Pillar 3 Report 2023

bradesco europa

Table of content:

EBA disclosure templates

		CRR article	Reference
Disclosure of key metrics and overview of risk-weighted exposure amounts			
EU KM1	Overview of risk weighted exposure amounts	Points (a) to (g) of Article 447 and point (b) of Article 438	Table 2.1
EU OV1	Overview of risk weighted exposure amounts	Point (d) of Article 438	Table 4.3
EU OVC	ICAAP information	Points (a) and (c) of Article 438	Section 4.3 & 8.4
Disclosure of risk management policies and objectives			
EU OVA	Institution risk management approach	Article 435 (1)	Section 2 & 3
EU OVB	Disclosure on governance arrangements	Article 435 (2)	Section 3.1
Disclosure of own funds			
EU CC1	Composition of regulatory own funds	Points (a), (d), (e) and (f) of Article 437	Table 4.1
EU CC2	Reconciliation of regulatory own funds to balance sheet in the audited financial statements	Point (a) of Article 437	Table 4.2
Disclosure of liquidity requirements			
EU LIQA	Liquidity risk management	Articles 435(1) and 451a(4)	Section 8
Disclosure of credit risk quality			
EU CRA	General qualitative information about credit risk	Points (a), (b), (d) and (f) of Article 435(1)	Section 5
EU CQ1	Credit quality of forborne exposures	Point (c) of Article 442	Table 5.1
EU CQ3	Credit quality of performing and non-performing exposures by past due days	Points (c) and (d) of Article 442	Table 5.2
EU CR1	Performing and non-performing exposures and related provisions	Points (c) and (f) of Article 442	Table 5.3
EU CQ7	Collateral obtained by taking possession and execution processes	Point (c) of Article 442	Table 5.4
Disclosure of the use of standardised approach and internal model for market risk			
EU MRA	Qualitative disclosure requirements related to market risk	Points (a) to (d) of Article 435 (1)	Section 6
Disclosure of operational risk			
EU ORA	Qualitative information on operational risk	Articles 435(1), 446 and 454	Section 7
Disclosure of remuneration policy			
EU REMA	Remuneration policy	Points (a), (b), (c), (d), (e), (f), (j) and (k) of Article 450(1) and Article 450(2)	Section 9
EU REM1	Remuneration awarded for the financial year	Point (h)(i)-(ii) of Article 450(1)	Table 9.1
EU REM2	Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff)	Point (h)(v) to (vii) of Article 450(1)	Table 9.2
EU REM3	Deferred remuneration	Point (h)(iii) and (iv) of Article 450(1)	Table 9.3
EU REM4	Remuneration of 1 million EUR or more per year	Point (i) of Article 450(1)	Table 9.4
EU REM5	Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff)	Point (g) of Article 450(1)	Table 9.5

1. Background and scope

Banco Bradesco Europa S.A. ("the Bank") is a Bank located at 25, rue Edward Steichen in Luxembourg and has 63 employees as of 31 December 2023.

As the Bank is 100% owned by Banco Bradesco S.A. (Brazil, the "Parent Company"), the Bank, therefore, has to comply with the consolidated disclosure requirements related to:

- the Commission Implementing Regulation (EU) 2021/637 of 15 March 2021 laying down implementing technical standards with regard to public disclosures by institutions of the information referred to in Titles II and III of Part Eight of Regulation (EU) No 575/2013 of the European Parliament and of the Council and repealing Commission Implementing Regulation (EU) No 1423/2013, Commission Delegated Regulation (EU) 2015/1555, Commission Implementing Regulation (EU) 2016/200 and Commission Delegated Regulation (EU) 2017/2295;
- the CSSF circular 23/830 on the Adoption of the EBA Guidelines on clarification on the public disclosure framework applicable to credit institutions and CRR investment firms (Pillar 3);
- the CSSF circular 20/751 as amended by CSSF circular 23/80 on the Adoption of the EBA Guidelines on management of non-performing and forborne exposures (EBA/GL/2018/06) and on disclosure of non-performing and forborne exposures (EBA/GL/2022/13).

This report meets the disclosure requirements related to the Part Eight of the CRR for non listed other institutions and the CSSF circular 20/750 as amended. Unless otherwise stated, the figures disclosed in this report are expressed in USD. The document descriptions and figures reflect the Bank's situation as of 31 December 2023. These disclosures have been reviewed by the Board of Directors of the Bank and are published on its web site. The section 2.2 details a concise risk statement approved by the management body succinctly describing the institution's overall risk profile associated with the business strategy. This statement includes key ratios and figures providing a comprehensive view of the Bank's risk management, including how the risk profile of the institution interacts with the risk tolerance set by the management body.

2. Risk management objectives and policies

2.1. Risk management strategy

A sound and robust risk management framework is established within the Bank, its Parent Company and its affiliates. The Bank's risk management process is focused along four core steps:

- effective risk identification considering both internal factors (i.e. the Bank's structure, the nature of activities, quality of human resources, organizational changes and employee turnover) and external factors (i.e. changes in the industry and technological advances) that could adversely affect the achievement of the Bank's objectives. Although risk identification falls primarily under the responsibility of line managers, every employee of the Bank has to be aware of the risk identification process and escalate any risk or potential risk to their respective superiors, who in turn escalate it to the Authorized Management;
- effective risk assessment allowing the Bank to improve the comprehension of its risk profile and to effectively and efficiently target risk management resources;
- continuous risk monitoring activities allowing the Bank to quickly detect and correct deficiencies in the policies, procedures and processes for managing risk. The frequency of the risk monitoring reflects the level of risk involved and depends on the periodicity and nature of changes in the Bank's operating environment;
- effective risk controls are designed and implemented to identify, address and mitigate risks.

The Bank specializes in two main activities in Luxembourg, namely Corporate Banking and Private Banking. In this context, the Bank's risk strategy is based on the following principles:

- the Bank manages risk within the framework of best banking practices and regulations, and the framework defined by its Parent Company (Banco Bradesco S.A.). The Bank has comprehensive policies and

procedures, many of which are business specific or cover risk management. It is primarily the responsibility of the Authorized Management to ensure compliance with these policies;
- the Bank maintains, as much as possible, a policy of matching the tenor of assets with shareholders' funds and liabilities in order to achieve a minimum liquidity level always above of that required by the CSSF. This liquidity is mainly placed in the overnight market with first class banks;
- the Bank follows the methodology used by the Parent Company for credit portfolio classification, which establishes a set of parameters for granting credit, provisioning and managing risk (credit risk grading system established by the Central Bank of Brazil) and facilitates the definition of differentiated credit policies based on the customer's specific characteristics and size, providing thus a basis for the correct pricing of operations and for establishing the most appropriate guarantees for each situation. In accordance with internal policy, the Bank's customer risk ratings are established on a corporate basis and are permanently reviewed to maintain the quality of the credit portfolio;
- the policy of the Bank is to manage operational risk at a comprehensive level. Each department remains responsible for the active identification and assessment of the risks it faces. However, the final responsibility for the management of those identified risks lies with the Authorized Management. The Bank's approach to operational risk management is to ensure that all risks in each business line are effectively identified and managed. Every department reports directly to one dedicated member of the Authorized Management.

The risk reports reflect any identified problem or area and motivate timely corrective actions on outstanding issues. The reports are analyzed in order to improve the performance of the existing risk management framework as well as to develop new risk limits and practices.

The Bank's reports are distributed to the appropriate levels of management and to the directly concerned areas of the Bank. Several key reports are used for the purpose of risk monitoring providing different risk metrics:
- Interest rate risk in the banking book (IRRBB) (i.e. Economic Value of Equity, Earnings at Risk);
- Foreign exchange risk (i.e. FX exposure);
- Credit risk (i.e. days past-due, forbornes, defaults);
- Operational risk (i.e. incidents, financial losses, issues, corrective action plans);
- Liquidity risk (i.e asset & funding liquidity metrics, concentrations);
- Business risk (i.e. profitability risk and strategic risk);
- ICT risk & security report (i.e. ICT security, ICT risk).

Besides the above dispositions, the Authorized Management has regular meetings with all the managers of the Bank when each one has the opportunity to discuss and/or raise any issues or risks that the Bank may incur due to any business.

2.2. Risk appetite statement

Risk appetite refers to the types and levels of aggregate risks that the Bank is willing to accept in the conduct of its business and objectives. The Risk appetite statement (RAS) is an important tool that synthesizes the Bank's risk culture, drives strategic and business plans, guides budget planning, and enables the Authorized Management of the Bank to optimize the capital allocation within acceptable levels and types of risk, considering the markets, the regulatory environment in which it operates and the respect of the human rights and environmental protection principles.

In order to achieve its strategic objectives, the Bank assumes risks of different natures and types inherent to the banking practice, including sustainability and climate risk. In order to control these risks, the Board of Directors defines the acceptable levels of risks that the Bank is willing to incur and maintains strict controls for its identification, measurement, mitigation, monitoring and reporting. Furthermore, the Bank sets up specific processes that emphasize the integrity, effectiveness, prudence, and accountability. The RAS is annually reviewed or whenever it is necessary by the Board of Directors, besides being continuously monitored by the Authorized Management, as well as by business and control functions.

For the various types of risks, which are measurable and non-measurable, the Bank has established a global limit control framework by taking into consideration six dimensions:

- **Capital**: to maintain an adequate level of capital, in an actual and prospective view, to cope with unexpected losses, stress situations and business opportunities, in compliance with regulatory requirements and assuring the Bank's solvency.
- **Liquidity**: to maintain accessible and low-cost sources of funding through a capillary network and a dynamic and adequate liquidity management to ensure liquidity reserves appropriate to the size of its obligations, assuring survival in adverse scenarios.
- **Business risk**: to remunerate its capital in a sustainable way, seeking to meet the shareholders remuneration expectation in relation to the risks incurred in its business.
- **Credit risk**: to focus on Brazilian and European clients present in Brazil and in Europe, in a diversified and pulverized manner, both in terms of products and segments, striving for the portfolio quality and solidness, with guarantees consistent with the undertaken risks, considering the amounts, the purposes and terms of the granted loans and maintaining adequate levels of impairment allowances as well as portfolio concentration.
- **Market risk**: to align the exposures to the strategic guidelines, with specific limits established in an independent manner and with the risks properly mapped, measured and classified regarding probability and magnitude.
- **Operational risk**: to provide assurance regarding suitable conduct of the Banks' businesses, observing compliance to the law, regulations and rules, ensuring that processes include efficient controls. To preserve the reputation of the Bank and to ensure the implementation of an adequate ICT security framework.

The Bank uses its Risk appetite statement as one of the communication elements with regards to risk management to fulfil its strategic objectives, making it available to employees which enables an appropriate risk monitoring and risk management on a daily basis and the compliance with the established limits.

