Glossary

Active Management
Active management of an investment fund aims to assure a return higher than a specified benchmark. To achieve this objective, the fund manager analyzes assets and selects those considered suitable for investment by the fund.

Agribusiness Credit Bills (LCA)
Fixed-income debt instruments issued by financial Institutions to fund loans to agribusiness. The investor lends his money to receive it corrected in the future. They are protected by the Credit Guarantee Fund (FGC), which covers up to BRL 250,000 in the event of a bank failure.

Agribusiness Receivables Certificate (CRA)
Bond issued exclusively by securitization companies with the purpose of financing activities related to agribusiness. It represents the promise of a future payment to the investor, based on receivables originating from business between rural producers, or their cooperatives, and third parties. It does not have protection from the Credit Guarantee Fund (FGC).

Allowance for Loan Losses
Allowance for Loan Losses is a balance sheet account that represents a Bank's best estimate of future loan losses due to client delinquency and default.

Allocation
Distribution of resources available for investment in different assets in order to obtain the highest possible return with the lowest possible risk.

ANBIMA B5 Market Index (IMA-B5)
Sub-index of the Anbima Market Index (IMA), which tracks the performance of government bonds, in this case, indexed to the IPCA with a maturity of up to five years (B5). It is used as a reference for fixed income investments and pays real interest, that is, above inflation.

Assets
Set of resources with economic value under the possession or control of the company.

Backtesting
Procedure to validate financial models based on their past performance. In this manner it is possible to determine how well a given model would have performed in the past as a basis for predicting its future performance.

Basel Ratio
Index that measures the degree of leverage of a financial Institution.

Cash and Cash Equivalents
Assets that make up the free cash position. They consist of the most liquid items on the balance sheet.

Certificates of Deposit (CD)
Short-term negotiable debt instruments issued by financial institutions that promise to pay the bearer or registered owner a fixed or floating rate of interest.

Certificate of Real Estate Receivables (CRI)
It works in the same way as the CRA, in which case it is directed to the real estate credit market.

Compliance
Being in compliance means acting in conformity with laws, regulations, policies and guidelines, thus guaranteeing ethical and transparent conduct.

Credit Limit Proposal (CLP)
Essential document for granting credit that establishes the basis for the transaction, presented by the financial institution to a potential customer. It establishes the amount of credit, interest rates, payment terms and any guarantees required.

Credit Rights Investment Fund (FIDC)
It works with a group of investors who pool their resources in a common investment, with the main rule being the application of a minimum of 50% of the resources in Credit Rights, which may come from commercial, industrial, real estate, financial operations, provision of services, etc.

Cross-border Interbank Payment System (CIPS)
Renminbi transaction settlement system controlled by the People's Bank of China (PBOC). Created in 2015, it aims to facilitate the use of Chinese currency in international transactions, contributing to expand business opportunities between China and other countries in the world.

Debt Capital Markets (DCM)
It refers to the credit market used by companies and governments to raise funds for their activities. It involves debt instruments such as debentures, CRIs, CRAs and FIDCs, among others.

Debentures
Medium- to long-term debt instruments that pay a fixed rate of interest and make the holder a creditor of the issuing company.

Derivative
Financial instruments whose value derives from an underlying asset, reference rate or market index.

- **Type 1 – Forwards:** over-the-counter contracts between two parties to buy or sell a specified quantity of a commodity or financial asset at a price agreed in the present but for settlement on a future date. May entail periodic adjustments.
- **Type 2 – Futures:** exchange-traded contracts that obligate the parties to transact an asset at a future date and price. Settlement may be by physical delivery or in cash. Both parties must post margin throughout the life of the contract as the price varies.
- **Type 3 – Options:** exchange-traded contracts giving the buyer the right but not the obligation to buy or sell an asset or instrument at a fixed price prior to or on a specified date. The option buyer pays the writer (seller) a premium.
- **Type 4 – Swaps:** over-the-counter contracts between two parties to exchange financial instruments, yields, rates or payments for a certain time.

DPGE
The Portuguese-Language acronym for Time Deposit with Special Collateral, a type of CD (certificate of deposit) issued by financial institutions for funding purposes. Commercial Banks, full-service Banks, development Banks, investment Banks, credit associations (SCFIs) and savings and loan associations are authorized by law to issue DPGEs, which are guaranteed by the FGC deposit insurance fund.

Efficiency Ratio
Index that measures the operational efficiency of a financial institution, that is, how much it costs the institution to generate revenue.

