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01. PURPOSE:

The Market Risk Management policy of the BOCOM BBM Prudential Conglomerate ("BOCOM BBM") is a set of principles that guide the Institution's strategy in the control and management of Market Risk.

02. CONCEPTS / DEFINITION:

Market risk means the risk resulting from the fluctuation in the values of assets and derivatives from variations in market rates and prices, such as interests, equities, currencies and commodities.

03. SCOPE / AREAS INVOLVED:

- Market Risk Area
- Board of Directors
- Executive committee
- Internal Audit
- Compliance

04. RESPONSIBILITIES:

04.01. Responsible for carrying out the tasks of this policy

The Market Risk area is responsible for the procedures required to effectively comply with defined policy and processes, which include identifying, measuring and reporting market risks on a daily basis, as well as ensuring that operating limits are observed.

04.02. Responsible for monitoring the implementation of the attributions of this policy

It is the responsibility of the Manager of the Market Risk area to monitor the execution of the attributions of this policy.

04.03. Responsible for maintaining this policy

It is the responsibility of the Market Risk area to maintain this policy.

05. AUTHORITY:

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

Policies should be in line with the Risk Appetite Declaration (RAS) and the Stress Program approved by the Board of Directors.

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

The situations not foreseen in this policy must be analyzed by the Executive Committee and by the Board of Directors.

06. GUIDELINES:

06.01. Market Risk Area

The Market Risk area is subordinated to the Risk Officer, avoiding, in this way, any possible conflict of interest with the decision-making areas.

The unit, created in 1995, is responsible for the necessary procedures for effective compliance with established policies and has the following attributions:

- Identify, measure and control the market risk of all BOCOM BBM operations;
- Define, together with the Market Risk Committee, the scenarios used in the revaluation of all portfolios;
- Monitor the operational limits of market risk;
- Generate reports for the Board and risk-taking areas, at least daily; and
- Verify the integrity of information received from other areas;

06.02. Operating Limits

The Market Risk control is based on the calculation of *VaR* - *Value at Risk*, a statistical tool that measures the maximum potential loss of BOCOM BBM for a given confidence level and investment horizon. The daily BOCOM BBM *VaR* threshold calculated at 95% confidence level is 2% of Shareholders' Equity.

The Treasury Manager is free to allocate this limit between the various areas, thus making the investment process more flexible. The Risk area is responsible for daily calculating *VaR*, monitoring its limit and reporting this number and other analyzes in reports to the Board and risk-taking areas. In addition, intraday VAR monitoring is also carried out and an automatic alarm mechanism is used if the limit is exceeded.

If the limit of *VaR* is to be extrapolated, the Treasury Manager shall take steps to carry out the redenomination as soon as possible using the necessary financial instruments. There is no limit to the possibility of non-compliance with the risk limits.

06.03. Classification of Trading and Banking Book operations

The Trading Book consists of all transactions in financial instruments and commodities, including derivatives, held for trading purposes or intended to hedge other elements of the trading portfolio, and which are not subject to the limitation of its negotiability. The transactions held for trading are those intended for short term resale, obtaining benefit from actual or expected price movements, or arbitration.

Banking Book consists of all transactions not classified in the Trading Book.

The Risk area should ensure that the criteria that guide the classification of Trading and Banking operations is in accordance with CMN Resolution 111.

The Risk Department is responsible for classifying in the banking or trading book any instruments whose classification has not been specified on CMN Resolution 111.

Bacen may also authorize the reclassification of a specific operation to the banking book or the trading book. These reclassifications must be disclosed in a specific section of the Pillar 3 Report. If no reclassification has taken place in the prior period, such information must also appear in the report. Reclassification proposals must be reviewed and approved by the Risk Committee.

The Risk area is responsible for define procedures to ensure that policy criteria are consistently observed.

06.04. Interest Rate Risk Management in the Banking Book

The IRRBB (Interest Rate Risk of Banking Book) is defined as the risk, current or prospective, of the impact of adverse movements in interest rates on the capital and results of the financial institution, for instruments classified in the banking book. BOCOM BBM manages the interest rate variation risk of instruments classified in the banking book in accordance with Bacen Circular No 3.876/2018, which provides methodologies and procedures for assessing the sufficiency of Capital held to cover the IRRBB.

Two approaches are considered: (i) economic value (EVE) and (ii) net interest income (NII). The economic value approach assesses the impact of changes in interest rates on the present value of cash flows from instruments classified in the institution's banking book. On the other hand, the net interest income result approach assesses the impact of changes in interest rates on the financial intermediation result of the institution's banking book.

In both approaches described above, the difference between the EVE/NII values of all instruments subject to IRRBB is calculated monthly, based on the last business day of the month, in a base case and in stressed scenarios in interest rates. The scenarios used are parallel shifts in interest rates which are defined for each risk factor in the regulatory document.