The risk appetite monitoring takes place through effective control processes, in which managers are informed about the exposures to risks and the respective usage of current limits. The report is carried through an alert system, which eases communication and highlights exceptions to the limits, which requires discussion, authorization for the exceptions and/or adequacy measures, permeating all organization's spheres, supporting the Board of Directors and the Authorized Management in the assessment whether the results are consistent with the risk appetite.

The template EU KM1 presents the key metrics of the Bank in terms of risk management as required by the article 447 of the CRR.

Table 2.1

Template EU KM1 – Key metrics template:

		31-Dec-23	31-Dec-22
Available own funds (amounts)			
1	Common Equity Tier 1 (CET1) capital	333,101,870	544,519,903
2	Tier 1 capital	333,101,870	544,519,903
3	Total capital	333,101,870	544,519,903
Risk-weighted exposure amounts			
4	Total risk-weighted exposure amount	1,449,957,405	2,357,279,372
Capital ratios (as a percentage of risk-weighted exposure amount)			
5	Common Equity Tier 1 ratio (%)	22.9732%	23.0995%
6	Tier 1 ratio (%)	22.9732%	23.0995%
7	**Total capital ratio (%)**	**22.9732%**	**23.0995%**
Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)			
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage (%)	1.2500%	1.0000%
EU 7b	of which: to be made up of CET1 capital (percentage points)	5.2031%	5.0625%
EU 7c	of which: to be made up of Tier 1 capital (percentage points)	6.9375%	6.7500%
EU 7d	Total SREP own funds requirements (%)	9.2500%	9.0000%
Combined buffer requirement (as a percentage of risk-weighted exposure amount)			
8	Capital conservation buffer (%)	2.5000%	2.5000%
EU 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	0.0000%	0.0000%
9	Institution specific countercyclical capital buffer (%)	0.3090%	0.0134%
EU 9a	Systemic risk buffer (%)	0.0000%	0.0000%
10	Global Systemically Important Institution buffer (%)	0.0000%	0.0000%
EU 10a	Other Systemically Important Institution buffer (%)	0.0000%	0.0000%
11	Combined buffer requirement (%)	2.8090%	2.5134%
EU 11a	Overall capital requirements (%)	12.0590%	11.5134%
12	**CET1 available after meeting the total SREP own funds requirements (%)**	**18.4732%**	**18.5995%**
Leverage ratio			
13	Leverage ratio total exposure measure	1,795,346,705	3,045,210,590
14	**Leverage ratio**	**18.5536%**	**17.8812%**
Additional own funds requirements to address risks of excessive leverage (as a percentage of leverage ratio total exposure amount)			
EU 14a	Additional own funds requirements to address the risk of excessive leverage (%)	0.0000%	0.0000%
EU 14b	of which: to be made up of CET1 capital (percentage points)	0.0000%	0.0000%
EU 14c	Total SREP leverage ratio requirements (%)	3.0000%	3.0000%
Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)			
EU 14d	Leverage ratio buffer requirement (%)	0.0000%	0.0000%
EU 14e	Overall leverage ratio requirement (%)	3.0000%	3.0000%
Liquidity Coverage Ratio			
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	101,624,239	130,873,760
EU 16a	Cash outflows - Total weighted value	198,752,036	226,531,656
EU 16b	Cash inflows - Total weighted value	380,616,145	351,087,464
16	Total net cash outflows (adjusted value)	49,688,009	56,632,914
17	**Liquidity coverage ratio (%)**	**235.5569%**	**231.0913%**
Net Stable Funding Ratio			
18	Total available stable funding	896,582,121	1,307,564,406
19	Total required stable funding	710,051,038	1,098,707,465
20	**NSFR ratio (%)**	**126.2701%**	**119.0093%**

The table 2.2 details the internal and regulatory limits defined for the Bank's main risk metrics.

Table 2.2

Risk appetite statement:

	Thresholds			Regulatory limits
Total Capital Ratio Simplified (Pillar I) (%)	[≥ 14%]	[14% - 13%]	[< 13%]	[< 11.75%]
Leverage Ratio (%)	[≥ 7%]	[7% - 6%]	[< 6 %]	[< 3%]
Liquidity Coverage Ratio (%)	[≥ 130%]	[130% - 110%]	[< 110%]	[< 100%]
Net Stable Funding Ratio (%)	[≥ 115%]	[115% - 105%]	[< 105%]	[< 100%]

Declaration of the Management Body

In accordance with the article 435 of the CRR, the Bank's Management Body confirms that it respects the regulation among others in its aspects related to risk management and that they are adequate with regard to the Bank's profile and strategy, these arrangements being already implemented or making part of an action plan with the aim to reach this objective.

This declaration is based on the reliability of the risk-related information communicated to the Management Body through the dedicated channels foreseen by the governance, in particular but not limited to the Board of Directors, where the risk exposures are compared to the risk appetite defined by the Board of Directors, and where significant risk events and issues are reported and discussed.

2.3. Risk identification of material risk and risk profile

The risk appetite is defined as follows:

- the broad-based amount of risks that the Bank is willing to accept in the pursuit of its missions or vision;
- the level of aggregated risk that the Bank is willing to undertake and the management of it over a horizon of one year;
- the Bank's ability and/or willingness to absorb a reduction in the value of an asset, liability, trade, transaction, or portfolio.

Risk identification is the process whereby material risks are recognized, and where risk sources in all business activities and risk drivers are linked to events and their potential consequences. In order to ensure that risks to which the Bank is exposed to are proportionately, systematically managed and fully assessed, the Bank established a risk classification of its material risks in order to ensure an adequate coverage in terms of assessment, management, mitigation and reporting.

In this respect, the table below shows the list of material risks and their related subcategories (sub-type categories) to which the Bank is exposed.

Table 2.3

Identification of material risks and sub-type risks:

Level 1	Level 2
Credit risk	Corporate loans credit risk
	Private Bank loans credit risk
	Credit card credit risk
	Sovereign & country credit risk
	Concentration credit risk
	Counterparty credit risk
	FX lending credit risk
	Climate transition credit risk
Interest rate risk in the banking book (IRRBB)	Gap risk
	Basis risk
	Option risk
Market risk	Forex risk
Operational risk	Operational risk
	ICT Security risk
	Compliance risk
	Legal risk
	Reputational risk
	Model risk
	Outsourcing risk
Liquidity risk	Asset liquidity risk
	Funding liquidity risk
	Join asset/funding liquidity risk
Business risk	Profitability risk
	Strategic risk

As per its Internal Capital & Liquidity Adequacy Assessment Process (ICLAAP), the Bank goes through a comprehensive assessment performed by its Authorized Management, who, for the different categories of risks deemed relevant, includes the maximum financial impact, the likelihood, thereby yielding, through multiplication, the potential loss.

The total amount of the potential losses is covered by the regulatory capital. For Pillar II risk amounts, the residual risk approach was retained. The fundamental assumption behind this approach is that the Bank has implemented an effective control environment and management structure such that mitigating factors are effective.

2.4. Intra-group exposures and funding relationships

The Bank has a number of interconnections with different entities of Bradesco Group, in particular with the Parent Company Banco Bradesco S.A., its branches in Grand Cayman and New York, and Bradesco Bank (Florida). The branch of Banco Bradesco S.A. located in Grand Cayman provides the funding for the corporate loan portfolio of the Bank. The majority of the corporate loans in the portfolio of the Bank are systematically matched in terms of maturity dates and amounts with funding provided by Banco Bradesco S.A. Grand Cayman Branch. The Bank also performs money market operations with Banco Bradesco S.A. Grand Cayman Branch. The Bank also performs money market operations with Banco Bradesco S.A. New York Branch. The Bank performs limited money market operations with Bradesco Bank located in Miami, USA.

The majority of the Banks corporate loans portfolio is covered by stand-by letters of credit issued by the Parent Company, which are considered as intra-group guarantees.

3. Risk management governance

3.1. Board of Directors

Role and responsabilities

The Board of Directors constitutes the strategic decision-making body of the Bank and the highest level of its corporate governance and oversight. The Board of Directors has the overall responsibility for the Bank. It ensures execution of activities and preserves business continuity by way of sound central administration and internal governance arrangements pursuant to the provisions of CSSF circular 12/552 as amended.

To this end, in compliance with the legal and regulatory provisions and complementary to the roles of the Authorized Management and of the persons in charge of the internal control functions, the Board of Directors is collectively responsible for the following activities:

- definition of the following strategies: business, own funds and liquidity with respect to internal strategies of the Bank, taking into account the Parent Company's long term financial interests, solvency and liquidity situation;
- the overall risk strategy and policy, including the Bank's risk tolerance, risk appetite and risk management framework;
- definition of the guiding principles of a clear and consistent organizational and operational structure including the information systems;
- definition of the guiding principles relating to the internal control mechanisms;
- defining guiding principles regarding the central administration in Luxembourg;
- defining guiding principles applicable to business continuity management and crisis management arrangements;
- defining guiding principles related to the Remuneration policy;
- monitoring of the implementation by the Authorized Management of its internal governance strategies and guiding principles.

Composition

In accordance with best practices for corporate governance, Banco Bradesco Europa S.A. maintains a well-defined Board of Directors. The specific composition of the Board of Directors is detailed below:

- Mr. Moacir Nachbar Junior, 7 mandates;
- Mr. Roberto Medeiros Paula, 4 mandates;
- Mr. José Augusto Ramalho Miranda, 3 mandates;
- Mr. Sheico Alexandre Pimenta, 2 mandates;
- Mr. Guilherme Muller Leal, 6 mandates.

In line with CSSF circular 12/552 that has implemented, through CSSF circular 20/759, the Joint ESMA and EBA Guidelines on the assessment of the suitability of members of the management body and key function holders (EBA/GL/2021/106) and the Law of 5 April 1993 on financial sector, as amended ("LFS"), Banco Bradesco Europa S.A has developed the present suitability policy. The Suitability policy, describes the requirements in relation to:

- the process relative to the selection, appointment, re-appointment and succession planning of the members of its Management Body and Key Function Holders;
- the notification of departure of a member of the Management Body or Key Function Holders;
- the mandatory suitability assessments that must be performed;
- the Diversity policy;
- the policies in place relative to the induction and training of members of the Management Body.

The Suitability policy is intended to be clear, well documented and provide transparency to all staff within the Bank.

Diversity policy and strong leadership team

In line with the joint ESMA and EBA Guidelines on the assessment of the suitability of the members of the management body and key function holders (EBA/GL/2021/12), Directive 2013/36/EU and the EBA report on the benchmarking of diversity practices (EBA/REP/2023/07), the Bank details hereafter its stringent diversity practices.

The Bank deems the implementation of a Diversity policy to be important in ensuring that the Management Body comprises members possessing different sets of qualities, competences, views and experiences thus allowing for the facilitation of independent opinions and sound decision-making.

To this end, the key diversity criteria considered by the Bank are the following:

- educational and professional background;
- gender;
- age;
- geographical provenance.

