



> Banco do Brasil:

Risk Management at Banco do Brasil

Banco do Brasil is the largest bank in Latin America in terms of total assets, having a broad customer base and a diversified business portfolio in different segments, such as banking services, insurance, capital markets, asset management, cards, and customer service abroad.

In March 2016, Banco do Brasil recorded over R\$1.4 trillion in assets with a portfolio composed of more than 63.8 million clients. Among Banco do Brasil's leadership positions, highlighting the volume of assets (20.3% market share), loan portfolio (20.6% market share), deposits (23.7% market share), and assets under management (22.0% market share). It is also worth to remark the lowest delinquency level in the Brazilian banking industry.

Banco do Brasil has strong ties to agribusiness, accounting for 61.2 % of total rural credit in Brazil. In addition, Banco do Brasil has been operating abroad for over fifty years, is present in over twenty countries, and supports trade relations between Brazil and its partners – entrepreneurs, investors, economic agents, and other countries that maintain investments or wish to invest in Brazil.

Its origins date back to 1808 when the Portuguese Royal Family moved to Brazil. Banco do Brasil was the first Brazilian company listed on the stock exchange, which occurred in 1906, and joined the Novo Mercado of the São Paulo Stock Exchange in 2006, being the only Brazilian bank listed in this segment of the BM&FBovespa which is intended for companies that voluntarily adopt the best corporate governance practices. In 2009, the American Depositary Receipts (ADR) Level I Programme was launched. In 2012, Banco do Brasil joined the Dow Jones Sustainability Index of the New York Stock Exchange (DJSI).

Aware of its commitment to clients, investors, employees, regulators, and the wider society, Banco do Brasil adopts a conservative attitude towards risk management, by having as a fundamental pillar the segregation between business management functions and risk management and internal control functions. It is important to highlight the role of the chief risk officer (CRO), performed in autonomous and independent way.

Banco do Brasil considers risk management and capital management essential tools in the decision-making process because they provide

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support to the business portfolio risk-return ratio optimisation process. Based on this perspective, Banco do Brasil invests in the continuous improvement of the process and practices of internal controls and risk management, in line with international benchmarks, in terms of regulation and supervision standards, as well in terms of best market practices.

On a panoramic view, the process of risk management at Banco do Brasil can be synthesised from the following elements: (a) definition of the relevant risks set, (b) risk appetite statement, (c) risk management policies and strategies, (d) risk management tools, and (e) reporting to the senior management and to the board of directors.

The governance model involves a framework of superior and executive committees, ensuring protagonist role to senior management in the processes related to risk management, internal controls, and capital management of the Institution, and contributing to the achievement of the conglomerate's objectives at all levels and over all entrepreneurial processes.

Banco do Brasil continuously invests financial, human, and technological resources to ensure the existence of a risk management architecture with multidimensional scope.

In order to continue with the evolving process in the risk and business management practices, Banco do Brasil has been investing in the implementation of internal models for risk management. It is also relevant to note the strategic objective of adequacy of Banco do Brasil's internal control practices to the Sarbanes-Oxley Regulation (SOX) requirements

by ensuring periodical assessments of the related processes and ongoing monitoring by senior management. Among the main observed benefits may be highlighted the improvement on the processes of identification and mitigation of relevant risks.

The effectiveness of corporate risk management is related to a consistent process of identifying and assessing the relevant risks to which the institution is exposed, considering its strategic objectives.

In the risk management process, mechanisms expressed in corporative normative system are used, detailing the procedures required for the implementation of organisational decisions related to the business and affairs of the company and meeting legal and regulatory and supervisory agencies requirements.

It is worth mentioning the use of stress metrics from simulations of the behaviour of the exposures subject to risks under extreme conditions, such as financial crisis and economic shocks, in order to scale the impacts from events with low probability of occurrence.

The performance of risk metrics is periodically assessed and the risk measurement models and back test models are subject to an independent validation process, performed in a segregated way from the areas in charge of developing and/or using models.

As transparency best practice, Banco do Brasil discloses information to the public on its website which can easily be found and accessed. It allows investors and stakeholders to know and monitor risk management practices adopted by the institution.

The soundness of Banco do Brasil over 200 years is a result from the frameworks, policies, strategies, processes, procedures, and systems applied to risk management, internal controls and capital management, derived from investments that have been made throughout decades by providing the institution with the conditions to carry out its protagonist role regarding best market practices.

PAULO CAFFARELLI**Are there any ESG challenges that merit special attention?**

In 2004, we implemented a systematic process for the evaluation of environmental variables that affect our business performance. We call this process Agenda 21, as a reference to the United Nations Global Agenda 21. Revised biannually, this instrument allows us to improve our business processes and align them to global best practices, contributing to generate even more sustainable results.

In the current version of the Sustainability Plan – Agenda 21 BB 2015-2017 – the ESG challenges that deserve our attention are: (a) maintenance and expansion of the bank's role as an inductor of sustainable development through financial inclusion and social business, integrating public policies and programmes, partnerships with the private sector and BB's sustainable development strategies; (b) improvement of the social and environmental risk management in our lending process, investments, and administrative practices; and (c) identification of business opportunities for products development that meet the expectations for environmental and climate change issues.

Can you please elaborate on Banco do Brasil's programmes and initiatives aimed at promoting financial inclusion?

Banco do Brasil plays an important role in the country's development, promoting social inclusion and fomenting social businesses committed to environmental care.

We act as one of the main financiers of social policies and programmes such as Fundo de Financiamento Estudantil (Fies), a college graduation financing fund; the Minha Casa Minha Vida (MCMV), a housing construction programme for lower income families; and Microcrédito Produtivo Orientado (MPO), a microcredit facility destined to individuals and small entrepreneurs. Those are products that have an environmental and inclusive side that makes education, home acquisition, and employment and income generation possible.

