

SOCIAL, ENVIRONMENTAL AND CLIMATE RISKS AND OPPORTUNITIES (GRSAC) – 2023

REPORT

RISK MANAGEMENT
DEPARTMENT



Purpose

The purpose of this report is to describe the governance of the management of Social, Environmental and Climate Risks, in compliance with BACEN regulations described below:

1. BCB Resolution No. 139, of September 15, 2021;
2. BCB Normative Instruction No. 153, of September 15, 2021.

This report will be available for a period of 5 (five) years, starting from its base date, on the CCB Brasil website.

Content

This report provides qualitative information regarding the management and governance structure of social, environmental and climate risks at CCB Brasil.

Frequency

This report refers to December 31, 2023 and must be published annually.

Introduction

NOTE: On January 31, 2024, the acquisition of controlling interest in CCB Brasil was implemented by the Bank of China ("BoC"), a Chinese financial institution based in Beijing, which controls Banco da China Brasil ("BoC Brasil") in the country. From then on, the process of transition and fulfillment of contractual and regulatory obligations began so that the transaction could be concluded and, in due course, the Regulator would authorize the change of trade names and corporate names of CCB Brasil and its controlled companies.

As provided in Resolution No. 4,557 of February 23, 2017, we describe the role of each Governance Body responsible for monitoring, controlling and mitigating social, environmental and climate risks, for Sustainable Development and which aims to comply with the guidelines and objectives of the Social, Environmental and Climate Risk Policy, in addition to strengthening the sustainability agenda at CCB Brasil.

CCB Brasil understands these risks as the risk of losses arising from socio-environmental and climate damage caused by the institution in the development of its activities.

The ESG Division at CCB Brasil assesses socio-environmental issues in order to mitigate risks related to the potential to increase credit, legal and reputational risks, as follows:

- **Credit Risk:** impacts arising from possible stoppages of activities, reduction in revenues and loss of the customer's ability to pay.
- **Legal Risk:** the Bank's involvement as co-responsible in lawsuits filed against the customer.
- **Reputational Risk:** the Bank's involvement in relevant socio-environmental issues with impact on its ability to gather, business & customer retention and funding costs.

The first line of defense in daily operations is the management of Socio-Environmental and Climate Risk, and goes hand in hand with the procedures for analyzing and granting credit, with the support of the legal area, which has a qualified technical team for this purpose.

CCB Brasil also has a "Social and Environmental Restriction and Exclusion List" that a priori imposes (i) restrictions for sectors with which the requirements are quite restrictive and (ii) exclusions, of sectors that do not meet legal requirements or are not aligned with the Bank's risk and business policies.

CCB Brasil is in line with the concepts and procedures adopted by the main Brazilian banks and those recommended by the Central Bank of Brazil, to monitor and assess their socio-environmental and climate risks. In order to meet the demands of Resolution No. 4,943/21, regarding the management of the loss database related to social, environmental and climate risks, opening accounts for recording these risks, where they are managed monthly, and the verification of information, presented quarterly to the Risk Committee.

CCB Brasil is constantly evolving in its ESG management processes, integrating as much as possible with the areas involved with the client, both the borrower and the provider of services or resources. The concern with sustainability aspects is present in all decisions and businesses carried out, which are supported by respect for rules and legislation, the pursuit of long-term relationships with customers and careful risk management.

Within the scope of credit risk, the institution must have mechanisms to consider aspects related to social, environmental and climate risks in the granting, classification and monitoring of operations, assessing possible impacts on the credit quality of the counterparty in the event of social, environmental or climate risks, as well as establishing criteria for the periodic assessment of the degree sufficiency of guarantees, collateral and other risk mitigators.

In this respect, CCB Brasil has been at the forefront of the market in its segment, as its risk management structure has had a specialized team dedicated exclusively to socio-environmental and climate risk issues for a long time.