Beyond the qualitative targets described above, the Bank has elected to set a quantitative target of having at least one member of the underrepresented gender in the Management Body. On a broader level, the key diversity criteria detailed above shall be applicable to all employees of the Bank. The Bank strives to have a diverse employee base whilst also ensuring equal treatment and opportunities to staff of different genders. Furthermore, the Management Body of the Bank remain at the disposal of all employees to openly discuss and plan career progression.

Specialized committee

Banco Bradesco Europa S.A. adheres to the proportionality principle by establishing a dedicated Audit, Risk and Compliance Committee (ARCC). This committee plays a crucial role in overseeing and guiding the Bank's risk management framework.

Key responsibilities of the ARCC:

- provide strategic direction and guidance for the Bank's risk management activities.
- oversee the effectiveness of the risk management department in monitoring the Bank's risk profile.
- ensure the development and implementation of appropriate risk mitigation strategies.

- evaluate the adequacy of resources and expertise within the risk management department.
- advise on the recruitment of external risk management experts when necessary.
- safeguard the independence of the risk management function.

Open communication channels for effective risk management

To foster a strong culture of risk awareness and facilitate effective oversight, Banco Bradesco Europa S.A. prioritizes open communication between the Risk Management function and key decision-making bodies:

- direct access: the Risk Management function has direct access to both the Management Body and the ARCC, enabling them to keep leadership informed of emerging risks and mitigation strategies.
- dedicated board communication channel: a dedicated email box allows the Risk Management team to directly communicate with Board members, ensuring timely escalation of critical risk issues.
- quarterly risk reporting: the Risk Management function presents comprehensive reports to the Board of Directors on a quarterly basis.

By establishing these clear communication channels, Banco Bradesco Europa S.A. promotes a proactive and collaborative approach to risk management, safeguarding the Bank's long-term stability.

3.2. The Authorized Management

The Authorized Management is in charge of the effective, sound and prudent day-to-day business and inherent risk management. This management is exercised in compliance with the strategies and guiding principles laid down by the Board of Directors and the existing regulations, taking into account and safeguarding the Bank's long-term financial interests, solvency and liquidity situation.

The Authorized Management implements through internal written policies and procedures all the strategies and guiding principles laid down by the Board of Directors in relation to central administration and internal governance, in compliance with the legal and regulatory provisions and after having heard the internal control functions. They ensure that the Bank has the necessary internal control mechanisms, technical infrastructure and human resources to ensure sound and prudent business and inherent risk management within the context of robust internal governance arrangements pursuant to CSSF circular 12/552, as amended.

The Authorized Management is collectively responsible of the following activities:

- to develop and implement an ICAAP and ILAAP for identifying, assessing, monitoring and reporting all risks faced by the business entities;
- to define, in writing, a Risk management policy and an own fund and liquidity policy based on guidelines given by the Board of Directors and ensuring their respect and their appropriateness;
- to establish a Risk Management function;
- to inform the Board of Directors, on a regular basis, on the risk situation of the Bank and the adequacy and the appropriateness of the Risk Management function;
- to take appropriate corrective measures if the risk situation and the level of own funds of the Bank are damaged;
- to ensure the implementation of a series of controls and processes covering different areas;
- to incorporate the recommendations of the banking supervisory authorities.

3.3. The Risk Management function

In accordance with the CSSF circular 12/552 as amended, the Bank established a permanent and independent Risk Management function, with the aim to anticipate, identify, measure, monitor, control and report all the risks to which the Bank is or may be exposed as well as to assist the Authorized Management in its role to manage and limit these risks. It ensures that the risks are properly managed in accordance with the regulatory requirements as well as internal limits. The Risk Management Department of the Bank is led by the Chief Risk Officer.

The Risk Management function is responsible for:

- ensuring that the regulatory and internal risk limits are compatible with the strategies, activities, as well as organizational and operational structure of the Bank. It monitors compliance with these limits and the proper application of the escalation procedures in case of a breach;
- ensuring that the Authorized Management and the Board of Directors receive a comprehensive, objective and relevant overview of the risks to which the Bank is or may be exposed;
- ensuring that the terminology, methods and technical resources used for the risk anticipation, identification, measurement, reporting, management and monitoring are consistent, in particular regarding dependencies between risks;
- ensuring that the qualitative and quantitative risk assessment is based on a range of relevant scenarios;
- anticipating and recognizing the emerging risks arising in a changing environment;
- ensuring that adequate risk management policies are in place and respected;
- communicating on the risk profile of the Bank on a regular basis;
- ensuring that regulatory and internal limits are consistent with the strategy, the activities and the organization of the Bank;
- implementing, in relation with the 1st line of defence, an adequate internal control system.

3.4. The Compliance function

In accordance with the CSSF circular 12/552 as amended, the Bank established a permanent and independent Compliance function, with the aim to anticipate, identify and assess the compliance risks of the Bank as well as to assist the Authorized Management in limiting these risks. The Compliance Department of the Bank is led by the Chief Compliance Officer.

For the purpose of reaching the objectives set, the responsibilities of the Compliance function covers at least the following aspects:

- identify the compliance risks to which the Bank is exposed in the exercise of its activities and assesses their significance and the possible consequences;
- ensure that, as per the implementation policies, the Bank has rules that can be used as guidelines by the staff from different disciplines in the exercise of its day-to-day tasks;
- coordinate, centralize and verify the control activities of the Bank related to compliance risks;
- centralize all information on compliance issues (inter alia infringements of standards, non-compliance with procedures or conflicts of interest) identified by the Bank;
- perform a regulatory watch and assist and advice the Authorized Management on issues of compliance and standards, notably by drawing its attention to changes in standards which may subsequently have an impact on the compliance area;
- identify and keep available to all staff an inventory of essential laws and regulations pertinent to the organization;
- advise the Authorized Management on the applicable laws, regulations, rules and standards and inform them about any developments in these areas;
- establish written guidelines to staff and service providers on the appropriate implementation of the laws, regulations, rules and standards through policies and procedures;
- assess the appropriateness of internal policies, procedures and guidelines, ensure a follow-up of any identified deficiencies, make recommendations for amendments, where necessary, and supervise the implementation of corrective measures to mitigate the identified deficiencies;
- monitor compliance with internal policies, procedures and guidelines by performing regular and comprehensive compliance risk assessments and testing and report the results on a regular basis.

3.5. The Internal Audit function

In accordance with the CSSF circular 12/552 as amended, the Bank outsourced the Internal Audit function to an external expert specialized in providing internal audit services. The Internal Audit function assists the Bank in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's control and governance processes. It assists Authorized Management in achieving their goals by furnishing information, appraisals and pertinent recommendations relating to the daily management's duties and objectives as well as the efficient use of the resources. The internal audit work is performed in accordance with the Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors (IIA).

The Internal Audit function reviews and assesses whether the central administration and internal governance arrangements are adequate and operate effectively. In this respect, the Internal Audit function is responsible for:

- internal control's efficiency and effectiveness;
- adequacy of the administrative, accounting and IT organization;
- accurate and complete registration of the transactions and the provision of accurate, complete and relevant information available without delay to the Authorized Management;
- compliance with the procedures governing the adequacy of the regulatory and internal own funds and liquidity, and the adequacy of the risk management;
- effectiveness of the compliance and risk management functions.

3.6. Risk committees

The Bank established one specialized committee (Audit, Risk & Compliance Committee) to advise the Board of Directors. The Bank also established two operational management committees (Asset-Liability Committee and Compliance, Credit & Operational Risk Committee) to oversee the proper application of the risk management framework.

Audit, Risk & Compliance Committee

The Audit, Risk & Compliance Committee (ARCC) assists the Board of Directors in the areas of financial information, internal controls, including risk management, compliance, internal and external audit. Furthermore, the Audit, Risk & Compliance Committee is also in-charge to deliberate the state of the internal control and the compliance with the rules set in the CSSF circular 12/552 as amended. Audit, Risk & Compliance Committee meetings are held at least on a quarterly basis.

Asset-Liability Committee

The Asset-Liability Committee (ALCO) is mainly in charge to ensure that the balance sheet risks arising from the current, forecasted and planned business are managed in line with the risk appetite approved by the Board of Directors. The ALCO oversees the implementation of an effective process to manage the Bank's interest rate, liquidity, business and similar market risks in relation to the Bank's balance sheet and associated activities, including the approval of procedures or limits, if applicable. The ALCO takes place at least once a quarter.

Compliance, Credit & Operational Risk Committee

The Compliance, Credit & Operational Risk Committee (CCORC) is mainly responsible to assist the Authorized Management in relation to compliance, credit risk, operational risk and general regulatory oversight.

The CCORC oversees the implementation of effective processes to manage and monitor compliance topics, risk relating to the Bank's credit activities and to its operations, including the approval of procedures or limits, if applicable. The CCORC takes place once a month.

4. Capital adequacy

4.1. Own funds

The Bank's own funds are only composed of Tier I capital. The Tier 1 capital is constituted by the subscribed capital and retained earnings. The full terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments is detailed in the template EU CC1 as required by the points (a), (d), (e) and (f) of the article 437 of the CRR. This template also includes capital ratios.

Table 4.1

Template EU CC1 - Composition of regulatory own funds:

		Amounts	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
Common Equity Tier 1 (CET1) capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	268,350,000	(a)
	of which: Instrument type 1	268,350,000	
	of which: Instrument type 2	-	
	of which: Instrument type 3	-	
2	Retained earnings	66,520,248	(d) plus (e)
3	Accumulated other comprehensive income (and other reserves)	-	
EU-3a	Funds for general banking risk	-	
4	Amount of qualifying items referred to in Article 484 (3) CRR and the related share premium accounts subject to phase out from CET1	-	
5	Minority interests (amount allowed in consolidated CET1)	-	
EU-5a	Independently reviewed interim profits net of any foreseeable charge or dividend	-	
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**334,870,248**	
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	-973,923	
8	Intangible assets (net of related tax liability) (negative amount)	-794,455	(f)
9	Not applicable	-	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) CRR are met) (negative amount)	-	
11	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value	-	
12	Negative amounts resulting from the calculation of expected loss amounts	-	
13	Any increase in equity that results from securitised assets (negative amount)	-	
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-	
15	Defined-benefit pension fund assets (negative amount)	-	
16	Direct, indirect and synthetic holdings by an institution of own CET1 instruments (negative amount)	-	
17	Direct, indirect and synthetic holdings of the CET 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	
18	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	
EU-20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	-	
EU-20b	of which: qualifying holdings outside the financial sector (negative amount)	-	
EU-20c	of which: securitisation positions (negative amount)	-	
EU-20d	of which: free deliveries (negative amount)	-	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met) (negative amount)	-	
22	Amount exceeding the 17,65% threshold (negative amount)	-	
23	of which: direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-	
24	Not applicable		
25	of which: deferred tax assets arising from temporary differences	-	
EU-25a	Losses for the current financial year (negative amount)	-	
EU-25b	Foreseeable tax charges relating to CET1 items except where the institution suitably adjusts the amount of CET1 items insofar as such tax charges reduce the amount up to which those items may be used to cover risks or losses (negative amount)	-	
26	Not applicable		
27	Qualifying AT1 deductions that exceed the AT1 items of the institution *(negative amount)*	-	
27a	Other regulatory adjustments to CET1 capital *(including IFRS 9 transitional adjustments when relevant)*	-	

