of use of slave-like labor by clients.
  - Source of information: Monitoring of the Register of employers that have subjected workers to slave-like labor conditions.
- Labor irregularities performed by outsourced suppliers or service providers, especially under employee transfer agreements.
  - Source of information: Inspection of contracts and monitoring of lawsuits.

Medium term:

- Inadequate lawsuits referring to labor practices.
  - Source of information: Monitoring of labor lawsuits.

- Possible occurrence of non-compliance with the Brazilian General Data Protection Law (LGPD) over different time horizons.
  - Source of information: Monitoring of civil lawsuits and fraud in the operational loss database.

(a.2) Environmental

Short term:

- Operational, financial and image impact as a result of response time during critical events.
  - Source of information: Identification of fines, legal and administrative proceedings, and other occurrences in the operational loss database.

Long term:

- Commercial relationship with sensitive sectors.
  - Source of information: Monitoring of environmental risk exposure in the legal entity credit portfolio.

<u>(a.3) Climate</u>

(a.3.1) Physical - Climate:

Short term:

- Possible losses arising from extreme climate events, including faulty assessment of sufficient mitigation measures adopted by clients.
  - Source of information: Monitoring and socio-environmental compliance of agricultural credit operations.

Medium term:

- Credit portfolio concentrated in economic sectors with increased likelihood of suffering impacts related to extreme climate events.
  - Source of information: Monitoring of climate risk exposures in the legal entity credit portfolio.

(a.3.2) Climate Transition:

Long term:

- Commercial relationship with sensitive and carbon-intensive sectors
  - Source of information: Monitoring of climate risk exposures in the legal entity credit portfolio; monitoring of regulatory and self-regulatory trends, and stakeholder perception.

<u>- Indicate the percentage of losses from the credit portfolio and other financial intermediation activities, considering the economic sector, geographic region and average term of exposures.</u>

When events enabling the classification of the SAC root cause are identified, they are monitored and their losses consolidated. In the period, no SAC risk losses have been identified in the credit portfolio and other financial intermediation activities.

<u>- Indicate the criteria adopted to define different geographic regions and the criteria adopted to define different time horizons (short, medium and long term).</u>

Considering the Institution's operational focus, with activities concentrated in Southern Brazil, especially in the state of Rio Grande do Sul, geographic regions are separated into municipalities.

The following time criteria are considered:

- Short term: up to 12 months
- Medium term: 12-36 months
- Long term: over 36 months

B. Identification of significant risk concentrations mentioned in item "A" regarding the Institution's credit exposures, pursuant to article 38-D, item V, of Resolution 4,557, of 2017.

Based on the employment of the Green Taxonomy in the legal entity credit portfolio and considering the exposure of the Institution's agricultural credit portfolio, no significant exposures have been identified.

As for the geographic regions, separated into municipalities, no significant concentrations have been identified either.

C. Description of how the events mentioned in item "A" are considered in the Institution's business, strategies, and capital management, detailing the time horizon and criteria adopted to prioritize the assessed risks.

The events are considered in the business, strategies and capital management in a manner that is integrated with the other risks, and we observe time horizons that could generate relevant losses for the Institution, including mitigation actions in different time horizons.

As for relevant changes or the development of new products and services, the SECR analysis is based on information provided by the requesting business area. When necessary, we recommend improvements in order to mitigate potential social, environmental and climate risks.

When applicable, SECR criteria are analyzed in the context of credit operations, by implementing specific questionnaires to evaluate sectoral, local, legal and managerial characteristics of the counterparty and the operation.

Social, environmental and climate risks are monitored through the actions detailed in item E - GER Table.

D. Description of the hypotheses for climate change and low-carbon economy transition utilized to analyze scenarios, within the scope of the stress testing program referred to in item VII of article 7 of Resolution 4,557, of 2017.

Like credit risks, social, environmental and climate risks have two stress approaches – sensitivity, which involves the sufficiency of guarantees, and scenarios.

Sensitivity stress testing for Environmental and Climate Risks consists of increasing provision through the depreciation of the guarantees given to client operations classified as "high climate and/or environmental exposure".

When analyzing risk scenarios, we have the ad hoc scenario with downgraded risk levels for all operations classified as "high risk exposure," thereby increasing provision.

E. Description of the Institution's adaptation capacity, considering the hypotheses mentioned in item "D".

By employing stress testing, it was verified that the Institution could support regulatory requirements for the Core Capital Ratio, Basel Ratio and Broad Basel Ratio in the event of the scenarios proposed in item “D”.

Social, Environmental and Climate Risk Management Processes

GER Table

Purpose: To describe the social, environmental and climate risk management framework. Content: Qualitative information. Frequency: Yearly. It must describe the processes of identifying, measuring, assessing, monitoring, reporting, controlling and mitigating social, environmental and climate risks, pursuant to Resolution 4,557, of February 23, 2017.

A. Description of the process of identifying, measuring and assessing social, environmental and climate risks.

All products, services, activities and processes owned by Banrisul, as well as activities performed by its relevant counterparties, subsidiaries and suppliers and outsourced service providers are subject to social, environmental and climate risk management, whose methodology is based on consistent and verifiable criteria, including public information, when available.

Social, environmental and climate risks are identified by consulting information in public lists and verifying activities, products and services subject to socio-environmental legislation. As for operations, social, environmental and climate risks inherent in each economic activity are identified based on the code of the National Classification of Economic Activities - CNAE.