CCB Brasil - Exposure to Social and Environmental Risk

CCB Brasil assesses its clients through the socio-environmental rating and its portfolio is classified into four levels of socio-environmental risk, being:

- **Rating D – irrelevant risk** – Predominant in this range are clients whose activities do not present socio-environmental risk, such as the administrative services and financial consultancy sectors, among others.
- **Rating C – low risk** – In this range, customers whose activities present a lower socio-environmental risk predominate, such as the sectors of technical, educational institutions, holding companies, wholesale/retail trade, and others in socio-environmental administration responsible or activities that offer low environmental risk.
- **Rating B – medium risk** – In this range of customers, activities that operate in areas with slightly higher potential environmental risk, but with responsible socio-environmental management and with good capacity and care to mitigate possible risks, predominate. This group includes sectors and subsectors of the food industry, agricultural products, engineering services, etc.
- **Rating A – high risk** – In this range of customers, activities that operate in areas with greater potential for environmental risk, whose analysis requires greater care, predominate. This group includes, for example, the sectors and subsectors of the agricultural pesticides and fertilizers industry, tanneries, infrastructure such as construction of roads and plants, cargo transport, sectors linked to the production and distribution of energy, etc.

In addition, part of the customers rating A are potentially rated B or rated C, as they are often in the process of finalizing the regularization of licenses, grants, environmental debts, and are included in our monitoring base.

For higher risk customers (rating A) the Bank is diligent in requiring documentation that safeguards its interests and prevents possible notes of non-compliance with self-regulation rules and the legislation of the various regulatory spheres on the subject: federal government, state, municipal, autarchies and socio-environmental regulation agencies, including the Central Bank of Brazil.

Finally, CCB Brasil operates with clients whose risks are previously known and for whom care and necessary documentation are not neglected to ensure the mitigation of socio-environmental risks for all clients, both borrowers and service providers.

Details of Information

(A) Identification of the institution's governance bodies responsible for managing social, environmental and climate risk.

Consider the instances at their various levels (strategic, tactical, operational, control and compliance, pursuant to Resolution No. 4,595, of August 28, 2017), with emphasis on the Board of Directors, the Senior Management, the CRO, the risks, the audit committee, other existing committees, and business and risk management units.

(B) Description of the responsibilities attributed to the instances identified in item (a), and the relationship between them.

Consider, among the attributions, the forms of control, the delegation of authority and the division of responsibilities.

(C) Process and frequency of receipt, by the BoD and, in its absence, by the senior management, of information related to social, environmental and climate risk, in view of what is described in item (b).

In compliance with items A, B and C of BCB Normative Instruction No. 153 of September/21, the responsibilities of the Competent Bodies responsible for Social, Environmental and Climate Risk at CCB Brasil and their relationships are described below.

At CCB Brasil, the Conglomerate's Governance is guided by the following bodies: (i) General Shareholders' Meeting; (ii) Board of Directors; (iii) Senior Management and; (iv) Advisory Committees (15 Committees). This model guarantees safety and efficiency in operations through collegial discussion, strategic issues and the delegation of responsibilities for better management of the organization's impact on the economy, the environment and people.

The Board of Directors, in addition to the duties described below, is involved in issues relating to the approval of policies and procedures, which are approved through the defined governance structure, from the department responsible for regulations, to the Board of Directors. The CCB Brasil conglomerate has approximately 514 internal regulations, including regulations relating to social, environmental and climate risk, which must be followed by everyone to ensure that the institution is in compliance, and which must be updated at least once a year.

Sustainable development is part of the corporate governance model established by CCB Brasil, which values the adoption of best ESG practices and the generation of value and results in the long term. In this sense, the organization's corporate governance plays a fundamental role in ensuring the mitigation of any negative impacts caused by customers, suppliers and its own actions. The work of the Board of Directors, the Executive Board and the Advisory Committees are essential in this process, as they are responsible for deliberating and discussing matters connected to the ESG Agenda, always seeking strict compliance with current legislation and the adoption of positive practices. All products and services offered by CCB Brasil are also aligned with the internal policies and guidelines that govern the topic, ensuring the ethical commitment to prevent any practice incompatible with sustainable development.

Within the Risk Management department, the bank has a Socio-Environmental and Climate Risk division, dedicated to the topic of Sustainability, where among the main responsibilities is the definition of criteria and risk assessment mechanisms related to economic activities with the potential to cause social, environmental and climate damage; risk management procedures arising from this; establishing an assessment of socio-environmental and climate risks of the client portfolio from the credit approval process and permanent monitoring, including assessment of guarantees offered for the credit operation itself.

