



Progress Report 2017
Brasilcap Capitalização S/A

Report on progress in advancing Environmental, Social and Governance (ESG) issues during the period August 2017 to July 2018.

Our performance concerning PSI (Principles for Sustainable Insurance) targets is reported in our GRI-compliant Annual Report ([click here to read the complete report](#)). The relevant Principles for Sustainable Insurance (PSI) are shown in brackets in each heading throughout the body of the report.

(PSI 3, 4)



Brasilcap has worked to embed Environmental, Social and Governance (ESG) issues in all processes across the organization. In 2017 we created a Corporate Social Responsibility (CSR) department to strengthen our approach to putting into practice our values and our culture of sustainability.

Metrics are used to assess progress on social and environmental issues as part of our efforts to implement the PSI principles. Among these metrics are the Ethos Indicators, a management tool created by Brazil's Instituto Ethos to support businesses in incorporating sustainability into their business strategies.

The findings from our year-end Ethos Assessment show the progress achieved on the indicators and areas for improvement, which are prioritized and translated into targets to ensure we continue to address and improve on social and environmental indicators. Brasilcap's overall, weighted average score was 5.2 out of 10, improving by 0.5 points from 2016 to 2017.

[Click here to learn more about the Ethos Indicators tool.](#)

We also implement Global Reporting Initiative (GRI) guidelines and disclosures in developing our Annual Report.

Our approach to embedding Environmental, Social and Governance (ESG) issues in our processes follows a strategy we have established to achieve progress on social and environmental responsibility.

As discussed in our previous reports, Brasilcap uses five primary sources of reference to underpin our Social Responsibility initiatives:



(PSI 1, 2, 3 and 4)

Below we present our Statement from the CEO and Materiality Matrix

“(...) **Statement from the CEO**

Of one thing we were certain as 2017 came to a close: Brasilcap had become stronger in a year that proved to be extremely challenging for the entire premium bond segment. Despite the complex macro-economic environment, in which economic activity combined with lower inflation led to a reduction in interest rates and affected the broader financial market, we remained successful in delivering our business strategy. Significantly, product sales outside Banco do Brasil (BB) rose to R\$ 438.5 million, up 31.6% from the previous year.

Cap Fiator is a case in point of how our expansion has become a reality. In 2017, 64 new partners began selling the product, which provides tenants with a quick and easy-to-use replacement for guarantors when leasing real estate. The market-leading lease bond product generated total revenues of R\$ 96.2 million, an increase of 85.2% compared with 2016.

The challenges in the year demanded hard work, talent and dedication to keep Brasilcap on a path of growth. In June we launched *Ourocap Negócios*, a bond product for business customers. In just 20 days, the product exceeded R\$ 120 million in sales, demonstrating a positive response from the business segment and the strength of the BB brand. And speaking of *Ourocap*, in March we launched new bond purchase, redemption and cancellation features on the BB smartphone app, as part of our efforts to improve relations with our 3.7 million customers.

And there's more to report for the year. Brasilcap was recognized as “Brazil's Top Premium Bond Company” by the newspaper *O Estado de São Paulo* in its annual *Finanças Mais* and *Empresas Mais* ranking lists. *Valor Econômico*, in its *Valor 1000* list, named Brasilcap “The Largest Premium Bond Company in Brazil”. The two publications compiled a range of economic and financial indicators that placed Brasilcap at the top of their rankings. We were also presented with a Corporate Citizenship Certificate by the Rio de Janeiro State Regional Accounting Board (CRCRJ) for the seventh year in a row. These are all significant achievements that attest to our leading position when it comes to innovation and sustainability in premium bond solutions.

The result of a collective effort, this Report draws inspiration from the *Rio Mais Brasil* musical we sponsored in 2017. Addressing the subject of Brazilian diversity through music, the play has much in common with Brasilcap, a Company that has helped to introduce a culture of financial discipline across all regions of Brazil. We are proud to have supported artistic expression in yet another year. This report builds further on efforts to implement our sustainability strategy and to raise awareness and increase knowledge about environmental, social and governance (ESG) issues. Our goal is to continue to find solutions for all our impacts as prescribed by the Principles for Sustainable Insurance (PSI), of which we are signatories.”

Value Chain (PSI 1 / PSI 2 / PSI 3)

Brasilcap's value chain comprises our stakeholders, our processes, and interactions between stakeholders. It is described in our Annual Report 2017, which is available on our [website](#).

Our Guiding Principles (PSI 1 / PSI 3)

The following are the guiding principles through which we seek to achieve business sustainability and the satisfaction of our stakeholders.