28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**-1,768,378**	
29	**Common Equity Tier 1 (CET1) capital**	**333,101,870**	
Additional Tier 1 (AT1) capital: instruments			
30	Capital instruments and the related share premium accounts	-	
31	of which: classified as equity under applicable accounting standards	-	
32	of which: classified as liabilities under applicable accounting standards	-	
33	Amount of qualifying items referred to in Article 484 (4) CRR and the related share premium accounts subject to phase out from AT1 as described in Article 486(3) CRR	-	
EU-33a	Amount of qualifying items referred to in Article 494a(1) CRR subject to phase out from AT1	-	
EU-33b	Amount of qualifying items referred to in Article 494b(1) CRR subject to phase out from AT1	-	
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	-	
35	of which: instruments issued by subsidiaries subject to phase out	-	
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**-**	
Additional Tier 1 (AT1) capital: regulatory adjustments			
37	Direct, indirect and synthetic holdings by an institution of own AT1 instruments (negative amount)	-	
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	
40	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-	
41	Not applicable	-	
42	Qualifying T2 deductions that exceed the T2 items of the institution (negative amount)	-	
42a	Other regulatory adjustments to AT1 capital	-	
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	**-**	
44	**Additional Tier 1 (AT1) capital**	**-**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**333,101,870**	
Tier 2 (T2) capital: instruments			
46	Capital instruments and the related share premium accounts	-	
47	Amount of qualifying items referred to in Article 484 (5) CRR and the related share premium accounts subject to phase out from T2 as described in Article 486(4) CRR	-	
EU-47a	Amount of qualifying items referred to in Article 494a (2) CRR subject to phase out from T2	-	
EU-47b	Amount of qualifying items referred to in Article 494b (2) CRR subject to phase out from T2	-	
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	-	
49	of which: instruments issued by subsidiaries subject to phase out	-	
50	Credit risk adjustments	-	
51	**Tier 2 (T2) capital before regulatory adjustments**	**-**	
Tier 2 (T2) capital: regulatory adjustments			
52	Direct, indirect and synthetic holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-	
53	Direct, indirect and synthetic goldings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	
54	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	
54a	Not applicable	-	
55	Direct, indirect and synthetic holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-	
56	Not applicable	-	
EU-56a	Qualifying eligible liabilities deductions that exceed the eligible liabilities items of the institution (negative amount)	-	
EU-56b	Other regulatory adjustments to T2 capital	-	
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**-**	
58	**Tier 2 (T2) capital**	**-**	
59	**Total capital (TC = T1 + T2)**	**333,101,870**	
60	**Total Risk exposure amount**	**1,803,161,078**	
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	**18.4732%**	
62	Tier 1 (as a percentage of total risk exposure amount)	**18.4732%**	
63	Total capital (as a percentage of total risk exposure amount)	**18.4732%**	
64	Institution CET1 overall capital requirement (CET1 requirement in accordance with Article 92 (1) CRR, plus additional CET1 requirement which the institution is required to hold in accordance with point (a) of Article 104(1) CRD, plus combined buffer requirement in accordance with Article 128(6) CRD) expressed as a percentage of risk exposure amount)	**12.0590%**	
65	of which: capital conservation buffer requirement	**2.5000%**	
66	of which: countercyclical buffer requirement	**0.3090%**	

67	of which: systemic risk buffer requirement	**0.0000%**	
EU-67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0.0000%	
68	**Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)**	**12.4142%**	
Amounts below the thresholds for deduction (before risk weighting)			
69	Not applicable	-	
70	Not applicable	-	
71	Not applicable	-	
Amounts below the thresholds for deduction (before risk weighting)			
72	Direct and indirect holdings of own funds and eligible liabilities of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	-	
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 17.65% thresholds and net of eligible short positions)	-	
74	Not applicable	-	
75	Deferred tax assets arising from temporary differences (amount below 17,65% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met)	-	
Applicable caps on the inclusion of provisions in Tier 2			
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	-	
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	-	
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	-	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	-	
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)			
80	Current cap on CET1 instruments subject to phase out arrangements	-	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	(g)
82	Current cap on AT1 instruments subject to phase out arrangements	-	
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	
84	Current cap on T2 instruments subject to phase out arrangements	-	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	

The template EU CC2 details the reconciliation of regulatory own funds to the balance-sheet presented in the audited financial statements as required by the point (a) of the article 437 of the CRR. The Bank prepares its annual accounts in accordance with the laws and regulations in force in the Grand-Duchy of Luxembourg. The accounting principles chosen are those commonly referred to as LUX GAAP. The Bank does not consolidate its accounts with its Parent Company since it is not material in terms of size for the Parent Company. As a consequence, the template EU CC2 has been filled using only the column a and tailored to the presentation of the audited financial statements.

Table 4.2

Template EU CC2 - Reconciliation of regulatory own funds to balance-sheet in the audited financial statements:

		Balance sheet as in published financial statements	Reference
		As at period end	
Assets - Breakdown by asset clases according to the balance sheet in the published financial statements			
1	Cash in hand, balances with central banks and post office banks	16,955,570	Financial statements LuxGaap
2	Loans and advances to credit institutions	185,614,776	Financial statements LuxGaap
3	Loans and advances to customers	1,123,018,008	Financial statements LuxGaap
4	Debt securities and other fixed-income securities	97,836,449	Financial statements LuxGaap
5	Intangible assets	794,455	Financial statements LuxGaap
6	Tangible assets	150,599	Financial statements LuxGaap
7	Other assets	813,617	Financial statements LuxGaap
8	Prepayments and accrued income	21,501,072	Financial statements LuxGaap
	Total assets	1,446,684,545	Financial statements LuxGaap
Liabilities - Breakdown by liability clases according to the balance sheet in the published financial statements			
1	Amounts owed to credit institutions	490,612,131	Financial statements LuxGaap
2	Amounts owed to customers	576,802,263	Financial statements LuxGaap
3	Other liabilities	1,329,739	Financial statements LuxGaap
4	Accruals and deferred income	13,140,315	Financial statements LuxGaap
5	Provisions	9,827,108	Financial statements LuxGaap
6	Subscribed capital	268,350,000	Financial statements LuxGaap
7	Reserves	68,375,000	Financial statements LuxGaap
8	Profit for the financial year	18,247,988	Financial statements LuxGaap
	Total liabilities	1,446,684,545	Financial statements LuxGaap
Shareholders' Equity			
1	Subscribed capital	268,350,000	Financial statements LuxGaap
2	Reserves	68,375,000	Financial statements LuxGaap
3	Profit for the financial year	18,247,988	Financial statements LuxGaap
	Total shareholders' equity	354,972,988	Financial statements LuxGaap

4.2. Capital requirements

Solvency ratio

The Bank applies the methods defined in the CRR to measure its regulatory capital requirements. For each applicable risk, the template EU OV1 provides the approach used by the Bank to assess the regulatory capital requirements and resulting amounts as of 31 December 2023 as required by point (d) of the article 438 of the CRR.

Table 4.3

Template EU OV1 – Overview of risk weighted exposure amounts

		Risk weighted exposure amounts (RWEAs)		Total own funds requirements
		Dec-23	Dec-22	Dec-23
1	**Credit risk (excluding CCR)**	**1,381,565,075**	**2,290,511,417**	**110,525,206**
2	Of which the standardised approach	1,381,565,075	2,290,511,417	110,525,206
3	Of which the foundation IRB (FIRB) approach	-	-	-
4	Of which slotting approach	-	-	-
EU 4a	Of which equities under the simple riskweighted approach	-	-	-
5	Of which the advanced IRB (AIRB) approach	-	-	-
6	**Counterparty credit risk - CCR**	**-**	**-**	**-**
7	Of which the standardised approach	-	-	-
8	Of which internal model method (IMM)	-	-	-
EU 8a	Of which exposures to a CCP	-	-	-
EU 8b	Of which credit valuation adjustment - CVA	-	-	-
9	Of which other CCR	-	-	-
10	Not applicable	-	-	-
11	Not applicable	-	-	-
12	Not applicable	-	-	-
13	Not applicable	-	-	-
14	Not applicable	-	-	-
15	**Settlement risk**	**-**	**-**	**-**
16	**Securitisation exposures in the non-trading book (after the cap)**	**-**	**-**	**-**
17	Of which SEC-IRBA approach	-	-	-
18	Of which SEC-ERBA (including IAA)	-	-	-
19	Of which SEC-SA approach	-	-	-
EU 19a	Of which 1250%/ deduction	-	-	-
20	**Position, foreign exchange and commodities risks (Market risk)**	**-**	**-**	**-**
21	Of which the standardised approach	-	-	-
22	Of which IMA	-	-	-
EU 22a	**Large exposures**	**-**	**-**	**-**
23	**Operational risk**	**68,329,079**	**66,552,165**	**5,466,326**
EU 23a	Of which basic indicator approach	68,329,079	66,552,165	5,466,326
EU 23b	Of which standardised approach	-	-	-
EU 23c	Of which advanced measurement approach	-	-	-
24	**Amounts below the thresholds for deduction (subject to 250% risk weight) (For information)**	**-**	**-**	**-**
25	Not applicable	-	-	-
26	Not applicable	-	-	-
27	Not applicable	-	-	-
28	Not applicable	-	-	-
29	**Total**	**1,449,894,154**	**2,357,063,582**	**115,991,532**

The solvency ratio for the two previous years are detailed below, together with the total available own funds and the regulatory capital requirements. The Bank does not have additional Tier I capital or Tier II capital. As of 31 December 2023, the Bank's solvency ratio amounted to 22.97%, above the regulatory and internal limits.

Table 4.4

Solvency ratio:

	Dec-22	Dec-23
Total Available Own Funds	544,519,903	333,101,870
Regulatory capital requirements	185,565,086	115,991,532
Solvency Ratio (Pillar I)	**23.10%**	**22.97%**

Following the SREP assessment, the Bank has to hold own funds in excess of the capital requirements set out in the article 92 (1) of Regulation (EU) N° 575/2013 (CRR) and Part II Chapter 5 of the LFS. Therefore, the Bank must meet at all times a TSCR (Total SREP capital requirement) of 9.25% of the Bank's Total risk exposure amount (TREA). Of these 9.25% of TREA, 8% of TREA represent own funds required as specified in the article 92 (1) CRR and 1.25% of TREA represent the additional own funds to address risks other than the risk of excessive leverage further to the article 53-3 LSF, to be held in the form of 56,25% CET1 capital and 75% of Tier 1 capital as a minimum.

The TSCR is then summed to the combined buffer requirement set for the Bank at 2.5% of TREA corresponding to the capital conversation buffer as defined in the article 59-5 LFS. As a consequence, the overall capital requirement (OCR) is 11.75%. The internal limit is set at 13%.

