Socioenvironmental Risk

Socioenvironmental risks correspond to potential damages to natural environment or society caused by an economic activity.

Regarding financial institutions, they are mostly indirect and relate to business relations with suppliers and customers through financing and investments activities.

Social and environmental risk management process counts with a robust governance structure, composed of **committees, policies, norms and procedures** which allows risks to be identified, assessed, mitigated, monitored and reported.

This process complies with *Banco Central do Brasil*'s (Central Bank of Brazil) Resolution 4327 following the relevance and proportionality principles in light of the Organization's financial products complexity and activities profile.

Summary of our Socioenvironmental Risk Norm

The scope of analysis reflects the Organization's Socioenvironmental Risk Norm.

Credit and Loans Operations

I - Projects subject to Equator Principles

It is a voluntary commitment adopted by financial institutions for determining, assessing and managing environmental and social risk in projects.

As a signatory of the Equator Principles, in addition to the Brazilian legislation the Organization requires the application of International Finance Corporation (IFC) Performance Standards on Environmental and Social Sustainability and the World Bank Group Environmental, Health and Safety Guidelines, which include natural resources, impacts on biodiversity, waste, wastewater discharge, air emissions, local communities and other aspects.

In order to comply with Equator Principles, the scope includes the following financial operations supporting new projects, expansions or upgrades of an existing enterprise that results in a material change in output or function:

- Project Finance Advisory Services where total project capital costs are US$ 10 million or more.
- Project Finance with total project capital costs of US$ 10 million or more.
- Project-Related Corporate Loans where all four of the following criteria are met:
    - The majority of the loan is related to a single project over which the client has Effective Operational Control.

- The total aggregate loan amount is at least US$ 100 million.
- Bradesco's individual commitment (before syndication or sell down) is at least US$ 50 million.
- The loan tenor is at least two years.

- Bridge Loans with a tenor of less than two years that are intended to be refinanced by Project Finance or a Project-Related Corporate Loan related to a project.

II - Projects Finance

It is the socioenvironmental risk assessment applied to loans related to new projects, expansions or upgrades of an existing enterprise, where loan amount is at least R$ 150 million.

In real estate projects where loan amount is above R$ 30 million, a socioenvironmental risk assessment is also conducted.

III - Sectorial Projects

It is the socioenvironmental risk assessment applied to loans related to Mining and Pig Iron new projects, expansions or upgrades, where loan amount is at least R$25 million.

IV - Assessment of Pre-existing Risks

It is the socioenvironmental risk assessment applied to credit operations where customers are registered by environmental authorities in its embargoed areas or contaminated sites lists and the proposed credit limit is at least R$15 million.

Additionally, socioenvironmental risk assessment is required for all credit operations where signs of customers' involvement with forced or slave labor are identified.

V - Economic Activities exposed to Socioenvironmental Risk

It is the socioenvironmental risk assessment applied to credit operations related to economic activities with higher exposure to Socioenvironmental Risk. These activities are classified in two groups:

Group 1:

- Arms and ammunition manufacturing and commercialization;
- Radioactive materials manufacturing and commercialization;
- Wood logging and processing, sawmilling, management of forest plantations, furniture manufacturing and forestry harvesters manufacturing;
- Asbestos manufacturing, commercialization and end use;
- Tobacco.

Group 2:

- Airports, railroads, ports and roads;
- Agriculture and cattle ranching;
- Tannery;
- Construction materials manufacturing;
- Energy;

- Hospitals and laboratories;
- Industries (steel, pharmaceuticals, fertilizers, iron, electroplating, dairy products, pulp & paper, pesticides, petrochemicals, textiles and glass);
- Waste management facilities;
- Fishery and aquaculture;
- Oil & gas prospection, exploration, production and transportation;
- Water and wastewater services.

Credit operations related to Group 1 are subject to socioenvironmental risk assessment, where proposed credit limit is at least R$25 million.

Additionally, where proposed credit limit is below R$25 million and potential socioenvironmental risks are identified by commercial areas, credit operations can be sent for socioenvironmental risk assessment.

For Group 2, the same rationale applies. For any proposed credit limit, when potential socioenvironmental risks are identified, credit operations can be sent for assessment.

In case of any credit operation, where signs of illegal activities are identified by commercial areas, a socioenvironmental risk assessment must be requested. Illegal activities include but are not limited to child labor, sexual exploitation and animal trafficking.

VI - Contracting and Monitoring

It is the inclusion of specific environmental and social clauses in the loan documentation of applicable operations. These operations can be incorporated in the socio-environmental risk monitoring portfolio.