The characteristics of the Institution's products, services, activities and processes are assessed, as well as the activities performed by its relevant counterparties, subsidiaries, suppliers and outsourced service providers as to the potential risk of violation of fundamental rights and guaranties or the performance of acts harming common interest; environmental degradation, including excessive use of natural resources; and climate change. When applicable, social, environmental and climate criteria are analyzed in the context of credit operations by implementing specific questionnaires to evaluate sectoral, local, legal and managerial characteristics of the counterparty and the operation.

B. Description of the criteria used to classify exposures concerning social, environmental and climate risks, considering the economic sector, geographic region and average term of the exposures.

The Institution's credit exposures to social, environmental and climate risks are measured by employing Febraban's Green Taxonomy in the legal entity credit portfolio. Three dimensions are considered: Green Economy, Climate Change Exposure, and Environmental Risk Exposure. The categorization allows clients to be assessed based on their activity sector, by evaluating the code of the National Classification of Economic Activities - CNAE.

Regarding the geographic regions for the agricultural credit portfolio, in addition to regularly verifying the compliance documentation of the project to be financed, a Socio-Environmental Compliance tool is used to identify beneficiaries and the areas with restricted access to rural credit due to legal provisions or regulations on social, environmental and climate matters.

As for the term of exposures, in addition to previously monitoring credit risks, the Institution carries out concentration studies based on the average term of the operations of the industry, weighted by their volume.

C. Description of the mechanisms utilized to timely identify political, legal and regulatory changes that could impact transition climate risks taken by the Institution.

Regulatory Compliance monitors publications made by legal bodies and the regulator, analyzing changes in the legislation to guide and monitor actions together with managers using specific systems. The “Regulatory Information” report is periodically made available to management and contains the Institution’s level of compliance with rules issued by the National Monetary Council and the Central Bank of Brazil.

D. Within the scope of integrated risk management, description of the mechanisms utilized to handle interactions between social, environmental and climate risks and between these and other risks taken by the Institution, pursuant to article 38-E of Resolution 4,557, of 2017.

The social, environmental and climate risk management is integrated with other corporate risks that are relevant to the Institution, pursuant to CMN Resolution 4,557/17. In addition to compliance with regulations, social, environmental and climate risk management covers practices established by baking self-regulation, i.e., SARB Normative Instrument 14 issued by the Brazilian Federation of Banks (Febraban). It also monitors and incorporates best practices that enhance the management process.

The mechanisms for handling interactions between social, environmental and climate risks, and between these and other risks taken by the Institution, include:

- Identification and flagging of SECR-related events in the Operational Loss Database;
- Identification and definition of the scope of SECR-related events in operational risks;
- Periodic review of SECR clauses contained in credit instruments;
- Monthly monitoring of the Institution’s credit portfolio exposure to SECR-related events.
- Integrated SECR analysis in major operations;
- Analysis of relevant third-party risks;
- Continuous improvement of SECR aspects in the Stress Testing Program (STP);
- Continuous improvement of SECR indicators in the Risk Appetite Statement (RAS);
- Compliance with SECR aspects when revising the Treasury Policy and the Liquidity Contingency Plan.

E. Description of social, environmental and climate risk management processes, highlighting monitoring, control and mitigation of such risks.

Social, environmental and climate risks are monitored through the following actions, among others:

- Monitoring of losses through the Internal Operational Loss Database;
- Monitoring of compliance with the proposed actions and effectiveness of the implemented mitigation procedures;
- Periodic reports, as defined in the Corporate Risk Management Unit's Communication Plan;
- Monitoring of the indicators of risk identified in the Risk Appetite Statement (RAS);
- Monitoring of GHG emissions; and
- Analysis of exposure of the active Legal Entity credit portfolio.

Risks are controlled and mitigated through actions and strategies aimed at maintaining exposure to social, environmental and climate risks at adequate levels. The options to handle risks are described and formalized through actions that may contain one or more procedures and mitigate one or more risks. Credit operations in which we identify high social, environmental and/or climate risks are assessed by a higher level of authority.

The social, environmental and climate risk management framework provides for the periodic preparation of reports, formalizing public content and terms in the Corporate Risk Management Unit's Communication Plan. As a result, the Institution's communication and information process provides its internal and external stakeholders with documents describing the risk management framework with an overview of its risk exposure status, identifying and enabling the timely correction of its deficiencies, in addition to weaknesses in controls and processes.

F. Description of the mechanisms utilized to monitor concentrations in economic sectors, geographic regions or product and service segments that are more susceptible to suffer or cause social, environmental and climate impacts.

Exposure concentrations in economic sectors are monitored through risk exposure indicators and contributions from the operations toward a greener economy. Assessment consists of the borrower's categorization through its code of the National Classification of Economic Activities (CNAE).

The indicators aim to assess the composition of the legal entity credit portfolio, measuring presence in economic sectors with higher probability of suffering financial impacts related to climate change, environmental aspects, or that may have a certain degree of environmental and/or social contribution.

Monitoring consists of keeping track of monthly percentage variations, reflecting the active balance of financing to sectors that are sensitive to climate or environmental risks, representing the Institution's lower exposure. As for the green economy, the active balance of financing to sectors with positive social and/or environmental impact is monitored, representing the Institution's largest contribution.

Based on the mechanisms adopted by the Institution to monitor exposures, no significant concentrations have been identified.

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