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CORPORATE GOVERNANCY POLICY**Title:** Credit Risk Management**Responsible Area:** Risk**Start of validity:** 01/0203/20242025**Review scheduled:** 01/0203/20252026

01. PURPOSE:

The Credit Risk Management Policy of BOCOM BBM Prudential Conglomerate is a set of principles that guide the institution's strategy in the control and management of Credit Risk.

02. CONCEPTS / DEFINITIONS:

Credit Risk means the possibility of losses associated with the failure by the borrower or counterparty to meet their respective financial obligations under the agreed terms, the devaluation of a credit agreement due to the deterioration in the borrower's risk classification, the reduction of earnings or benefits granted in renegotiation and recovery costs.

The definition of credit risk includes, inter alia:

- Counterparty credit risk, understood as the possibility of non-compliance, by a particular counterparty, of obligations related to the settlement of transactions involving the trading of financial assets, including those related to the settlement of derivative financial instruments;
- Country risk, understood as the possibility of losses associated with non-compliance with financial obligations in the terms agreed by a borrower or counterparty located outside the Country, because of actions taken by the government of the country where the borrower or counterparty is located;
- Transfer risk, understood as the possibility of occurrence of obstacles in the currency conversion of the received values;
- The possibility of occurrence of disbursements to honor endorsements, letters of guarantee, co-obligations, credit commitments or other operations of a similar nature;
- The possibility of losses associated with non-compliance with financial obligations in the terms agreed by the intermediary or convenient part of credit operations.

03. SCOPE / AREAS INVOLVED:

- Credit Risk
- Credit Analysis
- Credit Control
- Commercial
- Legal
- Compliance
- Credit Committee
- Executive Committee
- Board of Directors
- Quantitative Research

04. RESPONSIBILITIES:

04.01. Responsible for carrying out policy tasks

The Credit Risk department is responsible for the necessary procedures for effective compliance with established policies and has the following attributions:

- Centralize and evaluate information related to the management of credit risk;
- Ensure operational limits are observed;
- Disseminate reports to aid in the decision making of credit limits approved by the Credit Committee; and

- Pre-evaluate new operating modalities with respect to credit risk.

The Credit Analysis department is responsible for assessing the credit risk of economic groups with which the bank maintains or studies maintaining credit relationships.

The Credit Control department is responsible for verifying the adherence of the operations to the parameters stipulated in the Credit Limit Proposal ("PLC"), as well as the correct constitution of the collaterals. It must also issue the contracts to be signed between BOCOM BBM and the client.

The Credit Committee is responsible for defining the credit limits of the economic groups and for the monitoring and consolidated evaluation of the portfolio, its level of concentration and risk. It is also its responsibility to set a deadline for resolving delinquent credit operations or with some deterioration of the guarantee and to decide to initiate judicial collection if necessary.

It is the responsibility of the Legal department to analyze the agreements signed between BOCOM BBM and the clients, as well as to coordinate the measures aimed at recovering the credit or protecting BOCOM BBM's rights.

It is the responsibility of the Risk Committee to review the risk management policy, submitting it to the Board of Directors' approval, at least once a year.

It is the responsibility of the Board of Directors to approve the policies proposed by the Risk Committee at least once a year.

04.02. Responsible for monitoring the implementation of policy assignments

It is the responsibility of the Credit Risk Manager to monitor the execution of the assignments of this policy.

04.03. Responsible for maintaining the policy

It is the responsibility of the Credit Risk department to maintain and update this policy.

05. AUTHORITY:

The Risk Committee shall revise as risk management policies, submitting them to the Board of Directors at least once a year.

The policies should be in line with the Risk Appetite Statement (RAS) and the Stress Test Program approved by the Board of Directors.

The Board of Directors is responsible for approving risk policies annually.

Situations not provided for in this policy should be reviewed by the Risk Committee and the Board of Directors.

06. GUIDELINES:

Based on the policies defined by the Board of Directors and the limits defined by the Credit Committee, the process of credit risk management is performed by the Credit Risk, Credit Analysis and Credit Control departments.

06.01. Credit risk

The Credit Risk department reports to the Chief Risk Officer (CRO), thus avoiding eventual conflict of interest with the decision-making departments, being led by the Risk Manager.

The unit is responsible for consolidating and monitoring the credit portfolio risk based on the information produced by the Credit Analysis and Credit Control department. This department is also responsible for generating reports for monitoring.