The Socio-Environmental and Climate Risk Division manages socio-environmental and sustainability risks, always improving and implementing measures and proposing actions established in Sustainability Policies, in the Internal Socio-Environmental Risk Procedures in line with Central Bank resolutions and Banking Self-Regulation regulations.

The responsibilities of each body are described below:

1. Board of Directors:

- Receive periodically from the Risk Department, Risk Committee and Socio-environmental and Climate Risk Division, information relating to environmental, social and climate risks;
- Establish guidelines on strategic actions for managing social, environmental and climate risk;
- Establish appetite levels for socio-environmental and climate risks;
- Approve the Governance Structure for Sustainability, as well as the mechanisms for controlling socio-environmental and climate risks, and sustainable development;
- Appoint the Director responsible for this matter;
- Elect a CCB Brasil body or department to monitor and evaluate the implementation of this Policy.

2. Executive Board Committee:

The Executive Board represents the Social and Environmental Responsibility Committee mentioned in BACEN Resolution No. 4,327/2014.

This committee, of an advisory nature and linked to the Board of Directors, is responsible for monitoring and evaluating the implementation of what is described in the Social, Environmental and Climate Risk Policy, and, when necessary, proposing improvements.

To this purpose, this Committee must evaluate and deliberate on all referrals, in addition to promoting an oriented and strategic vision of risks aligned with the Institution's objectives.

Among its responsibilities, the following stand out:

- Propose measures that aim to preserve the consistency of the process of progressive implementation of this Policy, considering the coherence with the assumed commitments and the continuity, when pertinent, of the development of agreed actions;
- Align the Institution's activities with relevant topics on the international and national sustainable development agendas, in line with society's expectations, public policies and trends observed in the financial sector, such as: Climate Change and the Sustainable Development Goals (SDGs); in line with the objectives outlined by the Institution;
- Seek to objectively communicate the goals and strategic actions necessary to achieve these goals, with a view to three objectives:
 - Sustainability as a strategic action and effectiveness dimension;
 - Structuring of socio-environmental and climate risk management;
 - Transparency and engagement.

3. Chief Risk Officer (CRO):

The Director appointed by the Board of Directors with responsibilities before BACEN and the Brazilian Securities Commission (CVM) is responsible for approving and establishing guidelines, the necessary structure for the implementation and evaluation of the Socio-Environmental and Climate Risk management process and, when necessary, propose improvements.

The CRO must:

- Supervise compliance with the actions established in the Socio-Environmental and Climate Risk Policy and the internal rules associated therewith;
- Supervise compliance with external Sustainability Rules and Regulations, and approving updates and adaptations when necessary;
- Supervise the implementation of sustainability actions in the Institution;
- Keep other instances of Governance informed of the implemented actions;
- Promote the integration and evolution of the theme in the different companies and departments of CCB Brasil;
- Approve guidelines for the adoption of programs, measures and improvements, as well as analyzing the proposals sent to it;
- Evaluate the effectiveness of the implemented actions and report the results to the other Governance instances;
- Issue an opinion on socio-environmental and climate risk in operations and credit proposals, and submitting it for decision by the Executive Board Committee, when necessary;
- Appoint a Deputy Director in his absence.

4. Risk Committee:

The role of the Risk Committee is:

- Advise the Executive Board Committee on all aspects related to sustainability;
- Monitor and lead the transformation of internal processes into more sustainable procedures;
- Lead employee engagement actions and campaigns regarding sustainable practices;

- Participate in the formulation of the Institution's strategic planning, for the inclusion of corporate responsibility in management, product development and operations;
- Encourage innovation in business and operations, always focusing on sustainability;
- Periodically evaluate CCB Brasil's performance in matters related to business sustainability;
- Ensure that the Institution is fulfilling its strategies in a sustainable way, so that CCB Brasil contributes to the development of society;
- Promote an internal environment of awareness.