Leverage ratio

The leverage ratio (LR) has been introduced by the Basel Committee and implemented in the European regulatory framework to serve as a simple, transparent and non-risk-based ratio to complete the existing risk-based capital requirements.

The leverage ratio is defined as the capital measure (the numerator) divided by the exposure measure (the denominator), expressed as a percentage.

While the capital measure for the leverage ratio is the Tier 1 capital taking account transitional arrangements, the total exposure measure corresponds to the sum of the following exposures: on-balance sheet exposures; derivative exposures; securities financing transaction (SFT) exposures; and off-balance sheet items. As the Bank has not entered into any derivative exposures or securities financing transactions as of 31 December 2023 only on-, and off-balance sheet expsoures are considered.

The management of the risk of excessive leverage figures in the scope of duties of the Bank's ALCO in which it can be discussed and handled.

As of 31 December 2023, the Banks' leverage ratio amounted to 18.55% as mentioned in the template EU KM1. The internal limit is set at 6% and the regulatory limit is 3%.

4.3. Internal capital adequacy assessment process

Method

The Internal Capital Adequacy Assessment Process (ICAAP) aims to summarize the risk exposure of Banco Bradesco Europa S.A. and to evidence that the Board of Directors of the Bank has identified and assessed the major sources of risks to which the Bank might be exposed and the approach to mitigate these risks.

In order to maximize value, the Authorized Management of the Bank established a strategy and objectives to strike an optimal balance between growth and return with the associated risks.

Stress tests

Stress tests are used to analyze the impact of stressed events on the capital of the Bank over a time horizon of three years. The objective of this assessment is to ensure that the Bank's risk mitigation controls, capital and the capital contingency plan can withstand the consequences of a high-impact low-likelihood event.

The Bank performed integrated stress tests integrating capital assumptions and covering the following 3 scenarios:

- a idiosyncratic scenario;
- a systemic scenario;
- a combination of the two.

Calculation

The internal capital represents the amount of capital that the Bank considers sufficient to operate with in relation to the risks it faces. Internal capital has been estimated as the sum of the regulatory capital requirement (Pillar I) and the capital requirement (Pillar II) for the risks partially or not comprised in the regulatory capital, including the results of the stress tests.

5. Credit risk process, measurement and control

5.1. Credit risk overview

The Bank defines the credit risk as the risk that a financial obligation to the Bank will not be paid and a loss will occur. Credit risk arises anytime funds are extended or advanced, committed, invested or otherwise exposed through actual or implied contractual agreements, whether reflected on or off the balance sheet.

Credit risk capital requirement has been considered in the sense of the CRR. The Bank uses the standardized approach for the calculation of regulatory capital requirement covering credit risk. The application of risk weights is based on the exposure class to which the exposure is assigned and its credit quality.

5.2. Credit risk management process

The lending activities are carried out according to the credit policies of the Bradesco Group. The credit evaluation process and risk grading system are centralized in the Parent Company office in Brazil observing the guidelines of the banking supervisory authorities and market practices.

The credit risk grading system supports the establishment of parameters for granting credit, managing risk and defining credit policies adequate to the client's specific characteristics and size. Also, it provides a basis for the adequate pricing of operations and for establishing the appropriate level of guarantees for each situation. Client risk ratings are established on a corporate basis and are permanently reviewed to monitor the quality of the credit portfolio. All credit transactions are subject to the prior approval of the Parent Company's Credit Committee and ratification by the local Credit Department, Credit Commission and Authorized Management depending on the loan characteristics. The regulatory maximum exposure limit to any individual borrower or economic group is monitored on a permanent basis.

The Authorized Management acknowledges the existence of counterparty risk for interbank placements through the initial choice of counterparties and the systematic establishment of counterparty limits to reflect periodic changes in counterparty risk. Regarding short-term money market transactions, the Bank only deals with a limited number of counterparties with a recognized reputation and financial standing.

Overall, counterparty risk is considered non-significant as the Bank does not have a trading book and have a very limited and non significant position in derivative instruments.

The Bank has not transferred any credit risks by means of securitisation vehicles or derivative instruments.

5.3. Credit risk measurements

The Bank has extended its accounting standards by integrating the IFRS 9 standards, which includes the implementation of the IFRS 9 framework on impairment. For the identification of "impaired" assets, the Bank applies the definition of "credit-impaired financial assets" as defined in Appendix A of the IFRS 9 standards:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;

- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

To determine credit risk adjustments, the Bank implemented an "Expected Credit Loss" model, based on the default probabilities of its counterparties and the loss given defaults and exposure at default of the asset.

The capital requirement (Pillar I) for credit risk amounted to USD 110,525,206 at the end of December 2023.

The Bank's credit risk taxonomy is aligned with the regulatory requirements and the best pratices in terms of credit risk management. For forborne exposure, the Bank applies the definition and criteria of forbearance led down in the article 47b of the CRR. The template EU CQ1 details the credit quality of forborne exposures as required by point (c) of the article 442 of the CRR and the article 12a of the EBA guidelines on disclosure of non-performing and forborne exposures (EBA/GL/2022/13/10).

Table 5.1

Template EU CQ1 – Credit quality of forborne exposures

		Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
		Performing forborne	Non-performing forborne			On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
				Of which defaulted	Of which impaired				
005	Cash balances at central banks and other demand deposits	-	-	-	-	-	-	-	-
010	Loans and advances	1,228,207	1,228,207	-	-	-8,643	-8,643	-	1,219,564
020	Central banks	-	-	-	-	-	-	-	-
030	General governments	-	-	-	-	-	-	-	-
040	Credit institutions	-	-	-	-	-	-	-	-
050	Other financial corporations	-	-	-	-	-	-	-	-
060	Non-financial corporations	1,228,207	1,228,207	-	-	-8,643	-8,643	-	1,219,564
070	Households	-	-	-	-	-	-	-	-
080	Debt Securities	-	-	-	-	-	-	-	-
090	Loan commitments given	-	-	-	-	-	-	-	-
100	Total	1,228,207	1,228,207	-	-	-8,643	-8,643	-	1,219,564

The Bank considers an asset “past due” when a counterparty has failed to make a payment when that payment was contractually due as defined by the IFRS 9 standards. The template EU CQ3 presents the credit quality of performing and non-performing exposures decomposed by past due days as required by the points (c) and (d) of the article 442 of the CRR and the article 12b of the EBA guidelines on disclosure of non-performing and forborne exposures (EBA/GL/2022/13/10).

Table 5.2

Template EU CQ3 – Credit quality of performing and non-performing exposures by past due days

		Gross carrying amount/nominal amount											
		Performing exposures			Non-performing exposures								
			Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
005	**Cash balances at central banks and other demand deposits**	**161,636,686**	**161,636,686**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
010	**Loans and advances**	**1,183,584,301**	**1,180,275,352**	**3,308,950**	**1,228,207**	**1,228,207**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
020	Central banks	-	-	-	-	-	-	-	-	-	-	-	-
030	General governments	-	-	-	-	-	-	-	-	-	-	-	-
040	Credit institutions	41,821,481	41,821,481	-	-	-	-	-	-	-	-	-	-
050	Other financial corporations	4,423,738	4,423,738	-	-	-	-	-	-	-	-	-	-
060	Non-financial corporations	1,133,683,517	1,130,374,568	3,308,950	1,228,207	1,228,207	-	-	-	-	-	-	-
070	Of which SMEs	-	-	-	-	-	-	-	-	-	-	-	-
080	Households	3,655,565	3,655,565	-	-	-	-	-	-	-	-	-	-
090	**Debt securities**	**97,836,449**	**97,836,449**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
100	Central banks	-	-	-	-	-	-	-	-	-	-	-	
110	General governments	97,836,449	97,836,449	-	-	-	-	-	-	-	-	-	-
120	Credit institutions	-	-	-	-	-	-	-	-	-	-	-	-
130	Other financial corporations	-	-	-	-	-	-	-	-	-	-	-	-
140	Non-financial corporations	-	-	-	-	-	-	-	-	-	-	-	-
150	**Off-balance-sheet exposures**	**344,378,092**			**-**								**-**
160	Central banks	-			-								-
170	General governments	-			-								-
180	Credit institutions	1,553,465			-								-
190	Other financial corporations	-			-								-
200	Non-financial corporations	332,411,317			-								-
210	Households	10,413,310			-								-
220	**Total**	**1,787,435,529**	**1,439,748,487**	**3,308,950**	**1,228,207**	**1,228,207**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

The Bank classifies performing and non-performing exposures using the definition and criteriea defined by the article 47a of the CRR. The template EU CR1 presents the performing and non-performing exposures and related provisions considering the credit staging as required by the points (c) and (f) of the article 442 of the CRR and the article 12c of the EBA guidelines on disclosure of non-performing and forborne exposures (EBA/GL/2022/13/10).

Table 5.3

Template EU CR1 – Performing and non-performing exposures and related provisions

		Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received	
		Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
			Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3			
005	**Cash balances at central banks and other demand deposits**	**161,636,686**	**161,636,686**	-	-	-	-	**-1,710**	**-1,710**	-	-	-	-	-	-	-
010	**Loans and advances**	**1,184,812,509**	**1,180,275,352**	**3,308,950**	**1,228,207**	-	**1,228,207**	**-230,313**	**-229,812**	**-501**	**-8,643**	-	**-8,643**	-	**1,027,253,175**	**1,219,564**
020	Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
030	General governments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
040	Credit institutions	41,821,481	41,821,481	-	-	-	-	-166,327	-166,327	-	-	-	-	-	-	-
050	Other financial corporations	4,423,738	4,423,738	-	-	-	-	-2,149	-2,149	-	-	-	-	-	324,557	-
060	Non-financial corporations	1,134,911,725	1,130,374,568	3,308,950	1,228,207	-	1,228,207	-61,061	-60,560	-501	-8,643	-	-8,643	-	1,024,043,137	1,219,564
070	Of which SMEs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
080	Households	3,655,565	3,655,565	-	-	-	-	-777	-777	-	-	-	-	-	2,885,480	-
090	**Debt securities**	**97,836,449**	**97,836,449**	-	-	-	-	**-174,798**	**-174,798**	-	-	-	-	-	-	-
100	Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
110	General governments	97,836,449	97,836,449	-	-	-	-	-174,798	-174,798	-	-	-	-	-	-	-
120	Credit institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
130	Other financial corporations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
140	Non-financial corporations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
150	**Off-balance-sheet exposures**	**344,378,092**	**344,378,092**	-	-	-	-	**-498,046**	**-498,046**	-	-	-	-		-	-
160	Central banks	-	-	-	-	-	-	-	-	-	-	-	-		-	-
170	General governments	-	-	-	-	-	-	-	-	-	-	-	-		-	-
180	Credit institutions	1,553,465	1,553,465	-	-	-	-	-6,471	6,471	-	-	-	-		-	-
190	Other financial corporations	-	-	-	-	-	-	-	-	-	-	-	-		-	-
200	Non-financial corporations	332,411,317	332,411,317	-	-	-	-	-451,628	-451,628	-	-	-	-		-	-
210	Households	10,413,310	10,413,310	-	-	-	-	-39,947	-39,947	-	-	-	-		-	-
220	**Total**	**1,788,663,736**	**1,784,126,579**	**3,308,950**	**1,228,207**	-	**1,228,207**	**-904,867**	**-904,366**	**-501**	**-8,643**	-	**-8,643**	-	**1,027,253,175**	**1,219,564**

5.4. Credit risk control

The credit risk resulting from the Bank's activities is mitigated by:

- the issuance of a stand-by letter of credit by the Parent Company for a significant part of the loans granted;
- the credit risk grading system established by the Central Bank of Brazil that supports the establishment of parameters for granting credit, managing risk and defining credit policies adequate to the client's specific characteristics and size;
- the continuously reviewing process of the customer risk rating and the individual borrower or economic group regulatory maximum exposure limit;
- the prior approval of the Parent Company's Credit Committee and the ratification by the local management for credit transactions;
- the use of a Loan-to-value for granting and monitoring purpose of Private banking loans.