06.02. Credit analysis

The Credit Analysis department is responsible for assessing the credit risk of economic groups with which the bank maintains or studies maintaining credit relationships. From various qualitative and quantitative analyzes, the Credit Analysis *Rating* of the client and the opinion about the requested credit limit is proposed by the Credit Analysis department. This data is used in this analysis: cadastral data, financial statements, market data, impressions obtained from contacts with the company and proprietary quantitative models to evaluate the company and the collaterals of the operation.

06.03. Quantitative research

It develops and operationalizes quantitative models that assist the Credit Analysis department and the Credit Committee in identifying the credit risk of the operations analyzed. The models backtest are evaluated semiannually.

06.04. Operational credit control

06.04.01. Control and framework of operations

After the transaction is approved by the Credit Committee, the Commercial Manager, having closed the commercial conditions with the client, provides the Credit Control department with the transaction data to be released.

The Credit Control department, verifying the adherence of the operation to the parameters stipulated in the PLC, as well as, the correct constitution of the guarantees, issues the transaction ticket that follows the following flow of electronic approval: Credit Control Department Coordinator, Credit Control Department Manager, Commercial Officer, Commercial Manager and Commercial Director. The approval of this ticket by the Commercial Director is a conditioning factor for the release of the same.

The Credit Control department then registers the operation in the Totalbanco System and issues the contracts (documents previously approved / analyzed by the Legal department) to be signed between BOCOM BBM and the client, and continues the process of release of resources and accounting, which will occur upon receipt of the contractual instruments regularly signed by the client. This ballot is automatically sent to the treasury which only processes your payment after it has been duly approved.

The Credit Committee is the forum where credit operations with problems are discussed. The Credit Control Manager has as one of his functions as a member of the Committee, informing weekly the operations in arrears or with some deterioration of guarantee. At this time all possible overdue credits are revalued and new information involving the reason, prospect of receipt and quality / liquidity of the guarantee are requested by the Committee to the Commercial Department.

06.04.02. Warranty control

It is the responsibility of the Credit Control department to formalize the collaterals, accompanying their respective sufficiency and liquidity, and verify their compliance with the conditions approved by the Credit Committee, as recorded in PLC. In case of deficiencies in the collaterals, the Credit Control department must immediately inform the Commercial department, ratifying the information in the Credit Committee. The Commercial Department is responsible for the contact with the customer aiming at the recomposition of the collateral to the values required in PLC. Any proposed amendment must be approved by the Credit Committee.

The Credit Control department operates and verifies the quality of the operations collaterals, according to the structures presented. Since the operations are guaranteed by duplicates, the transaction statement is automatically analyzed by the Collection team, which verifies the average maturity of the receivables, the level of concentration, the existence of balances rejected by BOCOM BBM due to negative payment history, duplicate other criticisms implanted in our Collection System. It is a responsibility of the Checking team, the confirmation of the existence of the duplicates, the delivery of the merchandise / service provided to the drawees and the recording of this information in the Collection System. For operations guaranteed by fiduciary land disposal, specialized companies are contracted to issue an appraisal report on the quality of the land, as well as its forced value of sale, which we use to price the guarantee of the operation. For operations in which the guarantee is formalized through a commercial pledge (usually agricultural products), first-line companies are hired that are installed in the customer's warehouse and are responsible for the custody and maintenance of the merchandise.

06.05. Credit committee

The Credit Committee is held weekly and must consists of at least three directors and two members of the Board of Directors. If one of the participants is both a director and a member of the board, he can be considered in both positions. All voting members of the committee have veto power. The committee also includes managers from the following departments: Credit Analysis, Risk, Credit Control, Legal and Compliance departments.

The Committee is responsible for defining the credit limits for economic groups. The request comes from the Commercial department, where the proposed operations and their characteristics are presented, and is evaluated by the Credit Analysis department, which produces an opinion on the request. The opinion takes into account the collateral offered, the characteristics of the operation and the analysis of the credit quality of the economic group. The Credit Committee defines the rating of the economic group, the credit limit and its characteristics, since specific operations are approved for the borrower, containing explicit descriptions of tenure, volume and collaterals, contained in the PLC (Credit Limit Proposal) of the economic group. The approval (or non-approval) of the limits by the voting members of this committee is formalized in the PLC system, which has all the necessary parameters for the correct control of the operations to be done by the Credit Control department. The proposal is described in terms of group, company, modality, value, tenure and collateral. The PLC is issued with a 90-day validity.

