



# BTG PACTUAL - INDUSTRY CASE STUDY

## 1 Introduction

BTG Pactual is a financial institution operating in the main Latin American markets. Besides the headquarters in São Paulo and Rio de Janeiro, the bank has offices in several other major cities in Brazil and in important financial centers in Latin America (Argentina, Chile, Peru, Colombia and Mexico) and globally (USA, UK and Portugal). BTG Pactual employs 3,515 professionals providing services of investment banking, asset management and wealth management.

Through a platform with high capability of international distribution, the bank provides a comprehensive range of financial services to a regional and global client base, with its main focus on large corporations, institutional investors, governments and high net worth individuals. Recently BTG Pactual has accelerated investment in innovation and technology, combining the flexibility of a startup with the strength, capabilities and integrated services of a large financial services organization, effectively offering a complete and cohesive portfolio on a one-stop platform.

BTG Pactual has been evolving in ESG integration. Since the launch of the ESG division in 2015 the bank offset its carbon emission in 2017-19, supported the TFCDB, which encourages transparency about climate information and included the SDGs in its materiality and GRI report. In 2020 BTG Pactual created the Impact & Sustainable Investment Division. The bank is a constituent of the ISE (Corporate Sustainability Index) and ICO2 B3 (Carbon Efficiency Index) in 2021 wallet. Currently, BTG Pactual is scored as B on CDP which indicates it is taking coordinated action on climate issues. Lastly, BTG Pactual integrated the sustainability stamps indicated below:

- FTSE4Good Index Series, from London's Stock Exchange. Composed of listed companies which are committed with strong ESG practices and selected based on 300 indicators.
- CDP Brazil – Climate Resilience Index (ICDPR-70)

In 2020, BTG Pactual generated Total Revenues of R\$ 9.3 billion, Adjusted Net Income of R\$ 4 billion, R\$ 26.7 billion in Equity, a total of R\$ 377.1 billion of assets under management and administration and R\$ 258.4 billion of wealth under management. The Economic Value Added distributed in salary and payroll expenses was R\$ 1.1 billion, payments to government R\$ 1.9 billion, operating expenses R\$ 1.1 billion and to providers of capital R\$ 1.0 billion.

In December 2020, BTG Pactual became the first Brazilian bank to receive a climate loan of US\$ 140 million from European institutions Proparco and DEG. The proceeds will be used to finance climate mitigation initiatives.

## 2 Historical Drivers and Evaluation

BTG Pactual's vision of sustainability is grounded in the understanding of our responsibility in promoting best practices and using the sustainability lens throughout our entire value chain. Our Social Responsibility initiatives and our ESG and Impact Investing strategy are anchored in BTG Pactual's values and competencies, reflecting our long-term ambition and unconditional commitment to responsible and sustainable development.

Since its creation, the ESG & Impact Investing strategy has been delivering consistent results in different areas of the bank's activities:

Social Responsibility
<ul style="list-style-type: none"> <li>• BlackRocks: Partnership focused on accelerating Brazilian companies founded by black entrepreneurs.</li> </ul>
<ul style="list-style-type: none"> <li>• BTG Soma. Aims to accelerate and professionalize NGOs. Encourages BTG Pactual employees to donate their time and talent in areas as market, finance.</li> </ul>
<ul style="list-style-type: none"> <li>• In 2020, the bank supported 160 projects all over Brazil focusing on 3 pillars: education, environment, and entrepreneurship.</li> </ul>
<ul style="list-style-type: none"> <li>• During the pandemic, BTG Pactual and its partners donated R\$50 million to projects fighting COVID-19 and raised more than R\$9 million with partners, clients, and employees.</li> </ul>
<ul style="list-style-type: none"> <li>• Inteli (company owned by BTG Pactual's senior partners) focus on the development of technology leaderships.</li> </ul>
Diversity
<ul style="list-style-type: none"> <li>• Diversity Committee divided into 4 working groups related to LGBTQIA+, Blacks, PwDs, Women.</li> </ul>
<ul style="list-style-type: none"> <li>• Remuneration: 95% of similarity in the base salaries of women and men and 85% of the proportion base and variable (bonus).</li> </ul>
<ul style="list-style-type: none"> <li>• In August 2020, BTG Pactual integrated the first woman on its Board of Directors.</li> </ul>
<ul style="list-style-type: none"> <li>• The Inside Program provides mentoring to female university students looking to pursue a career in the financial services industry. In summer internships, female interns participate in educational and collaborative sessions with female partners and senior professionals at BTG Pactual. The initiative has received a Woman Rights and Diversity stamp from the City of São Paulo.</li> </ul>
ESG at Business Units
Corporate and SME Lending
E&S Risk Analysis
<ul style="list-style-type: none"> <li>• Since 2015 for 100% of the credit transactions. E&amp;S aspects are included in every transaction memorandum.</li> </ul>
<ul style="list-style-type: none"> <li>• Developed 19 sectors policies that considers E&amp;S material aspects.</li> </ul>
<ul style="list-style-type: none"> <li>• Exclusion list: Slave-like Condition's List (Ministry of Economy).</li> </ul>
<ul style="list-style-type: none"> <li>• Equator Principles signatory.</li> </ul>
<ul style="list-style-type: none"> <li>• Application of the IFC Performance Standards on transactions <math>\geq</math> USD 30 million.</li> </ul>
<ul style="list-style-type: none"> <li>• Deforestation issues: <ul style="list-style-type: none"> <li>- BTG Pactual has already incorporated such issues into our risk analysis in the corporate loans, by consulting environmental agency's restriction lists (i.e.: deforestation infractions) and the compliance of the activity under the Brazilian Forestry Code.</li> <li>- For economic sectors wherein forest risks are material, BTG Pactual investigates how client access these risks in the supply chain and if the clients have certifications that attest to the sustainability of their production process. The bank also verifies the production process itself to understand, even in the absence of a specific certification, if the process is sustainable and manages to address environmental and climate risks.</li> </ul> </li> </ul>
ESG Opportunities
<ul style="list-style-type: none"> <li>• Assist clients in the integration of ESG Agenda, going beyond compliance.</li> </ul>
<ul style="list-style-type: none"> <li>• Development of an internal credit risk "robot" that establishes S&amp;E minimum rules that automatically denies loans to small and medium local farmers.</li> </ul>
Green, Social and Sustainable Framework
<ul style="list-style-type: none"> <li>• Framework developed in line with Green Bond Principles, Green Loan Principles, Social Bond Principles and Sustainability Bond Guidelines.</li> </ul>
<ul style="list-style-type: none"> <li>• Finance and refinance projects with environmental, social or environmental and social benefits.</li> </ul>
Exposure to High-Risk Sectors
<ul style="list-style-type: none"> <li>• Fossil fuel and derivatives: BRL 5,4 bi. 6.4% of our credit portfolio.</li> </ul>
<ul style="list-style-type: none"> <li>• Weapons, munitions, Alcoholic Beverages, Tobacco: BRL 184 mio. 0,2% of our credit portfolio.</li> </ul>
<ul style="list-style-type: none"> <li>• Main Economic Sectors of our Credit Portfolio: Utilities (24.5%), Financial (10.5%) and Retail (11.4%).</li> </ul>

<ul style="list-style-type: none"> <li>• Structured the first credit operation in the bank labelled as an SDG linked (main biodiesel producers in Brazil).</li> </ul>
<b>Investment Banking</b>
<ul style="list-style-type: none"> <li>• Between 2017-2021 the Bank distributed USD 6.4 bi. in ESG bonds locally and internationally.</li> <li>• First transaction emission in the local market to finance investments that contribute to the transition to a low carbon economy.</li> <li>• Engage with ECM clients in ESG Planning: integrating environmental, social and governance aspects into their business model, actions, and reporting.</li> </ul>
<b>Asset Management</b>
<ul style="list-style-type: none"> <li>• ESG integration on the equity, credit, real economy, timberland, special situations, and real state strategies. This corresponds 20% of the total AuM.</li> <li>• Impact Investing Fund: Private Equity to invest in companies aligned with this mission in Latam. As 2Q2021, BTG Pactual has made the first investment in a technology-based company in the education sector.</li> <li>• ESGB11: ETF that replicates S&amp;P/B3 ESG Index.</li> <li>• Timberland strategy: <ul style="list-style-type: none"> <li>- USD 3.5 bi that reports ESG indicators annually.</li> <li>- Landscape capital strategy: mitigation climate change &amp; environmental restoration and protection.</li> </ul> </li> <li>• Engagement with companies throughout Investidores do Clima and PRI.</li> <li>• BTG Pactual became part of the PRI working group which aims to raise investor awareness and share their current practices in relation to commodity-driven deforestation.</li> <li>• ESG Due Diligence for the asset managers.</li> </ul>
<b>Wealth Management &amp; Consumer Banking</b>
<ul style="list-style-type: none"> <li>• ESG Planning: integrating environmental, social and governance aspects into business model, actions, and reporting.</li> <li>• As of June 2021, all of the bank's wealth management costumers begun to have access only to the digital version of the bank statement. Every month, around 1 ton of paper were used to print extracts corresponding to 250kg of CO2 and 540k liters of water.</li> <li>• Launch of a carbon calculator that allows customers to calculate their carbon footprint, showing them possible changes in their habits.</li> </ul>
<b>Sales &amp; Trading</b>
<ul style="list-style-type: none"> <li>• Completed 10 years of activities in the energy trading market with focus on renewable energy. BTG Pactual received the Green Energy Certification from UNICA (National Sugarcane Industry Association) and adhered to the I-REC Platform.</li> <li>• The 19 sector policies mentioned above are applied for insurance transactions.</li> </ul>
<b>Other</b>
<ul style="list-style-type: none"> <li>• Launched a platform for underwrite, trade and retire Decarbonization Credit (CBIO).</li> <li>• ESG integration for the companies of BTG Pactual group (Banco Pan, Necton, ECTP).</li> <li>• Compensated for the carbon emissions from independent agents' offices, as well as BTG Pactual's direct and indirect carbon emissions from air travel and commuting.</li> </ul>
<b>Financial education of the population</b>
<ul style="list-style-type: none"> <li>• Encouraging financial responsible behavior through the <b>BTG Pactual Digital</b> a YouTube Channel with more than 337,000 subscribers.</li> <li>• <b>Exame. Academy</b> with more than 24,000 active students and 27 on-line courses on financial education.</li> <li>• <b>Inside ESG</b> a report to the bank's Wealth Management, Digital and BTG+ clients.</li> </ul>
<b>Data Protection</b>
<ul style="list-style-type: none"> <li>• Customer privacy is a core business directive and is aligned with LGPD law and cyber security best practices.</li> </ul>
<b>Environmental and social impact mitigation</b>
<ul style="list-style-type: none"> <li>• For the relevant suppliers, BTG Pactual developed an ESG booklet which considers aspects such as slavery and child labor, diversity, carbon inventory.</li> <li>• BTG joined the Partnership for Carbon Accounting Finance, which has more than 130 financial institutions in 43 countries on 5 continents, committing to measure and disclose greenhouse gas emissions.</li> <li>• More than 60% of BTG Pactual's administrative operations are located in environmentally certified buildings.</li> <li>• BTG Pactual's office in Medellín, Colombia, installed solar panels to produce electricity what has enabled the office to sell energy surpluses to the grid.</li> </ul>