5. Audit Committee:

- Recommend to the Board of Directors the entity to be contracted to provide independent audit services, as well as its remuneration, and the replacement of the provider of these services, if deemed necessary;
- Evaluate the effectiveness of independent and internal audits, including verification of compliance with legal and regulatory provisions, in addition to internal regulations and codes;
- Evaluate compliance, by management, with the recommendations made by the independent and internal auditors;
- Establish and disseminate procedures for receiving and processing information about non-compliance with legal and regulatory provisions, in addition to internal regulations and codes, including provisions for specific procedures to protect the provider and the confidentiality of information;
- Recommend to the institution's management the correction or improvement of policies, practices and procedures identified within the scope of its attributions;
- Meet, at least quarterly, with the institution's board of directors, with the independent audit and with the internal audit to verify compliance with its recommendations or inquiries, including with regard to the planning of the respective audit work, formalizing, in minutes, the contents of such meetings;
- Meet with the board of directors to discuss policies, practices and procedures identified within their respective competencies.

6. Socio-environmental and Climate Risk Division:

The Socio-Environmental and Climate Risk Division advises the Institution's Risk Management Department, in addition to having the objective of encouraging the integration of sustainability in the Institution's management process and promoting relationships with other Stakeholders, in order to meet the guidelines established by this Policy.

To fulfill this responsibility, the Socio-Environmental Risk Division must take into account the principles of Relevance and Proportionality in all operations of the Prudential CCB Brasil Conglomerate, observing a broad interpretation of the definition of the causes that contributed, or may contribute, to environmental and social damage, and climate risks and the risks arising for CCB Brasil (Credit Risk, Legal Risk and Reputational Risk), mentioned in "Section 3. Concepts", of this Policy.

They must:

- Assess social, environmental and climate issues with the aim of mitigating risks that affect customers, suppliers, guarantees, assets, among others with the potential to increase credit, legal and reputational risks for CCB Brasil;
- Participation in the process of admitting customer registration for active, passive and service operations, including analysis and granting of credit, as described in the specific manual;
- Monitor the actions established in this Policy and the internal standards associated with it, both under the responsibility of the Socio-Environmental Risk Division and under the responsibility of other CCB Brasil departments;

- Monitor compliance with external Sustainability Standards and Regulations, propose updates and adjustments when necessary;
- Supervise and implement sustainability actions at CCB Brasil;
- Keep other Governance bodies informed of the actions implemented;
- Promote the integration and evolution of the topic in the different companies and departments of CCB Brasil;
- Evaluate the effectiveness of implemented actions and report the results to other Governance bodies;
- Coordinate the Annual and Sustainability Report project;
- Advise the Risk Committee and other Governance bodies on all aspects related to sustainability;
- Operationalize analyzes of internal processes following sustainable procedures for people and the business;
- Analyze issues that represent risks or have a direct impact on long-term results and relationships with interested parties;
- Preserve the positive image of the Institution in relation to sustainable practices, both for the external and internal public;
- Together with the areas responsible for granting credit, establish criteria for monitoring the concentration of the credit portfolio by geographic region and economic sector; forward periodic reports to the Risks and Senior Management committee.

(D) Description of the criteria used by the Board of Directors and, in its absence, by the board of directors to ensure that social risk, environmental risk and climate risk are taken into account, when relevant, in the approval and review processes:

- the institution's levels of risk appetite;

The Board of Directors is responsible for establishing the governance structure of RAS and its monitoring; ensure that there is a coherent alignment of the CCB Brasil Conglomerate's risk propensity with the strategic objectives and the remuneration policy; must maintain close communication with the internal organizational structure and regulatory authorities. It also evaluates the activities and results of the Board of Directors and the operations of the business units in order to ensure the involvement of the structure and its effectiveness in complying with these guidelines. It must also investigate irregularities arising from the Institution's risk profile or from exceeding risk limits.

The appetite for Social, Environmental and Climate Risk is quite low. The Institution must carry out a careful assessment of customers and establish ratings. For high-risk clients, business can only be carried out by those who present detailed documentation and proven good reputation. The Institution must refrain from financing projects that present social, environmental and climate risk.