During the Committee, for each proposed credit limit, the Commercial department presents each of the proposed operations and their characteristics. Then, the Credit Analysis department presents its analysis, highlighting all aspects relevant to credit assessment, such as sector analysis and the company's balance sheet. If necessary, the Credit Control and Legal departments presents additional analyzes related to the proposed transaction. After that, the Risk department presents the proposal's quantitative credit analysis. Finally, the voting members of the Committee issue their decision on whether to approve (or not approve) the proposal and its possible conditions.

The Credit Committee is also responsible for monitoring and consolidating the portfolio, its level of concentration and risk. This follow-up is an ongoing process.

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06.06. Credit Recovery Procedures

The deadline for solutions of delayed credit operations or with some deterioration of guarantee is stipulated by the Credit Committee. The analysis is made on the cause of the default, the perspective of receipt and the quality / liquidity of the guarantee. Faced with an eventual failure in the negotiations by the Commercial department, the Committee decides to initiate judicial collection. The case is then referred to the Legal department, which then coordinates the procedure for taking measures to recover the credit or protect the rights of BOCOM BBM.

06.07. Credit assignment

BOCOM BBM constantly evaluates opportunities to offer its clients and institutional partners differentiated products, among which are included corporate credit operations. In this way, BOCOM BBM originates credit operations not only with the intention of keeping them until maturity, but also of making sales efforts since its concession. Regardless of BOCOM BBM's prior intention to assign the asset or maintain it in its proprietary portfolio, all credit operations are subject to the guidelines and procedures contained in this Policy. Such diligence is necessary because, in addition to ensuring the quality of the assets originated with the intent to distribute, BOCOM BBM may appear as the holder of the asset until its maturity, since there is no effective guarantee of the occurrence of the loan assignment.

In the Credit Committee, the specific characteristics of the credit operation, as well as the risks and benefits involved in the assignment operation, are evaluated, among other aspects. Additionally, in accordance with BOCOM BBM's objectives with the assignment of the credit, this can occur without co-obligation, with substantially the risks and benefits involved, or with co-obligation. In the cases of assignment with co-obligation of BOCOM BBM itself, the risk remains recorded as if it were kept in the bank's credit portfolio, following the same classification methodology applied for non-assigned operations.

06.08. Reports

For the evaluation of Credit Risk, the following reports are presented:

- Composition of the credit portfolio by Customer;
- Composition of the loan portfolio by Product;
- Composition of the credit portfolio by Economic Activity;
- Composition of the loan portfolio by guarantees;
- Report of credit delays;
- Composition of the loan portfolio by Provision Level;
- Characteristics of each operation and at an aggregate level;
- Composition of the credit portfolio by Country/Region;
- Report on positions in foreign jurisdictions.

07. FINAL CONSIDERATIONS:

This Policy cancels any other form of disclosure that provides for the subject matter discussed here.

08. RELATED LEGISLATION:

- CMN Resolution 4.557/2017

09. INTERNAL REFERENCE:

- Manual of Procedures for the Department of Credit Analysis, Methodology used in Banco BOCOM BBM;
- Rating Manual to be used in the evaluation of companies in the Department of Credit Analysis;
- Risk Appetite Statement (RAS).

10. BIBLIOGRAPHY:

N/A

11. VERSION CONTROL:

Version	Date	Description	Developed by
1.	01 October 2010	Doc Development	Alexandre Lowenkron / Gustavo Araújo
2.	30 December 2010	Document revision	Alexandre Lowenkron / Breno Campos
3.	07 November 2011	Document revision	Gustavo Araújo
4.	31 December 2012	Document revision	Gustavo Peçanha
5.	20 December 2013	Document revision	Gustavo Peçanha
6.	30 December 2014	Document revision	Vinícius Sousa
7.	29 December 2015	Document revision	Monique Verboonen
8.	30 December 2016	Document revision	Monique Verboonen
9.	29 December 2017	Document revision	Federico Favero
10.	02 January 2019	Document revision	Federico Favero
11.	01 January 2020	Document revision	Risk Management Department
12.	01 January 2021	Document revision	Risk Management Department
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12. APPROVALS:

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