The Bank requires collateral in the form of debt securities or fixed term deposits, which are blocked in the accounting system. As a general rule, Private Bank loans are fully collateralized. The collateral consists in securities, equities or term deposits that the client holds with the Bank. Securities given as collateral are valued on a daily basis in order to take into account price risk.

The template EU CQ7 details the instruments and value of the collateral obtained by taking possession as required by the point (c) of the article 442 of the CRR and the article 12d of the EBA guidelines on disclosure of non-performing and forborne exposures (EBA/GL/2022/13/10).

Table 5.4

Template EU CQ7 – Collateral obtained by taking possession and execution processes

		Collateral obtained by taking possession	
		Value at initial recognition	Accumulated negative changes
010	Property, plant and equipment (PP&E)	-	-
020	Other than PP&E	-	-
030	Residential immovable property	-	-
040	Commercial Immovable property	-	-
050	Movable property (auto, shipping, etc.)	-	-
060	Equity and debt instruments	-	-
070	Other collateral	-	-
080	Total	-	-

6. Market risk process, measurement and control

6.1. Market risk overview

Market risk is defined as the risk of potential financial loss due to fluctuations in the markets represented by changes in currency exchange rates or interest rates. The Bank's market risk is identified, measured, mitigated, controlled and reported and is mainly related to Interest rate risk in the banking book (IRRBB) and Foreign-exchange risk.

The IRRBB exposure consists mainly of the risk of a mismatching between the interest rates applied to assets and the interest rates applied to liabilities.

The Bank's exposure to market risk profile is in line with the guidelines established by the governance process, with limits duly monitored independently. All transactions that expose the Bank to market risk are mapped, measured and classified according to probability and magnitude, and the whole process is approved by the governance structure.

6.2. Market risk management process

The market risk management process is conducted in a corporate manner, comprising from business areas to the Board of Directors. It involves diverse areas, with specific duties in the process, thereby ensuring an efficient structure. The measurement and control of market risk is conducted in a centralized and independent manner.

6.3. Market risk measurement

Market risk in the form of IRRBB is measured and controlled by the Bank using stress-tests, EVE and EaR metrics on a monthly basis. Using several methodologies to measure and evaluate risks is of great importance, as they can complement each other and their combination allows the analysis of different scenarios and situations. These metrics are monthly circulated to the Authorized Management and presented on a quarterly basis to the Asset-Liability Committee (ALCO).

As the Bank's balance sheet consists mainly of short term assets funded by short term liabilities which are matched with the assets, the main impact on the economic value of the balance sheet would be caused by a shock on the short term interest rates. A short up shock on the interest rates would decrease the EVE by USD 3,616,581 while a parallel decrease of the interest rates would decrease the EaR by USD 4,973,754.

Foreign-exchange risk is limited on the banking book position as the Bank does not have a trading book. This risk is measured and monitored by the Bank using dedicated metrics such as Economic exposure, FX balance-sheet and FX net results. These metrics are monthly circulated to the Authorized Management and presented on a quarterly basis to the Asset-Liability Committee (ALCO).

6.4. Market risk control

The Bank mainly grants loans with fixed rates which are primarily funded by deposits with fixed maturity. Only a marginal amount of the Banks liabilities are non-maturity deposits, which are assumed to reset on an overnight basis.

The Bank's control over its market risk is achieved by:

- ensuring a matching of the terms and reference interest rates between the loans and the funding of these loans;
- the Authorized Management involvement in every area of the Bank's activities;
- the Treasury Department policies and procedures.

The Bank does not carry out any trading activities and does not have a trading book. Therefore, the Bank does not allocate capital (Pillar I) for market risk exposure.

7. Operational risk process, measurement and control

7.1. Operational risk overview

The Bank has defined the operational risk as the risk of loss resulting from inadequate or failed internal processes, operations, people, and systems or from external events. It is the potential for loss that arises from problems with operating processes, human error or omission, breaches in internal controls, fraud or unforeseen catastrophes.

7.2. Operational risk management process

The Authorized Management monitors the operational risk, based on a common set of established rules and procedures which are followed closely when dealing which each type of operational activity.

7.3. Operational risk measurement

The operational risk capital requirement has been considered by the CRR. The Bank applies the Basic Indicator Approach (BIA) for operational risk. The gross income indicator has been calculated based on accounting values for the last three years. The Bank has decided to adopt a prudent approach by using a 15% indicator for all of its exposure.

The capital requirement (Pillar I) for operational risk amounted to USD 5,466,326 at the end of December 2023.

7.4. Operational risk control

The operational risk resulting from the Bank's activities is mitigated by:

- the close involvement of the Authorized Management in the Bank's daily activities;
- the segregation of duties and the systematic application of the four-eyes principle;
- the establishment of a three lines of defence model;
- the existence of internal controls established by Authorized Management;
- the establishment of policies and procedures;
- the follow-up of incidents and corrective action plans;
- the establishment of a robust Business Contingency Plan (BCP).

8. Liquidity risk process, measurement and control

8.1. Liquidity risk overview

Liquidity risk is defined as the current or prospective risk arising from an institution's inability to meet its liabilities/obligations as they come due without incurring unacceptable losses.

As part of the Bank's liquidity risk identification, three sub-types of risks related to liquidity risk have been identified:

- **Asset liquidity risk**: risk of loss arising from an inability to convert assets into cash at carrying value in order to meet obligations. This risk occurs when the Bank is unable to sell or transform its assets into cash without significant losses.
- **Funding liquidity risk**: risk of loss stemming from an inability to access unsecured funding sources at an economically reasonable cost in order to meet obligations. This risk appears when the Bank cannot fulfil its payment obligations because of an inability to obtain new funding.
- **Joint asset/funding liquidity risk**: risk of loss that occurs when funding cannot be accessed and assets cannot be converted into cash in order to meet obligations.

8.2. Liquidity risk management process

The Bank has a robust liquidity risk management framework providing prospective, dynamic cash flow forecasts that include assumptions on the likely behavioral responses of key counterparties to changes in conditions and are carried out at a sufficiently granular level. The Bank makes realistic assumptions about its future liquidity needs for both the short- and long-term that reflect the complexities of its underlying businesses, products and markets. The Bank analyses the quality of assets that could be used as collateral, in order to assess their potential for providing secured funding in stressed conditions. In the meantime, the Bank attempts to manage the timing of incoming flows in relation to known outgoing sources in order to obtain an appropriate maturity distribution for its sources and uses of funds.

In estimating the cash flows arising from its liabilities, the Bank assesses the "stickiness" of its funding sources, using renewal assumptions, that is, their tendency not to run off quickly under stress. In particular, for large wholesale funds providers, both secured and unsecured, the Bank assesses the likelihood of roll-over of funding lines and the potential for fund providers to behave similarly under stress, and therefore consider the possibility that secured and unsecured funding might dry up in times of stress.

Renewal assumptions are defined for the following products:

- checking accounts (retail and corporate);
- time deposits (retail and corporate);
- time deposits, vostro, Parent Company funding (financial institutions).

Therefore, asset-liability gap management is important for an effective management of liquidity risk. A Bank might have stable funding and/or asset liquidity sources, but it must still manage the gap between the two if it intends to create a robust liquidity plan. In order to achieve this goal, the Bank has developed an internal monitoring tool, which allows an overview on expected outflows and inflows over different time buckets. This provides to the Bank prospective, dynamic cash flow forecasts that include assumptions on the likely behavioural responses. The Bank can therefore identify future liquidity gaps and plan necessary actions to raise additional liquidity if needed over a period of 3 years.

The monitoring tool assesses the liquidity needs under normal conditions (regular process) based on the known inflows and outflows which results in the liquidity gap. For the positions without contractual maturity, renewal assumptions are being used which allows the Bank to calculate renewals of inflows and outflows resulting in projected liquidity gaps.

These projections are split by maturity, according to the following maturity ladder:

- below 1 year: monthly buckets from 1 month to 12 month;
- above 1 year: annually buckets (2 years and long term).

This cash-flow projection, issued on a monthly basis, is discussed during the ALCO and can be used in the context of the structural liquidity discussion, with the Parent Company.

8.3. Liquidity risk measurement

High Quality Liquid Assets (HQLA)

HQLA (Liquidity buffer) are assets that maintain their market liquidity in periods of stress and that meet the minimum requirements established by the CSSF, such as, among others, being free of any legal impediment or restriction; suffering little or no loss in market value when converted into cash; having a low credit risk; easy and accurate pricing; and being traded in an active and important market, with little difference between the purchase and sale price, high traded volume and a large number of participants. These assets are subject to weighting factors which may reduce their value, for example in accordance with the risk rating of their issuer or the historic variation in their market price, among other requirements.

Liquidity Coverage Ratio (LCR)

The Liquidity Coverage Ratio (LCR) is designed to ensure that the Bank maintains a sufficient level of liquid assets to cover liquidity needs in an eventual stress scenario. The LCR is the ratio between the stock of High Quality Liquid Assets (HQLA) and the total net cash outflow (cash outflows – cash inflows), calculated based on a generic stress scenario, cash inflows being limited to 75% of the cash outflows.

In accordance with the LCR implementation schedule, the level of the ratio between high quality liquid assets and total net cash outflows must comply with the 100 % regulatory limit.

Table 8.1

Liquidity Coverage Ratio in 2023:

Quarter ending on:	Mar-23	Jun-23	Sep-23	Dec-23
Liquidity Buffer	102,066,227	102,571,022	105,132,390	105,734,714
Total Net Cash Outflows	48,385,320	33,139,231	34,354,975	55,131,271
Liquidity Coverage Ratio (%)	**210.94%**	**309.52%**	**306.02%**	**191.79%**

The stress scenario parameterization was conducted by the Regulator to capture idiosyncratic and market shocks, considering a period of thirty days. The items below show some of the shocks included in the methodology:

- the partial loss of retail and uncollateralized wholesale funding, as well as short-term funding capacity;
- the additional outflow of funds, contractually foreseen, due to the downgrading of the institution's credit rating by up to three levels, including eventual additional collateral requirements;
- an increase in the volatility of factors that impact collateral quality or the potential future exposure of derivative positions, resulting in the application of larger collateral discounts, a call for additional collateral or other liquidity requirements;
- withdrawals of higher than expected amounts from credit/liquidity lines granted; and the potential need to repurchase debt or honor non-contractual obligations in order to mitigate reputational risk.