Real estate guarantees operations

It is the socioenvironmental risk assessment applied to urban and rural real estate guarantees as described in the Credit and Loans Operations item.

Additionally, rural property with value from R$10 million (liquidity value) and real estate collateral associated with industrial sites, barns containing hazardous materials, urban properties and sites with fuel tanks, regardless of its value, must count with a socioenvironmental risk assessment. When potential socioenvironmental risks are identified in guarantees below R$10 million, a socio-environmental risk assessment can be requested.

Investment operations

It is the socioenvironmental risk assessment applied to Private Equity operations, which involves sectors and amounts as described in the item V - Economic Activities exposed to Socioenvironmental Risk.

Donations and Sponsorship

Given it presents a potential image and reputational risk, transactions involving donations and sponsorship should have a social-environmental risk analysis, according to norm 05.1206 - Donations and Sponsorship.

Suppliers

I - Suppliers marked with Pre-existent Risks

It is the socioenvironmental risk assessment applied for suppliers subject to approval process or with active contracts.

It includes suppliers registered by environmental authorities in its embargoed areas or contaminated sites lists and/or where indications of suppliers' involvement with forced or slave labour are identified.

II - Suppliers with Potential Socioenvironmental Risk

It is the socioenvironmental risk assessment applied for suppliers subject to approval process with BRL 30 MM annual turnover or with active contracts above R$ 30 MM. It includes suppliers performing in the following sectors: construction, printing materials, clothing, wood products, communications, infrastructure equipment, plastic cards manufacturing, information technology equipment, transportation services, surveillance, call center and aircraft and vehicles maintenance.

This document is adapted from the internal Socioenvironmental Risk Norm (05.403) that establishes the socioenvironmental risk management. The norm was updated on 2nd January 2020.

Socioenvironmental Risk Cases

The Organization continuously strengths its socioenvironmental risk assessment processes, improving methodologies and initiatives, highlighting and disseminating the importance of assessing socioenvironmental risks derived from relations with customers and suppliers, aiming to foster business continuity.

In the course of the analysis process for credit proposals and/or contracting of suppliers, the Organization contributes to anticipate risks and to the adoption of actions to mitigate potential socioenvironmental impacts, in collaboration with its business partners. The following case studies demonstrate the Organization´s proactive action as a supporter of sustainable businesses:

I - Hydroelectric Power Plants and Small Hydroelectric Power Plants.

The flooding of agricultural areas is one of the main negative impacts during a hydroelectric power plant project implementation. These areas are key to guarantee communities living conditions and economic activity. In many cases, the one-off financial compensation to each individual dweller is the proposed solution offered by project owners. Eventually this remuneration will not guarantee dwellers´ standard of living overtime, which might represent a threat to the human rights, as described in the article 25 of the

Universal Declaration of Human Rights.

Case 1:

During the assessment of a credit loan related to a hydro power plant installation, the Organization verified the existence of small producers that would had part of their land flooded by the project´s reservoir. In the engagement process with customer to verify project´s socioenvironmental impacts and mitigation measures, we identified an innovative solution that will contribute to maintain dweller´s income generation. Project´s owner proposed that landowners participated in the project as shareholders through a specific purpose society. In this way, landowners with flooded areas will be benefited by project´s profits during the entire lifecycle. By the time of socioenvironmental risk assessment, the Organization certified that the majority of affected dwellers had accepted the proposal. As a result, also by checking mitigation to other risks, the Organization decided to proceed with the credit operation.

Case 2:

In assessing a credit proposal for another hydroelectric power plant, the Organization verified the ongoing support to resettled communities and the regularization of land ownership, among other environmental aspects associated to the project. According to the International Finance Corporation (IFC) Performance Standards on Environmental and Social Sustainability, the Organization and bank´s syndicate visited the project, and acknowledged actions to provide drinking water and improvements on the new houses earmarked for the resettlement. It was confirmed that environmental authorities' requests were fulfilled, contributing to reduce socioenvironmental risks. As a result, the credit was approved.

Case 3:

In 2010, the Organization appraised a loan to a hydroelectric power plant to be constructed in the Brazilian North region. Significant socioenvironmental negative impacts were identified such as siltation of rivers, interferences in indigenous lands, local communities and fauna, as well as degradation of preserved areas. Environmental studies, plans and reports about the project were analyzed, however the Organization did not grant the loan because of the irreversible negative socioenvironmental impacts.

Case 4:

In assessing a loan for a group of small hydroelectric power plants, it was verified that the installation environmental license was expired, the existence of a public civil action against the licensing process, irreversible damages to natural cavities without a permit and the conclusion of environmental studies, as well as the unauthorized vegetation suppression of preserved areas. Based on the identified risks and the weakness of mitigation plans, the Organization did not proceed with the loan.