We also promote several initiatives on financial education to provide our customers with basic credit knowledge, focusing on the importance of financial planning and management.

Stakeholder inclusiveness: how does Banco do Brasil put into practice its mandate to be the bank for all Brazilians?

We are focused on businesses oriented to the generation of sustainable results. We operate in all customer segments, both individuals and companies – from very small companies to large corporates, including the public sector. That said, we serve more than 63 million customers, providing complete and innovative solutions in credit, asset management, investments, insurance, payment methods, capital market, and treasury.



CEO: Paulo Caffarelli

Our historical expertise makes us the main partner to Brazilian agribusiness as the major financial agent. We are also known as the foreign trade bank, offering complete and diversified solutions to exporters and importers alike. Another important area is the infrastructure services segment where we provide services such as projects and resources management, as well as project finance advisory.

We have the largest service network in the country and abroad, among Brazilian financial institutions and we are present in 99.8% of the Brazilian municipalities with our own service network, MaisBB Network (banking correspondents), and shared network channels, enabling banking inclusion for thousands of people and fomenting the production chains in Brazil's every corner.

WHAT DO YOU CONSIDER TO BE THE NEXT FRONTIERS IN ESG?

Considering the present world's environmental

concerns, it is vital to companies to identify threats and opportunities and understand their role in the societal development, elaborating strategic financial plans and providing more services and products with fewer resources.

ESG frontiers rely on effective partnerships to carry on local and national projects in line with world's needs and expectations to achieve United Nations Global Goals for Sustainable Development, launched last year.

Going green, Banco do Brasil has, among other initiatives, the Água Brasil Programme in partnership with Fundação Banco do Brasil, Agência Nacional de Águas, and WWF-Brasil, which identifies and tests agricultural practices to conciliate production, social inclusion, and environmental conservation. This initiative also intends to improve environmental risks in financing and investments monitoring tools; develop studies and business models to promote green and inclusive economy, and so on.

What processes has Banco do Brasil put in place to further improve corporate transparency?

Transparency is important in the decision-making process. The higher our level of transparency, the greater the confidence and reliability we provide to our investors and stakeholders. That is why ethics and transparency guide our relationship with investors, analysts, rating agencies, and regulators, providing clear and accurate information.

Banco do Brasil goes beyond rules disclosing voluntary additional information beyond that required by laws and regulations. In this context, we can mention the complete financial statements, including quarterly earnings reports, cash flow statements, and consolidated reports according to international standards (IFRS). The financial statements have the Audit Committee, Fiscal Council and Independent Auditors review, as well as explanatory notes, containing the disclosures provided in accordance to the financial rules.

Another example is the publication of the Shareholders' Meetings notice at least 15 days in advance and the strict limitation of the agenda to its purpose (no general affairs can be included). The bank also publishes on its investor relations website information about its bylaws; governance code; code of ethics and standards of conduct; policies; composition of administrative bodies and audit committee; management professional resume summary; shareholders' meetings and board of directors' meetings records; and the management report. We also have a disclosure policy for material facts and securities trading.

We also keep a close contact with the market. In 2015, we met investors and analysts in six Brazilian cities, we went through five non-deal roadshows abroad, 10 conferences in Brazil and another 15 abroad, and organised four earnings conference calls with analysts and investors, both in Portuguese and English. Altogether, over 958 meetings were conducted with investor and market analysts, including meetings and telephone calls.

Can you please elaborate on the processes and frameworks adopted by Banco do Brasil to ensure excellence in corporate governance and the monitoring of performance?

Respecting transparency principles, our corporate governance aims to mitigate risks, sharing visions, aggregating value and quality to the decision-making process, and disseminating knowledge. To accomplish all that, BB adopts practices to ensure the balance between shareholders' rights, clear information to investors and society, ethics in dealing with the public, and business sustainability through the use of monitoring tools that align our executives' behaviour to the interests of our shareholders, stakeholders, and the society in general.

In recognition of these efforts, since 2006, we have been part of BM&FBovespa Novo Mercado, a listing segment for companies subject to the strictest corporate governance practices. Moreover, we are listed on ISE (Corporate Sustainability Index), ITAG (shares with differentiated Tag



Banco do Brasil

Along Index) and IGC (shares with differentiated corporate Governance). Since 2012, BB is listed on the Dow Jones Sustainability Index (DJSI), boosting our position in the international scenario.

Among our commitments, due to our listing on the Novo Mercado, we highlight: (a) existence of only common shares in the market; (b) a two-year term of office for the entire board of directors, of which at least 20% of the members must be independent; (c) 100% tag along; (d) maintenance of a minimum free float equivalent to 25% of the capital; (e) arbitration chamber for solution of corporate conflicts.

Banco do Brasil's corporate governance structure has the board of directors composed of eight members, assisted by the Audit Committee and Remuneration Committee and also by the Internal Audit. We call the attention to the fact that currently 25% of the members of the board of directors are independent. We also have on a permanent basis, the Fiscal Council composed of five effective members and five substitutes.

BB's bylaws establish that the statutory managing

directors are BB employees only. It also separates management duties in order to avoid conflict of interests.

Decisions at any level of the company are made collectively in order to engage all the executives in defining strategies and approval of proposals regarding BB's several businesses. For this matter, senior management uses superior committees, executive committees, and strategic level commissions, to ensure timing and reliability for the decision-making process.

How does market volatility affect corporate governance?

We are very transparent, providing a high level of disclosure to the market, in a timely manner. We manage our businesses and client relationships in compliance with the Brazilian and international regulations. I believe that having these outstanding corporate governance practices and high level of disclosure help our investors to correctly value our securities, potentially reducing volatility. All this together contributes to create value to our shareholders in the long run. ✱