Mission

To provide premium bond solutions helping people and businesses to achieve their goals

Vision

To help improve people's lives through premium bonds, to be a reference in our segment, and to contribute to the sustainable development of society

Values

Adaptability • Commitment • Excellence • Innovation

Materiality (PSI 2 / PSI 3 / PSI 4)

In 2017 we continued to use the same Materiality Matrix – produced from a stakeholder survey exercise in 2015 – to inform our selection of priority performance indicators for the Company.

Out of a total of 29 issues, 13 were selected as being most material and significant.

Material topics:

- 1 - Economic performance
 - 2- Market presence and regulatory risks
 - 3- Improving corporate governance
 - 4- Cross-functional integration
 - 5- Workplace engagement and productivity
 - 6- Financial and Bond Education
 - 7- Indirect economic impacts
 - 8- Government relations
 - 9- Working conditions, including health & safety
 - 10- Anti-corruption
 - 11- Transparency and accountability
 - 12- Labor practices
 - 13- Protecting human rights
- (...)"

In accordance with PSI 3, in addition to subscribing to global pacts and other initiatives, we have continued to work with governments, regulators and organizations in the premium bond industry through the different committees of which we are members at the Brazilian Private Insurance Authority (SUSEP), the Brazilian Insurers' Confederation (CNSeg) and the Brazilian Premium Bond Federation (FENACAP).

Our membership of the Sustainability and Innovation Committee within the Brazilian Insurance Confederation is especially strategic as it allows us to share experience and collaborate in designing industry initiatives to implement the Principles for Sustainable Insurance (PSI).

Sustainable Development Goals (SDGs) (PSI 1 / PSI 2 / PSI 3)

We contribute to achieving the Sustainable Development Goals by supporting social and environmental programs and producing content on the internet and social media to promote the SDGs.

We embed sustainability principles into our communications (PS4)

The content we produce for external stakeholders includes exclusive posts on our social media channels to raise awareness among the general public about the importance of sustainable practices, and to communicate the social and environmental projects we support. Visit our [Facebook](#) page and [Zero Perrengue](#) blog.

To provide greater clarity about how ESG issues are integrated into our processes and routines, we use an ESG stamp in articles posted on our online intranet news site.

The stamp indicates whether the news article is related to one or more sustainability issues. The letter "A" is highlighted for environmental issues, "S" for social issues, and "G" for governance issues. Of course, a given article can address more than one issue and therefore stamps with two and even all three letters highlighted are available.



Code of Ethics and Ethics Channel (PSI 1 / PSI 3)

Brasilcap's Code of Ethics was revised in 2017. The new version has made the Code more objective and easy to understand, yet without detracting from good governance practices and applicable laws and industry regulations.

An organization-wide consultation was conducted to discuss the wording of the Code; employees had the opportunity to provide feedback about key issues and submit any questions before final approval by Senior Management. The topics covered in the Code range from employees' commitment to Brasilcap's Values and supporting a fair and ethical work environment, through our relations with external stakeholders, to issues such as money laundering, conflict of interest and fraud.

Our suppliers are also required to sign an affirmation form in which they undertake to comply with the requirements in the new Code.

A new Ethics Channel was also implemented to receive reports about conduct in violation of our ethical principles and/or applicable law. Read more in our [Annual Report](#).

Internal committees investigate cases deemed material in a process that is documented at each stage. All reports received in 2017 were handled appropriately.

Risk Governance (PSI 1 / PSI 2/ PSI 3)

In addition to best practices recognized for the premium bond market and for the broader financial services industry, Brasilcap's risk management approach includes segregation of duties (business x risk), collegiate decision making, and specific risk management policies and standards.

In 2017, work was done to improve our processes for compliance with new requirements established by SUSEP regarding the key risks involved in the premium bond industry: underwriting risk, credit risk, operational risk and market risk.

Two risk management highlights were especially relevant in the year: the initial activities of our Risk Committee, which advises the Board of Directors, and the development of a formal Risk Management Policy.

The Committee includes Brasilcap's CEO, our Financial, Risk & Compliance Officer, and our Risk Manager, as well as external members representing shareholders.

The risk management team structure was revisited and expanded in the year, and has been better segregated from business functions.

Our environmental and social risks are mapped using a Control Self-Assessment (CSA) and the principles laid down by the COSO (Committee of Sponsoring Organizations of the Treadway Commission, a private US organization created to prevent fraud in companies' internal procedures and processes). Our most recent assessment was conducted in October 2017.

Corruption risks are identified and assessed as part of an Operational Risk Self-Assessment Cycle. We plan to complete the assessment in the first half of 2018, at which time a matrix of residual risks will be submitted to Senior Management and the Risk Management Committee for validation.

In 2018, work will continue on evaluating controls, identifying gaps and, if necessary, developing action plans.