Case 5:

During the funding analysis of a port terminal was verified: indirect impact on indigenous land, need for relocation of nearby community and impact on archaeological artifacts. Given the potential risks involved, we requested more evidence such as field studies and approvals of authorities, however, it was not presented. If these occurrences are not well managed with good ESG practices, it could lead to Human Rights violation, as described in article 27 of the Universal Declaration of Human Rights. In this way, **Bradesco did not grant the funding for the Project.**

Case 6: Funding not approved

During the funding analysis of a port terminal, it was found that the Project has a conservation unit within its area directly affected, as well having an indirect impact on archaeological sites, the relocation of traditional communities would be necessary and it has direct impact on artisanal fishing areas. Additionally, we identified the existence of a Public Civil Action that contests the environmental licensing process for this project. Such occurrences, if not well managed with good ESG practices, it could lead to Human Rights violation, as described in article 27 of the Universal Declaration of Human Rights. Therefore, Bradesco did not grant funding for this Project.

Case 7: Funding not approved

During the funding analysis of a Small Hydropower Plant (PCH) and its respective transmission line, it was found: indirect impact on archaeological sites and in nearby indigenous communities. Given the potential risks involved, evidence such as field studies and approvals of authorities related to the matter (Indigenous People) were requested, however, it was not presented. We understand that the issue of impact on indigenous land, without consent, may bring serious risks and impacts to the installation and operation schedule of the referred project. Such occurrences, if not well managed with good ESG practices, it could lead to Human Rights violation, as described in article 27 of the Universal Declaration of Human Rights. Therefore, Bradesco did not grant the funding for the Project.

<u>II - Transmission Power Line Project.</u>

Socioenvironmental risks associated to a transmission line are directed linked to its route. Interferences might occur in communities, cultural or archeological heritage. If impact are not properly managed by the application of socioenvironmental best practices, human rights might be put under threat, as described in the article 27 of the Universal Declaration of Human Rights.

Case 1:

In 2017, the Organization assessed a loan for a 1000 km long transmission line, projected to cross 3 states in Brazil´s Northeast region and integrate to the national grid several renewable energy projects under construction. Several risks were identified, such as the presence of traditional former slaves' communities, numerous archeological sites close to the route and crossing of conservation priority areas under Caatinga, Cerrado and Amazon

biomes. During the engagement with customer, we could verify the free, prior and informed consent (FPIC) of the traditional communities during the environmental licensing process. Also, we could appraise the first steps towards a Former Sleve's Communities Environmental Plan which is oriented to actively involve local communities in the planning and implementation measures aimed at recognize and give value to their local culture. Besides, we verified that Human Rights subject had been incorporated in several programs in articulation with municipalities´ initiatives. Considering a robust planning and already developed initial activities related to traditional communities, as well as practical mitigation measures related to other socioenvironmental impacts, the Organization approved the credit operation.

III - Wind Power Project

Although it is considered a low carbon energy, a wind farm construction poses potential risks to the biodiversity. Possible impacts in flying fauna (birds and bats) are already known, mainly when the wind farm is located close to critical habitats. Considering the current high levels of biodiversity loss and species extinction, possible impacts have gained attention from media and society.

Case 1:

When assessing a credit proposal for a new wind farm, the Organization identified risks to the biodiversity generated by its proximity to the ocean. During the engagement process with customer in order to analyze available environmental studies and reports, we found out that the wind farm was not located close to migratory routes or below tide line. Therefore, we evaluated that impacts in flying fauna and in marine turtle's reproduction were properly identified and monitoring, control and mitigation measures were coherently designed. Moreover, it was identified a degraded areas recovery plan to compensate vegetation suppression needed to the project installation. As a result, the Organization identified project´s compliance with environmental authorities and considered biodiversity impacts as medium severity with adequate mitigation measures, consequently proceeding with the financial operation.

IV - Armaments

The economic activity related to the production and trading of armaments is a challenge. On one hand, to guarantee its citizen´s well-being, governments acquire arms and ammunition, among other defense equipment. On the other hand, if armament companies do not count with rigid controls and registration processes, their products might end up associated with crime, terrorism and civil conflict areas. These uses are directly linked to the violation of Human Rights.

Case 1:

In 2016, the Organization analyzed a credit limit for a local company operating in the armament sector. During the due diligence process, it was identified media accusing the use of drones produced by the parent

company in bomb attacks targeting civilians in a conflict zone. We asked the company to provide a statement related to the negative media and details of its selling controlling processes. However, we did not receive satisfactory responses. In light of the identified risk of possible linkage of customer with human rights violations and the unclearness of existent controls, the Organization did not provided the credit line.