Net Stable Funding Ratio (NSFR)

The Net Stable Funding Ratio is defined as the amount of available stable funding (ASF) relative to the amount of required stable funding (RSF). The ASF is defined as the portion of capital and liabilities expected to be reliable over the time horizon considered by the NSFR, which extends to one year. The regulatory limit is 100%.

Table 8.2

Net Stable Funding Ratio in 2023:

Quarter ending on:	Mar-23	Jun-23	Sep-23	Dec-23
Available Stable Funding	1,309,755,163	1,137,319,762	1,087,898,493	896,582,121
Required Stable Funding	1,078,709,817	848,257,432	722,522,922	710,051,038
NSFR (%)	**121.42%**	**134.08%**	**150.57%**	**126.27%**

Cash outflows and inflows

Cash outflows are the result of a reduction in deposits and funding; the maturity of securities issued; scheduled contractual obligations for the next 30 days; margin adjustments and calls in derivative operations; the utilization/withdrawal of credit and liquidity lines granted by the Bank; and contingent cash outflows.

Cash inflows for the next thirty days correspond to the expected receipt of loans and financings, deposits, securities, and margin adjustments and easing in derivative operations.

Stress tests

Stress tests are used to analyze the impact of stressed events on the liquidity of the Bank over a time horizon of three years. The objective of this assessment is to ensure that the Bank's risk mitigation controls, liquidity and the liquidity contingency plan can withstand the consequences of a high-impact low-likelihood event.

The Bank performed integrated stress tests integrating liquidity assumptions and covering the following 3 scenarios:

- a idiosyncratic scenario;
- a systemic scenario;
- a combination of the two.

Internal liquidity calculation

Following the EBA guidelines "Guidelines on ICAAP and ILAAP information for SREP purposes" (EBA/GL/2016/10), the Bank decided to issue on an annual basis an ICLAAP report that describes the Internal Capital & Liquidity Adequacy Assessment Process (ICLAAP). Internal liquidity is estimated as the required liquidity buffer for the liquidity risks partially or not comprised in the regulatory capital, including the results of the stress tests. ICLAAP aims to summarize the risk exposure of Banco Bradesco Europa S.A. and to evidence that the Board of Directors of the Bank has identified and assessed the major sources of risks to which the Bank might be exposed and the approach to mitigate these risks.

8.4. Liquidity risk management objectives and policies

Strategies and processes in the management of the liquidity risk:

The Bank's objective is to retain sufficient liquidity at all times and in all circumstances to withstand a sustained stress environment without any change to its business. Funding needs are assessed on a daily basis taking into consideration the existing and forecasted on and off-balance sheet transactions. The Bank has implemented and continuously enhances the Bank's liquidity risk management framework in order to ensure and maintain a sufficient liquidity buffer. The inherent structure of the balance sheet reduces also the liquidity risk. The major part of "loans and advances" have a short duration and use to be balanced with a funding with a similar tenor.

Structure and organisation of the liquidity risk management function (authority, statutes, other arrangements):

The Bank set up an internal governance rule to closely monitor the LCR on a daily basis and the NSFR on a quarterly basis. Every morning, the Accounting Department computes the daily LCR and the forecast for the coming three days. Based on internal limits and KRIs, the Bank takes the necessary measures to restore an appropriate liquidity position if needed. Together with Treasury and under the supervision of the Chief Risk Officer and the Authorized

Management, it can be decided to roll some deposits or to increase some placement in order to be compliant with the internal limit.

Scope and nature of liquidity risk reporting and measurement systems:
The LCR monitoring is performed on a daily basis and is calculated for the following three days. Results and forecasts are then sent to the Accounting Department, the Loans Department, the Treasury Department, the Chief Risk Officer, the Authorized Management and the Parent Company. Internal limit has been set up at 110% with an early warning limit at 130%. In addition, on a daily basis, the Treasury Department prepares a report with the overview of the cash situation of the Bank, and submits it to the Authorized Management to monitor the positions.

The NSFR monitoring is performed on a monthly basis. The results are communicated to the Treasury Department, the Chief Risk Officer, the Authorized Management and the Parent Company. Internal limit has been set up at 105% with an early warning limit at 115%.

Policies for hedging and mitigating the liquidity risk and strategies and processes for monitoring the continuing effectiveness of hedges and mitigants:
The Bank ensures an appropriate match between maturities on the asset and the liability side. Loans and advances are balanced with deposits (mainly deposits from credit institutions) on the same maturity. In addition, the Bank can have access to a large buffer of liquidity from the Group which is largely sufficient to cover unexpected outflows under stress conditions. Due to the size of the Group, any liquidity gap at the level of Banco Bradesco Europa S.A. would represent a marginal part of the total liquidity buffer of the Group.

A declaration approved by the management body on the adequacy of liquidity risk management arrangements of the institution providing assurance that the liquidity risk management systems put in place are adequate with regard to the institution's profile and strategy:
The Board of Directors of the Bank ensures that the liquidity risk management arrangements are adequate with regards to the Bank's strategy and profile.

A concise liquidity risk statement approved by the management body succinctly describing the institution's overall liquidity risk profile associated with the business strategy:
During the course of 2023, the Bank's LCR always remained above the internal limit set up at 110% and as a consequence above the regulatory limit of 100%. The monitoring of the regulatory liquidity ratio is completed by an operational monitoring performed by the Treasury Department on a daily basis with the overview of the cash situation and its forecast for 30 days, providing a comprehensive view to the Bank. The Board of Directors confirms that the regulatory limit, detailed above, never breached during the course of 2023.

Regarding the NSFR, the Bank did not breach the internal and regulatory limits in 2023. Those elements confirm that the Bank, sticking to its strategy, continuously manages to retain sufficient liquidity and always meets its financial obligations.

9. Remuneration policy

The Remuneration policy has been approved by the Board of Directors on 27 March 2023 and established in line with the law of 23rd July 2015transposing the 2013/36/EU (EBA/GL/2021/04) into national law as well as takes into account the CSSF circular 22/797, dated June 31st of January, repealing CSSF circular 11/505 and CSSF Circular 17/658 and adopting the final Guidelines published by the European Banking Authority (hereafter “EBA”) on 2 July, 2021, hence EBA/GL/2021/04.

In addition to the above-mentioned legal scope, the Remuneration policy takes into account the following additional legal requirements:

- article 38-6 (2) of the Law of 5 April 1993 and law of 20 May 20 2021, transposing the Directive 2019/878/EU (CRD V) in Luxembourg Law on the application of the proportionality principle;
- CSSF circular 15/622 on the procedure of notification to a higher 1:1 ratio as defined under article 19, 7°, point g) of the law of July 23rd, 2015;
- CSSF circular 14/585, with regards to ensuring that remuneration policies and practices are aligned with conflict of interest and conduct of business obligations;
- directive 2014/65/EU of the European Parliament and the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU;
- article 38-5 (2) b) LSF and articles 5 and 6 of the (EU) 2021/923 and the article 92(3) of the CRD V with regard to regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile;
- article 450, (EU) No 575/2013, with regards to disclosure requirements.
- article 5 of Regulation (EU) 2019/2088 of 27 November 2019 on Sustainability-related disclosures in the financial services sector (“SFDR”);
- CSSF circular 22/797, with regards to the application of the Guidelines of the European Banking Authority on sound remuneration policies under Directive 2013/36/EU (EBA/GL/2021/04).

9.1. Purpose

The purpose of the Remuneration policy is to set up the remuneration regime compatible with the business strategy, goals, values, long-term interests and with a sound and efficient risk management, which encourages such management and will not lead to an excessive risk taking by the members of the Bank.

Going further, the Policy ensures that practices and procedures are aligned with conflict of interest and conduct of business obligations, taking into consideration its client’s best interests. Furthermore, the Remuneration policy is gender neutral and provides equal opportunities.

In 2023, the Board of Directors was responsible for reviewing general principles of the Remuneration policy, was in charge of the implementation and accuracy of this Policy. The Board of Directors is composed of 5 non-executive members, not remunerated by the Bank.

The Board of Directors ensures a transparent and non-conflicted governance around remuneration and to establish a set of principles and parameters for the Bank, and to oversee its Remuneration policy. The Authorized Management, together with the Head of HR, and with the involvement of the internal control functions, is responsible for the compliance of the Remuneration policy with laws and regulatory framework.

The Chief Risk Officer is closely involved as to ensure that the proposed envelope does not limit the Bank’s ability to strengthen and maintain its capital base. The Remuneration policy is in line with the conservative business strategy, the long-term interests, the underlying values of wealth preservation and sustainable growth.

Periodically external provider is requested to double check and to collect our updates and adaptations.

9.2. Performance assessment

Banco Bradesco Europa S.A. aims to attract, retain and motivate high-qualified professionals and offers remuneration package that are attractive and competitive. The performance criteria include mainly individual qualitative criteria (non-financial – as compliance with the internal rules and procedures and personal behaviour) and collective quantitative components (financial). The individual bonus is based on annual assessment of performances. All members of staff are assessed once a year. The remuneration principles of the Remuneration policy ensure a balance between fixed and variable remuneration to decrease any risk from excessive risk taking.

9.3. Information relating to the bodies that oversee remuneration

The Board members composition overseeing the Remuneration policy of the Board is detailed below:

- Mr. Moacir Nachbar Junior, 7 mandates;
- Mr. Roberto Medeiros Paula, 4 mandates;
- Mr. José Augusto Ramalho Miranda, 3 mandates;
- Mr. Sheico Alexandre Pimenta, 2 mandates ;
- Mr. Guilherme Muller Leal, 6 mandates.

In 2023, there have been held 5 (five) Board meetings.

Banco Bradesco Europa S.A. mandated Deloitte Luxembourg in 2023 in the area of remuneration. In order to carry out a comparative remuneration study on market remuneration practices and practices within Banco Bradesco Europa S.A.

9.4. A description of the staff or categories of staff whose professional activities have a material impact on institutions' risk profile

Applying the principale of proportionality the number of material risk takers are defined according to the 38-5 (2) b) c) i) et ii) LSF Directive (EU) 2019/878 - Art. 92(3) and RTS 2021/923 on 31 December 2023, 9 material risk takers have been identified.