Brasilcap's Internal Controls and Corporate Risk functions work together to review business-critical risks, processes and controls.

Internal controls and compliance activities are continually assessed by Internal Audits, Independent Audits and the Brasilcap Audit Committee.

All transactions within the organization are assessed for risks related to corruption.

Risk self-assessments within the company use a scale of Critical, High, Medium or Low. In the corruption risk assessment conducted in October 2017, a total of 16 risks were identified and included in our risk matrix, including: 4 High Risks, 7 Medium Risks and 5 Low Risks.

Online Anti-Corruption Training (PSI 1 / PSI 3)

Brasilcap launched an Online Anticorruption Training program in 2017 to provide employees with guidance on Brazil's Anti-Corruption Act and pointers on how to ensure we adhere to the highest standards of integrity, compliance and transparency in our business conduct, mitigating the risk of being implicated in corruption violations.

The percentage of employees trained on anticorruption procedures was 97% at year-end 2017, and 100% as of July 2018.

Procurement, Assets and Suppliers (PSI 1 / PSI 2 / PSI 3)

Our standards enhance compliance with the principles of conduct outlined in our Code of Ethics, Anti-corruption Policy, related standards, ESG requirements, and applicable laws and regulations.

Any contract exceeding R\$500,000 requires an opinion from our Corporate Social Responsibility Department after consulting our Green Book, a set of legal and best-practice guidelines applying to the products and services we use.

Available on the intranet, Brasilcap's Green Book provides guidance based on standards, regulations and best practice to support, inspire and encourage employees to be proactive and investigative in their procurement activities. It is also designed to minimize potential business disruption from environmental, social and economic impacts and to protect the Brasilcap brand and reputation.

Our procurement processes are regularly audited by an independent firm.

We have received no reports of procurement practices causing or contributing to negative impacts on the supply chain, and mitigating these risks is also included as a contractual requirement.

Brasilcap dialogues with suppliers in the process of formalizing agreements, which include provisions under which suppliers undertake not to employ workers under the age of 18 (eighteen) in nighttime or hazardous work or workers under the age of 16 (sixteen) in any work other than as permitted by law.

It is a practice at Brasilcap to procure minor services and products (electronics/accessories and office materials in general) from suppliers near our offices in the city center. This benefits a number of medium- and small-sized businesses.

**Environmental Management 2017 (PSI 1 / PSI 3)**

In 2017 our Greenhouse Gas (GHG) emissions from air travel and third-party commuting services were a total of 201.82 metric tons of carbon dioxide equivalent (mtCO²).

Compared with 2016 (251.37 mtCO²), our GHG emissions declined by 19.7% as a result of awareness-raising initiatives addressed to our Sales team, the biggest users of transportation services. To offset our CO² emissions from commuting, 1,239 trees were planted in the second quarter of 2018 based on calculations done in a study by the Luiz de Queiroz School of Agriculture (ESALQ).

Our overall GHG emissions in 2017 were again neutralized by planting trees in partnership with NGO SOS Mata Atlântica.

Our commitment to plant 1,542 seedlings in 2017 was postponed to 2018 due to climate issues. The seedlings were planted in Fazenda Santanna, in the municipality of Aparecida (SP), as part of the Aparecida Sanctuary Program, which is restoring a deforested area in Vale do Paraíba.

In 2017, total energy consumption by third-party commuting services suppliers was 8,879.587 GJ. We were unable to segregate between renewable and nonrenewable fuel consumption as this information was unavailable from our suppliers (taxi cooperatives). To ensure our performance continues to improve, we have committed to enhancing and expanding our suppliers' participation in tracking consumption in 2018.

In 2017 we launched an Environment Program to address natural resource and material efficiency at the workplace and other environmental issues affecting Brasilcap.



Training (PSI 1, 2 and 3)

A new corporate education strategy was launched in 2017 with the creation of *AtivaMente*, our corporate education platform.

The new training and development concept is one in which employees can take charge of their own development.

"*AtivaMente* supports employee-led learning, development and knowledge acquisition initiatives at Brasilcap."

The platform provides new experiences that address and accommodate the different learning profiles across the organization. When the platform was rolled out, employees participated in their first augmented reality and storytelling learning experience and took a placement test to determine their learning profile.

The transformation of our training and development processes is in line with current industry best practice, which uses not only the number of hours of training as a measure of added value, but especially the extent to which employees have acquired new skills to help them achieve business objectives.

The new corporate education platform uses a blended, online and classroom-based, training approach.

The platform was launched with an initial offering of 54 internally developed education content assets aligned with Brasilcap's business strategy.

Developing education assets internally helps to reduce content development time by 33% compared with the use of third-party suppliers.

