

## **Mitigate Climate Change**

Bradesco has taken to mitigate climate change-related risks stemming from own business operations and from your company's total lending and financing portfolio and assets under management. Please, see attached documents or explain the policies in detail in the comment below.

### *Comment:*

Evaluation of the physical risks connected with climate changes Contingency plans concerning risks connected with climate change Bradesco's operations (physical structure) are basically in Brazil and the main facilities are in São Paulo (head offices at Cidade de Deus, with nine buildings and another four administrative buildings) and in downtown Rio de Janeiro (one administrative building), rather than close to the beach (shore-front avenue). For the listed sites, according to Brazilian studies on climate changes, there are no high risk prospects due to climate changes driven by global warming.

The other facilities are distributed throughout the country (over 3,000 branches), besides the Service Points and Centers (see Annual Report, back cover of SR). This geographical distribution designed to meet customer/market needs helps to mitigate climate change risks.

Eventual problems with a specific branch (as we have already explained, an unlikely event) constitute a small risk, given that this would not render the company non-operational. There are contingency business plans (business continuity plan) that include actions connected with fortuitous events, but isolated location cases do not affect the operating capacity (isolated points being, for instance, one or two branches out of 3,000). The business contingency plans are in their final review stage; appendices will be added about events resulting from climate changes or the probability grades for some events will be changed, in addition to the events that are already listed, such as strikes, power outages, flooding, etc. If future studies indicate a need for physically moving a branch or a center, it will be possible to do this in a short time span or at a low cost without jeopardizing customer service and business operations as a whole, using the business continuity plan. Based on the above, there is no need, to date, to evaluate company facilities exposure in percentage terms. The percentage of exposure is very low and these cases should be treated individually rather than systemically.

The aspects connected with climate changes integrated into Loans & Financing: Aspects related with climate changes integrated into the classification and pricing policies. Brazil ratified the Kyoto protocol but was not required to commit to specific targets because it is considered a developing country. In order to better understand Brazilian participation in climate change system negotiations, one must stress the issue of carbon emissions in Brazil, a country that has average income and is still developing (being therefore exempt from the mandatory carbon emissions reduction commitments that developed countries must undertake); it has a strong energy matrix in which hydroelectric power has a strong weight (over 85% of the generated electricity is water-derived). This power is consequently much cleaner from the standpoint of greenhouse gases emission. The country has 16% of the world's forests and is of major importance in the global carbon cycle. Its major problem is that it has large carbon emissions due to the raze fires employed in traditional agriculture and in the deforestation of the Amazon region.

Brazil's carbon emissions account for roughly 2.5% of world emissions: almost 25% come from modern agriculture and industry, while 75% derives from traditional agriculture, land use conversion in the agricultural frontier and inefficient and/or predatory woodcutting activities. Roughly 80% of Brazilian production is linked to productive activities that do not depend on high carbon emissions. Therefore the rate of emissions per capita and per GDP unit is far lower than the average of developed and developing nations, this being the result, fundamentally, of the high weight of hydroelectric power in the energy matrix. Thanks to this, higher risk premium policies for customers with particularly high carbon exposure or that fit into project EU, ETS, CDM/JI or other commercial schemes (such as CCS, RGGI and others) is unnecessary.

The Organization is working on developing post-2012 scenarios, by which time Brazil will probably have emission targets for greenhouse effect gases. By the end of 2007, it will already have an economic climate report including the sectors that are more heavily exposed to the contingencies of emission permissions post-2012 (see annex containing the expert consultants' work proposal). This report will also list regions with high exposure to climate changes, such as the coast, agricultural regions that depend on narrow temperature ranges and rains; this will lead to credit and internal investment policy changes.

Aspects connected with climate changes INTEGRATED INTO THE TRENDS ANALYSIS of markets, regions, sectors and companies and reflected in the evaluation criteria. The aspects related with climate changes evaluated SEPARATELY in the analysis of markets, regions, sectors and companies, including the reflexes upon the evaluation criteria.

The Special Studies and Research Department (*DPEC – Departamento de Pesquisas e Estudos Especiais*), through Bradesco's Chief Economist, will publish in its studies information and opinions concerning the climate change phenomenon, as well as environmental laws and environmental movements that are taking place in the corporate sector. These studies will be carried out by DPEC based on the report commissioned to an expert consulting firm on climate change impacts upon Brazil and on public information about the subject (clippings of articles and interviews). As Brazil is not under contingency, the Organization considers that 2007 is the right point in time for undertaking these studies, given that post-2012 agreements are yet to be defined. Investment products: Divulging the risks and opportunities connected with climate changes in investment proposals and prospectuses, as appropriate.

The risks and opportunities are divulged, such as, for instance, those pertaining to the Eco-financing product. See attached the product's prospectus. The opportunities are already being taken advantage of in the form of carbon credit project proposals, totaling an estimated 2.5 million t up to 2012 (see Sustainability Report, pp. 67 and 68). Portfolio administration: Risk factor / climate change opportunities reflected in the asset allocation. Consulting services for clients in relation to this issue (such as strategies for facing climate changes, managing the risk of climate changes, carbon market transactions).

Brazil is not included in the Kyoto Protocol's Annex 1 countries. It therefore has no emission targets for greenhouse gases and is able to trade the carbon credits from CDM (Clean Development Mechanisms) projects. Banks play a key role in this process through financial instruments designed to lower project risk, increase opportunities and generate resources for investment in new technologies or project financing. Activities of this nature can potentially help the environment and sustainability, since banks can use all of their managerial competence, investment capacity, products and service in aid of the environment.

Bradesco provides advisory service to customers in the development of CDM (Clean Development Mechanisms) projects, pursuant to the rules established in the Kyoto Protocol, and in carbon credit negotiations. As of early 2006, seven projects for four customers were already under development. These projects will result in an annual CO<sub>2</sub>e reduction of some 430,000 t. Another 20 customers, approximately, are discussing the issue of climate changes and carbon credits with Bradesco.

- Customer 1 – 140,000 t of CO<sub>2</sub>e/yr (two projects: small hydroelectric power stations)
- Customer 2 – 30,000 t of CO<sub>2</sub>e/yr (one project: fuel replacement; replacement of oil by bamboo biomass);
- Customer 3 – 60,000 t of CO<sub>2</sub>e/yr (three projects: power co-generation, fuel replacement and treatment of animal waste and residues); and
- Customer 4 – 200,000 t of CO<sub>2</sub>e/yr (one project: using biomass for steam generation – replacement of gas, power co-generation and avoidance of forest methane).

In 2007, the Bank internally formalized and divulged this product (see flow, annex 630407). Additionally, the Organization is studying the viability of using carbon credits as a loan collateral or the advance purchase of these credits to finance the project's required investments. Bradesco has no private equity investment funds, such as carbon funds or clean energy funds. The assets under management in floating income funds or stock are comprised of funds of Brazilian companies, because Brazilian law does not allow them to include equity traded on stock exchanges other than the Brazilian ones. Thus, and based on the explanations provided at the beginning of the response to this question, the portfolio exposure analysis is not quantified; the analysis occurs when the decision is made about the stock that will form the fund. Moreover, there is no need to hedge against carbon risks.