9.5. Information relating to the design and structure of the remuneration system for identified staff

The Internal Control Functions of the Bank assist the Supervisory Body in determining the overall remuneration strategy applicable to the company, having regard to the promotion of effective risk management. The Internal Control Functions will in particular take all necessary measures in order to make the Remuneration policy compliant with laws/circulars/directives, as it may be amended, any further guidelines issued by any authorities and any requirements necessary for healthy and efficient risk management of the activities of the Bank and ensure it does not limit the Bank in strengthening and maintaining its capital base. Moreover, the Internal Control Functions together with Human Resources conduct on a yearly basis the assessment of identified staff who are the staff identified in the material risk takers assessment. The identification process is reviewed by the Authorized Management and validated by the Supervisory Body.

Going further, the Internal Audit Function (outsourced) will periodically (at least on annual basis) carry out an independent audit of the design, implementation and effects of the company’s remuneration policies.

The award of bonuses includes the review by the Chief Risk Officer of the total bonus pools and is taken in consideration for attributions.

At Banco Bradesco Europa S.A, staff in charge of Internal Control Functions are remunerated independently of the activities they have to supervise. Therefore remuneration package of the control functions is not linked to the performance of the business areas they control but will be paid out upon achievement of the objectives linked to their functions.

9.6. Aggregate quantitative information on the identified staff (material risk taker) remuneration

Staff members having a material impact on the Bank's risk profile have been identified under qualitative and quantitative criteria set out under the article 38-5 (2) b) LSF and the articles 5 and 6 of the (EU) 2021/923 and the article 92(3) of the CRD V. Material risk takers have been identified at the level of the Bank.

As such, these categories of staff have been considered as having a material impact on the Banco Bradesco Europa S.A.'s risk profile and therefore are included in the identified staff. The list of identified staff is fixed at 9 as of 31 December 2023.

9.7. The ratios between fixed and variable remuneration

The Bank ensures a balanced ratio between fixed and variable remuneration as to prevent any excessive risk takings with the aim of increasing the variable component.

As of 31 December 2023, the variable remuneration is less than 25% of the fixed remuneration.

Table 9.1

Template EU REM1 - Remuneration awarded for the financial year (in EUR):

			MB Supervisory function	MB Management function	Other senior management	Other identified staff
1	Fixed remuneration	**Number of identified staff**	-	2	-	7
2		**Total fixed remuneration**	-	790,113	-	921,324
3		Of which: cash-based	-	-	-	-
4		Not applicable in the EU				
EU-4a		Of which: shares or equivalent ownership interests	-	-	-	-
5		Of which: share-linked instruments or equivalent non-cash instruments	-	-	-	-
EU-5x		Of which: other instruments	-	215,278	-	214,302
6		Not applicable in the EU				
7		Of which: other forms	-	-	-	-
8		Not applicable in the EU				
9	Variable remuneration	**Number of identified staff**	-	2	-	7
10		**Total variable remuneration**	-	451,172	-	74,755
11		Of which: cash-based	-	-	-	-
12		Of which: deferred	-	-	-	-
EU-13a		Of which: shares or equivalent ownership interests	-	-	-	-
EU-14a		Of which: deferred	-	-	-	-
EU-13b		Of which: share-linked instruments or equivalent non-cash instruments	-	-	-	-
EU-14b		Of which: deferred	-	-	-	-
EU-14x		Of which: other instruments	-	-	-	-
EU-14y		Of which: deferred	-	-	-	-
15		Of which: other forms	-	-	-	-
16		Of which: deferred	-	-	-	-
17	**Total remuneration (2 + 10)**		-	1,241,285	-	996,080

Table 9.2

Template EU REM3 - Deferred remuneration (in EUR):

	Deferred and retained remuneration	Total amount of deferred remuneration awarded for previous performance periods	Of which due to vest in the financial year	Of which vesting in subsequent financial years	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in the financial year	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in future performance years	Total amount of adjustment during the financial year due to ex post implicit adjustments (i.e.changes of value of deferred remuneration due to the changes of prices of instruments)	Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year	Total of amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods
1	**MB Supervisory function**								
2	Cash-based	-	-	-	-	-	-	-	-
3	Shares or equivalent ownership interests	-	-	-	-	-	-	-	-
4	Share-linked instruments or equivalent non-cash instruments	-	-	-	-	-	-	-	-
5	Other instruments	-	-	-	-	-	-	-	-
6	Other forms	-	-	-	-	-	-	-	-
7	**MB Management function**								
8	Cash-based	-	-	-	-	-	-	-	-
9	Shares or equivalent ownership interests	-	-	-	-	-	-	-	-
10	Share-linked instruments or equivalent non-cash instruments	-	-	-	-	-	-	-	-
11	Other instruments	-	-	-	-	-	-	-	-
12	Other forms	-	-	-	-	-	-	-	-
13	**Other senior management**								
14	Cash-based	-	-	-	-	-	-	-	-
15	Shares or equivalent ownership interests	-	-	-	-	-	-	-	-
16	Share-linked instruments or equivalent non-cash instruments	-	-	-	-	-	-	-	-
17	Other instruments	-	-	-	-	-	-	-	-
18	Other forms	-	-	-	-	-	-	-	-
19	**Other identified staff**								
20	Cash-based	-	-	-	-	-	-	-	-
21	Shares or equivalent ownership interests	-	-	-	-	-	-	-	-
22	Share-linked instruments or equivalent non-cash instruments	-	-	-	-	-	-	-	-
23	Other instruments	-	-	-	-	-	-	-	-
24	Other forms	-	-	-	-	-	-	-	-
25	**Total amount**								

9.8. New sign-on and severance payments

In line with the principle of proportionality, the Bank chooses not to disclose specific details regarding new sign-on and severance payments. However, the Bank assures stakeholders that these payments are offered competitively and determined based on market practices and relevant regulations.

Table 9.3

Template EU REM2 - Special payments to staff whose professional activities have a material impact on the Bank's risk profile (identified staff) (in EUR):

		MB Supervisory function	MB Management function	Other senior management	Other identified staff
Guaranteed variable remuneration awards					
1	Guaranteed variable remuneration awards - Number of identified staff	-	2	-	7
2	Guaranteed variable remuneration awards - Total amount	-	451,173	-	74,755
3	Of which guaranteed variable remuneration awards paid during the financial year, that are not taken into account in the bonus cap	-	-	-	-
Severance payments awarded in previous periods, that have been paid out during the financial year					
4	Severance payments awarded in previous periods, that have been paid out during the financial year - Number of identified staff	-	-	-	-
5	Severance payments awarded in previous periods, that have been paid out during the financial year - Total amount	-	-	-	-
Severance payments awarded during the financial year					
6	Severance payments awarded during the financial year - Number of identified staff	-	-	-	-
7	Severance payments awarded during the financial year - Total amount	-	-	-	-
8	Of which paid during the financial year	-	-	-	-
9	Of which deferred	-	-	-	-
10	Of which severance payments paid during the financial year, that are not taken into account in the bonus cap	-	-	-	-
11	Of which highest payment that has been awarded to a single person	-	-	-	-

Table 9.4

Template EU REM4 - Remuneration of 1 million EUR or more per year:

	EUR	Identified staff that are high earners as set out in Article 450(i) CRR
1	1 000 000 to below 1 500 000	-
2	1 500 000 to below 2 000 000	-
3	2 000 000 to below 2 500 000	-
4	2 500 000 to below 3 000 000	-
5	3 000 000 to below 3 500 000	-
6	3 500 000 to below 4 000 000	-
7	4 000 000 to below 4 500 000	-
8	4 500 000 to below 5 000 000	-
9	5 000 000 to below 6 000 000	-
10	6 000 000 to below 7 000 000	-
11	7 000 000 to below 8 000 000	-

Table 9.5

Template EU REM5 - Information on remuneration of staff whose professional activities have a material impact on the Bank's risk profile (identified staff) (in EUR):

		Management body remuneration			Business areas						
		MB Supervisory function	MB Management function	Total MB	Investment banking	Retail banking	Asset management	Corporate functions	Independent internal control functions	All other	Total
1	Total number of identified staff										9
2	Of which: members of the MB	-	2	-							
3	Of which: other senior management				-	-	-	-	-	-	
4	Of which: other identified staff				-	-	-	-	-	7	
5	Total remuneration of identified staff	-	1,241,285	-	-	-	-	-	-	996,080	
6	Of which: variable remuneration	-	451,172	-	-	-	-	-	-	74,755	
7	Of which: fixed remuneration	-	790,113	-	-	-	-	-	-	921,324	

9.9. Description of the ways in which the institution seeks to link performance during a performance measurement period with levels of remuneration

Variable remuneration is a form of compensation linked to risk and therefore tied to performance measures on an individual basis as well as on a collective basis (Bradesco Group and Banco Bradesco Europa S.A.) in accordance to predefined qualitative and quantitative objectives, including financial and non-financial.

For the purpose of determining the non-financial qualitative objectives, a.o. the following criteria shall be considered (as applicable):

- Behavioural:
- Competences;
- Deliverables & Results.

The global amount allocated to the variable remuneration to the Bank depends on the performance of Bradesco Group and Banco Bradesco Europa S.A. Furthermore, the variable remuneration must not limit the Bank's ability to sustainably maintain or recover an appropriate capital base. The overall allocation of variable remuneration will be determined according to the prudential rules and will take effectively into account the exposure to risks for the Bank.

The Bank ensures a balanced ratio between fixed and variable remuneration to prevent any excessive risk takings from increasing the variable component. The total amount of the variable remuneration allocated to a person falling in the present policy's scope may not exceed the maximum of 100% of the fixed remuneration.

Staff shall undertake not to use personal hedging strategies or other countermeasures (such as insurances) that confine or neutralise the risk alignment effects of their remuneration.

Remuneration packages relating to compensation must align with the long-term interests of the institution including performance and clawback arrangements such as situation where staff:

- participated in or was responsible for conduct which resulted in significant losses to the institution;
- failed to meet appropriate standards of fitness and propriety.

The bank shall use specific criteria to:

- evidence of misconduct or serious error by the staff member (e.g. breach of code of conduct and other internal rules, especially concerning risks);
- whether the bank suffers a significant downturn in its financial performance (e.g. specific business indicators);
- whether the bank suffers a significant failure of risk management;
- significant increases in the bank's economic or regulatory capital base;
- any regulatory sanctions, e.g. punitive, administrative, disciplinary or otherwise, where the conduct of the identified staff member contributed to the sanction.

For this purpose, the Supervisory Body has allocated two types of variable remuneration pools:

- Envelope of Bonus Pool for staff (is 35% of the aggregate payroll of December). These employees are eligible for the "Bonus Pool for staff" if they are on the active payroll on 31 December.
- Envelope of Bonus Pool for target staff (is attributed depending on the amount stipulated on the employment agreement based on the business line and function executed by the employee. These employees are eligible for the "Bonus Pool target staff" if they are on the active payroll on 31 March.

The gross amount allocated to each individual staff member consists of a single payment in January and represents between 0 % and 45 % of the salary of the month of December of the concerned member of staff.

Variable remuneration, if any, takes the form of a cash bonus and is paid out in January referring to the previous year.