V - Other cases.

Case 1:

In assessing a loan for a new port in Brazil under Equator Principles framework, the Organization identified relevant socioenvironmental risks such as a large-scale resettlement, regularization of land ownership and negative impact in the fishery activity. According to the International Finance Corporation (IFC) Performance Standards on Environmental and Social Sustainability, the Organization and bank´s syndicate visited the project, and required a new risk mitigation plan, as well as an improvement in the risk management processes. The entrepreneur fulfilled the request, contributing to reduce socioenvironmental risks and, as a result, the loan was granted.

Case 2:

During the assessment for a loan to be applied in a large shopping center expansion in the Brazilian Northeast region, the Organization identified signs that its site was contaminated. Entrepreneur was required to conduct a study on environmental liabilities. The study was prepared by a specialized consultancy firm and overseen by the Organization. The conclusion indicated a high risk of explosion in several portions of the expansion area. Therefore, decontamination actions were implemented by the entrepreneur and employees and customers' exposition to contamination was avoided. After decontamination, the loan was granted by the Organization.

Case 3:

Regarding the socioenvironmental risk assessment of the supply chain, a highlight is the Organization approach in relation to a strategic supplier that provides document storage services. It was recommended the development of an environmental management system that should include greenhouse gas emissions inventory, reduction plan, utilization of certified paper and water & energy eco efficiency measures. In order to follow the recommendations, the supplier developed an action plan that is overseen by the Organization. These actions contribute to the alignment between suppliers and the Organization´s socioenvironmental practices.

VI - Equator Principles' cases

Case 1

In a funding assessment for a new port in Brazil under the Equator Principles framework, the Organization identified relevant socioenvironmental risks such as large-scale resettlement, regularization of land ownership and negative impact in the fishery activity. According to the performance

standards on Environmental and Social Sustainability of International Finance Corporation (IFC), the Organization and bank´s syndicate visited the project and required a new risk mitigation plan, as well as an improvement in the risk management processes. The entrepreneur fulfilled the request, contributing to reduce socioenvironmental risks and, as a result, the loan was granted. The project is audited annually, and according to the independent consultant, the project has satisfactorily fulfilled with the action plan made during the Equator Principle framework´s due diligence.

Case 2:

During the funding analysis of a wind power complex was observed that the project met the Equator principles scope. Thus was conducted a due diligence project to verify the compliance with the Equator Principles, IFC Performance Standards and the EHS Guidelines for the Eolic sector. In the visit was verified that the client has implemented the environmental basic plan that was required by the project´s license but hadn't an Integrated Management System (IMS) to address the environmental aspects, workers and the community health and safety. Also was observed the need for improvement on the management of degraded areas, solid waste management, workers and community´s health and safety, grievance mechanism among others. Therefore was elaborated an action plan for the project to meet the requirements. The Project is audited annually and was verified that the equator principles have been complied and the action plan proposed are mostly fulfilled and the others are under implementation. So the independent consultant concluded that the Project is complying with the Equator Principles and the IFC Performance Standards.

Case 3:

In a funding assessment for a hydropower plant located on the north of the country, the organization verified that the Project was framed under Equator Principles category A due to its adverse environmental and social impacts, irreversible or unprecedented. The independent consultant highlighted the following impacts: quality and quantity of water resources, climate aspects, deforestation, fauna, road infrastructure, urban structure, economic activities, quality of life of the population, public finance, and archaeological, historical, cultural patrimony. These impacts were addressed in the environmental basic plan of the operational license and the action plan to comply with the Equator Principles and IFC Performance Standards. The Project is audited annually by an independent consultant and in its last report was verified that the Project complies with Equator Principles and the IFC Performance Standards with some point of attention, we highlight the social aspects impacts and water quality that are being addressed by the project action plan.

Investments

In 2010, Bradesco Asset Management (BRAM) become signatory of the Principles for Responsible Investment (PRI), a United Nations (UN) initiative. In 2013, it was initiated an action plan to integrate environmental, social and governance (ESG) aspects in all asset classes. Since 2014, BRAM provides training on responsible investing for its professionals. In the same year, it was developed sectorial methodologies covering variable income and corporate credit, as well as an ESG methodology to analyze public bonds fixed income. Every two years due diligences are completed for brokers and asset management firms working with BRAM. Finally, worth mentioning that BRAM participates in the PRI ESG Practices Brazil Work Group and engages with investee companies in sustainability subject.

For more information, please visit the latest version of our Annual Integrated Report available at www.BradescoRI.com.br.