The platform has been structured into knowledge journeys covering the following subjects: **Integrity & Compliance, Sustainability and Processes**. Other technical-related training content offered during the year

included instructional design, customer service and agile methods, as well as grants for undergraduate and graduate education.

In the first half of 2017, **Sustainability** was included in our *Bem-Vindo* induction training program.

Sustainability training is also available online for our employees.



Compensation Policy, Diversity, Quality of Life

The Brasilcap Compensation Policy is designed to structure organizational functions and positions so that they are aligned with business needs, and to develop compensation strategies that are consistent with the Company's current position and market practices, and are perceived as fair for the Company and for employees.

Direct employees receive annual pay raises under collective bargaining agreements. Compensation paid to young apprentices is indexed to the national minimum wage, which is also adjusted annually. For statutory employees, the date and percentage of pay raises are decided upon by the members of the General Meeting.

As part of our commitment to diversity, our job advertisements contain no specifications of age or gender as requirements for candidates, and this has helped to attract talent that is better suited to our business and current circumstances.

All employees in a given position are placed in the same wage bracket regardless of gender, race and age and all undergo performance assessments throughout their time in a position.

With the recent introduction of *eSocial* payroll filing requirements, our 7 related processes were reviewed for compliance with applicable timing and legal requirements. Brasilcap accelerated *eSocial* deployment to ensure compliance with legislation.

Our competencies management program was also revisited to ensure it continues to meet business needs and to redesign competencies with a focus on our organizational values and Brasilcap's behavioral expectations.

In 2017 we launched an employee engagement survey using Pulse methodology, in which short surveys are conducted regularly throughout the year so that workplace environment issues can be acted on and managed on a timelier basis.

Brasilcap's quality-of-life program implemented *Viva Melhor* to better inform our initiatives with employee health status metrics, working across a triad of: Work Environment, Health and Well-Being.

The primary goal was to improve on two important health indicators: obesity and stress. We launched a Gympass program to motivate employees to exercise, and continued our very popular shiatsu massage program throughout the year.

Our people management process is monitored through audits. Brasilcap also has a Performance Assessment Program that evaluates employees against targets and strategic competencies, with assessment results informing mobility decisions and bonus payments (variable compensation) for both employees and senior management.

Investment in material topics (PSI 1/ PSI 2/ PSI 3)

Brasilcap's investment team performed a review of material issues and identified process synergies between two material issues, one of which – Transparency and accountability (material issue 11) – was assessed as posing a significant impact.

As an outcome from the assessment, Brasilcap has committed to input information about our investment into a Business Intelligence (BI) platform to enhance transparency and accountability around our management of investments.

Economic and Financial Performance (PSI 1)

Economic and financial performance at Brasilcap is continually tracked through internal processes and controls and through oversight by our Committees (Financial, Risk and Audit, and Audit Board), Audits (Internal and Independent) and the Board of Directors. In addition, our profit-sharing program for employees and senior management is linked to performance targets.

Brasilcap continued to deliver strong sales volume performance in the year, despite a 13% decline compared with 2016, supporting satisfactory payouts. In addition to sales volumes, financial revenues were also positive as a result of the investment strategy we pursued throughout the year. The payout amounts in the year, which are modulated by both factors (significant sales and strong financial revenues), are available in our Annual Report.

Payouts are expected to be reduced in 2018 reflecting a decrease in financial revenues due to the lower Selic rate, which has affected most financial indicators with the exception of Operating Costs and Employee Salaries and Benefits, which will remain on the same level as in 2017.

Marketing and labeling (PSI 1, 2, 4)

Process flows and standard procedures for product development ensure compliance with applicable regulations.

Product management is monitored by Internal Audits and Independent Audits—including annual Actuarial Audits and Accounting Audits.

Our goal for 2018 is to match our current product portfolio to the new macro-economic environment.

All Brasilcap products are compliant with applicable regulations and can only be marketed under approval from SUSEP. Product literature is validated and kept up to date, and is available on the Brasilcap website, including frequently asked questions (FAQ), promotional materials and legal information (terms and conditions, bond certificates, interest income statements, etc.). The registration form template for Ourocap products includes not only the customer's details but also a description of key

provisions of the Terms and Conditions for the relevant product and the details of the relevant broker.

In addition, the [SUSEP](#) website has a FAQ (frequently asked questions) section about premium bonds.

Commitment to Sustainability

As part of our efforts to continue to improve on social and environmental issues, in 2018 we will continue to promote and raise awareness about related concepts, subjects and practices for continued progress on sustainability.

Thank you for reading our report.

For any questions, suggestions, critiques or feedback on this report, please write to: rsa@brasilcap.com.br