CCB Brasil must conduct its operations in line with the Institution's socio-environmental and climate risk management policies, notably POG.10.000 – Socio-environmental and Climate Responsibility Policy and complementary rules of procedure, and within the scope of integrated management of risks, observe elements of interactions between social, environmental and climate risks with other risks incurred by the institution, such as credit risk, operational risk, market risk, risk of variation in interest rates for instruments classified in the banking portfolio (IRRBB) and liquidity risk. It must, therefore, observe what is established in Resolutions nº 4.943/2021 and nº 4.557/2017 of the CMN – National Monetary Council.

- risk management and capital management policies, strategies and limits;

CCB Brasil has a specific policy for managing liquidity, market and capital risks.

The Liquidity, Market and Capital Risk Division has the general objective of establishing guidelines, defining concepts, preparing mathematical and/or statistical models for the development, implementation and constant evaluation of these risks.

Liquidity, Market and Capital Risk Management is one of the elements that make up the Risk Management Structure defined in Resolution No. 4557/2017 of the Central Bank of Brazil (BACEN).

It is a topic of broad interest to the entire Executive Board and Board of Directors of the CCB Brasil Conglomerate, and its purpose is to ensure the management, monitoring of limits and procedures aimed at maintaining the exposure of such risks in accordance with the levels set in the Institution's RAS.

- the stress testing program;
- policies for business continuity management;
- the liquidity contingency plan;
- the capital plan and the capital contingency plan; It is

CCB Brasil works with minimum cash limits and has a Contingency Plan.

In a stress scenario, if the probability of the Institution becoming illiquid (cash less than zero) is greater than 1%, within a time horizon of 22 business days, the Assets and Liabilities Management Department will be alerted.

In order to avoid reaching a liquidity limit, the Market, Capital and Liquidity Risk Division provides a daily, weekly and monthly liquidity report informing the main indicators, both short and long term, to the CRO.

- On the remuneration policy.

CCB Brasil is committed to increasing salaries for the entire conglomerate, in line with market standards and BACEN Resolution No. 3,921, a guideline for management remuneration. Therefore, the bank has a remuneration policy eligible for the entire conglomerate, with no differentiated remuneration for the Risk Management Department.

The bank understands that its fixed and variable remuneration policy must correspond to the best practices of financial institutions, to encourage talent retention and the continuous development of its internal public. In this sense, the bank has the Profit Sharing Program (PPR), an important instrument to meet the needs and expectations of employees, where the program is carried out in line with the KPI Policy, which are linked to the objectives and performance of employees.

The CCB Brasil Remuneration Committee is responsible for dealing with administrators' remuneration, while other policies related to the topic follow supply and demand, in line with the average market standard. Grants of bonuses and awards are evaluated by HR, in accordance with established goals and metrics, the Board of Directors and the Board of Directors, while the PLR is established following regulatory precepts.

(E) Forms of monitoring by the Board of Directors and, in its absence, the strategic objectives and, if applicable, the institution's goals related to social, environmental and climate aspects.

The Board of Directors receives a semi-annual report containing all the activities and analyzes carried out by the Social and Environmental Risk Division during the period, including the objectives established by this body. In this way, it is possible to monitor and manage whether the defined strategies are effective and comply with regulations relating to social, environmental and climate aspects.

Although the bank does not have a performance analysis of the Board of Directors specifically related to the management of social, environmental and climate impacts, its members promote, annually, a self-assessment of their performance and positioning at the head of the institution's business.

A 360° assessment is also carried out, in which all the institution's Heads, Directors and Vice-Presidents present their perceptions about the performance of the highest governance body, in order to bring a holistic view of performance, identification of competence gaps, support for the development of the bank as a whole and improvement of institutional culture.

The Head of the Risk Management Department, in accordance with the KPI policy that describes the assessment metrics, annually evaluates the Departments regarding compliance with social, environmental and climate risk policies and objectives. This result is forwarded to the Human Resources Department, which together with the Board of Directors and Board of Directors, defines the departments' share of participation in PPR. This is yet another monitoring mechanism used by the Board of Directors.

Conclusion

Departments involved in the management of social, environmental and climate risk at CCB Brasil have constantly sought improvement in order to align with the best practices in the financial market.

This includes (in addition to the Board Of Directors) audit actions (internal and external), specific committees in charge of the independent validation of such processes and models, as well as regulatory bodies, mainly the Central Bank of Brazil.

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