Expanded Credit Portfolio
Loans and securities with credit risk such as debentures, promissory notes or farm produce bonds (CPRs).

Expanded Net Financial Margin (Expanded NIM)
NIM stands for Net Interest Margin. It measures a bank's profitability, considering, in addition to the difference between interest received on loans and interest paid on deposits, other financial income and expenses.

Export Pre-payment (PPE)
It is a type of financing used by exporters to obtain resources in advance of the shipment of goods. It is usually granted abroad, in foreign currency, and can cover up to 100% of the export value.

Financial Bills (LF)
LFs are designed to extend the maturity of financial institutions' funding profiles. They can be Issued for at least two years by universal Banks, commercial Banks, development Banks, investment Banks, credit and investment societies, savings Banks, mortgage companies, home loan societies, and BNDES, the national development Bank. Compensation can be by fixed or floating interest rate. LFs admit periodic payment of earnings at an interval of at least 180 days. They have a minimum issuance term of 24 months.

Free Cash Position
Cash and cash equivalents, repos, interbank deposits, foreign exchange and marketable government bonds.

Greenhouse Gas Protocol (GHG Protocol)
It is an international tool that sets standards for measuring and managing Greenhouse Gas (GHG) emissions.

Interbank Deposit Certificate (CDI)
CDIs are fixed-income securities issued by financial institutions for mutual lending purposes, usually overnight.

Know Your Customer (KYC)
It is a set of procedures adopted by financial institutions to verify the identity of customers, prevent fraud, money laundering and other financial crimes regulated by bodies such as the Central Bank and the Securities and Exchange Commission (CVM) in Brazil, involves the collection and analysis of documents, financial information and the continuous monitoring of transactions.

Liabilities
Debts and obligations of the business recorded on the right side of the balance sheet, including accounts payable, deferred revenues and accrued expenses, for example.

Liquid Assets
Cash equivalents/Investments that can be readily converted to cash.

Maximum Exposures
Limits set for the amount of risk that a financial institution can assume. They may relate to a single client or group of clients.

Operational Limits
All limits to which the institution is subject in order to comply with regulatory requirements and internal policies.

Promissory Notes
Financial documents representing a written promise to pay a specified amount of money at a specified future date. They are used in commercial transactions and loan agreements, both between individuals and legal entities.

Real Estate Credit Bills (LCI)
Fixed-income debt instruments issued by financial institutions to fund loans to the real estate, housing and construction industry.

Reference Equity
It is the capital that the financial institution must maintain to cover credit, market and operational risks, ensuring its financial stability and an adequate level of capital in relation to the risks assumed.

Renminbi
Also referred to as RMB, it is the official currency of the People's Republic of China.
The basic unit of the renminbi is the yuan. Often, the two words are used interchangeably, but technically, renminbi is the name of the currency itself, while yuan is used for circulating money.

Repos
Repurchasing agreements structured as bond sales, with an agreement to repurchase the debt security in a future date at a higher price to factor in the dealer's interest expense. Equivalent to a secured deposit.

Return on Average Equity (ROAE)
This is an indicator that measures a firm's capacity to add value from its own resources and investor funds, based on net income as a percentage of average shareholders' equity over a period (typically two years).

Risk Appetite Statement (RAS)
The RAS formalizes the types of risk to which the institution is exposed in the course of conducting its business activities and its appetite for each of these risks. Its purpose is to establish an effective governance process that aligns the interests of the institution with the risks effectively practiced.

Share Capital
It is the gross initial investment made available by all partners and investors to open a company and keep it running until it generates profits.

Shareholders' Equity
The difference between a company's assets and liabilities.

Stress Scenarios
Simulations conducted by financial institutions to identify vulnerabilities and prepare risk mitigation strategies in hypothetical but possible extreme situations. They can be, for example, increases in credit risk, exchange rate variations, economic, political or even natural crises, such as a pandemic.

Subordinated Debt
A debt instrument with a subordination clause, meaning that in the event of the issuing institution's liquidation or bankruptcy the holder will be paid only after all other creditors have been paid.

Sustainable Development Goals (SDGs)
Set of 17 objectives established by the United Nations General Assembly in 2015, covering the environmental, economic and social dimensions of sustainable development, in an integrated and interrelated way.

Total Funding
Demand and time deposits, interbank deposits, Bank Bonds (LFs), Agribusiness Credit Bills (LCAs), Real Estate Credit Bills (LCIs), foreign borrowings, and pre-export finance.