When calculating the Δ EVE and Δ NII metrics for operations that have embedded optionality, the instrument is decomposed in order to isolate its non-linearity. In this way, the linear part of the operation is treated according to the other assets and liabilities and the part for embedded optionality is followed by the determinations of the regulatory documents. For Δ NII, expiring instruments are renewed with the same original characteristics.

In addition to the IRRBB Δ EVE and Δ NII metrics, which are evaluated in according to the risk appetite limit defined in the RAS, the BOCOM BBM risk structure has internal metrics to control the risk of the banking book.

BOCOM BBM's objective in the assessment of the banking book is to manage the bank's assets and liabilities in order to minimize the risks related to changes in interest rates through the realization of economic hedge structures and at the same time minimize losses and gains from temporal differences monitoring the mismatch of terms of assets and liabilities and carrying out hedge accounting.

The previously mentioned "temporal differences" term is defined as the difference between the present value of asset and liability positions and their respective book value. In the case of hedge accounting, mainly as a result of economic hedge

operations with derivative financial instruments, a monthly monitoring is carried out in order to guarantee the effectiveness of the hedge.

The management of this portfolio is based on the monitoring the exposures to the different vertices of the interest curves, the calculation of temporal differences and stress tests in the banking portfolio.

06.05. Models and Systems

06.005.01. VaR

The model used to calculate the limit of *VaR* is parametric. The variance-covariance matrix is re-estimated daily using GARCH model. This model captures the presence of volatility groupings and, according to the parameters estimated daily, gives more weight to the most recent past. It should be noted that other volatility models are available, such as EWMA.

The calculations are performed through *MAPS Argus*, a system hired and deployed by BOCOM BBM in 2023 and provided by MAPS S.A.

06.005.02. Scenario Analysis

BOCOM BBM uses scenario analysis as a Market Risk control tool complementary to *VaR*. The scenarios are defined in the Risk Committee, which is carried out every three months, or extraordinarily, when the basic scenario changes. The meeting presents, discusses and establishes several scenarios based on historical prices and volatility, market crises, political instability, macroeconomic factors and market liquidity.

The CRO is responsible for the Committee, which has as participants: the CRO itself, the voting members and the heads of Risk, Corporate Compliance, Internal Controls and Corporate Treasury departments. It is important to note that no employee directly linked to investment decisions has a vote in the decisions of the Committee.

The Risk area calculates and reports the results of the scenario analysis, daily, to the directors and risk-taking areas. These results are archived and later used by the board of directors to define the institution's risk policies and strategies.

06.005.03. System evaluation tests

The effectiveness of the risk model is tested annually through *back-testing*, which consists of comparing the estimates of *VaR* with the actual verified daily results.

06.005.04. Reports

The Market Risk area releases daily reports that present:

- The exposure of the instruments to risk factors, whose main groups are fixed income, variable income, currencies and commodities;
- The marginal contribution of each risk factor to the consolidated risk;

- Map with the impact of the analysis of adverse scenarios on the result. In setting the scenarios, the risk committee analyzes various combinations of stresses of risk factors and selects the economically consistent scenarios; and
- VaR of risk factors.

All analyzes are done for both the individual and consolidated BOCOM BBM areas.

07. FINAL CONSIDERATIONS:

The present policy cancels any other form of disclosure that provides for the subject matter here.

08. RELATED LEGISLATION:

CMN Resolution 4.557/2017

CMN Resolution 111/2021

BCB Circular 3.876/2018

09. INTERNAL REFERENCE:

- Risk Appetite Statement (RAS).

10. BIBLIOGRAPHY:

N/A

11. VERSION CONTROL:

Version	Date	Description	Developed by
1.	15 October 2008	Doc Development	Letícia Veiga
2.	15 July 2010	Doc Restructuring	Rodrigo A. Koch
3.	27 December 2010	Document revision	Ricardo Kawahara
4.	07 February 2012	Document revision	Gustavo R. Peçanha
5.	03 December 2012	Document revision	Gustavo R. Peçanha
6.	04 December 2013	Document revision	Gustavo R. Peçanha
7.	14 December 2014	Document revision	Vinicius Sousa
8.	29 December 2015	Document revision	Monique Verboonen
9.	30 December 2016	Document revision	Monique Verboonen
10.	29 December 2017	Document revision	Federico Favero

CORPORATE GOVERNANCE POLICY

Title: Market Risk Management

Responsible Area: Risk

Start of validity: 01/01/2026

Review scheduled to: 01/03/2027

11.	28 December 2018	Document revision	Federico Favero
12.	01 January 2020	Document revision	Risk Management Department
13.	01 January 2021	Document revision	Risk Management Department
14.	01 January 2022	Document revision	Risk Management Department
15.	01 January 2023	Document revision	Risk Management Department
16.	01 January 2024	Document revision	Risk Management Department
17.	01 January 2025	Document revision	Risk Management Department
18.	01 January 2026	Document revision	Risk Management Department

12. APPROVALS:

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