### 3 Sustainability Disruption

BTG Pactual's material topics were determined in 2019 through a survey of key stakeholders, including financial market and sustainability experts, BTG Pactual executives, employees, investors, suppliers, clients, shareholders, and industry representatives. The materiality exercise also considered for the first time the

Sustainable Development Goals (SDGs) to ensure greater alignment with society's most crucial challenges.

The results are shown in the table below:

Material issue	Main corresponding SDGs	Main corresponding SASB issues (Investment Banking & Brokerage, Asset Management & Custody Activities, Commercial Banks, Security & Commodity Exchange))
Ethics and compliance in all business dealings	16	<ul style="list-style-type: none"> <li>• Business Ethics</li> </ul>
Cyber and security risks and data protection	8,17	<ul style="list-style-type: none"> <li>• Data Security</li> <li>• Managing Business Continuity &amp; Technology Risks</li> </ul>
Integrate E&S risks into corporate risk management	8,13,16	<ul style="list-style-type: none"> <li>• Incorporation of Environmental, Social, and Governance Factors in Credit Analysis</li> </ul>
Diversity and Inclusion	4,5	<ul style="list-style-type: none"> <li>• Employee Diversity &amp; Inclusion</li> </ul>
Innovation and Technology driven by digital transformation	8,17	<ul style="list-style-type: none"> <li>• N/A</li> </ul>
Corporate social responsibility initiatives and private social investment	17	<ul style="list-style-type: none"> <li>• Financial Inclusion &amp; Capacity Building</li> </ul>
Human capital management and development	16	<ul style="list-style-type: none"> <li>• N/A</li> </ul>

The materiality exercise provided crucial inputs for the bank's leadership team and helped to inform the sustainability strategy for the coming years.

## 4 Strategic Response

In 2020, the ESG agenda gained momentum globally. Building on the materiality process and on the perception of the opportunities that the agenda would mean to the bank, BTG Pactual made important progress in integrating ESG themes into its business model in July 2021. Based on an analysis of the main environmental and social issues pressuring several segments of the Brazilian society, as well as with the understanding that ESG factors are relevant to the continuity of the business of BTGP's clients, the bank defined 3 commitments for the year 2025 related to climate change, sustainable development and economic inclusion. Such commitments are closely related to the bank's core business and relevant to the Latin American current needs:

	Commitments	Key Performance Indicators selected to measure the impact of investments
#1 To assist customers in the transition to a sustainable low-carbon economy	To offer ESG Planning for all ECM transactions and engage with Wealth Management Clients	<ul style="list-style-type: none"> <li>• AuM of products ESG related in WM</li> <li>• Quantity of SFOs trained</li> <li>• Number of new customers or transactions</li> <li>• Transaction volume</li> <li>• Quantity and % of recommendations followed by customers</li> </ul>
	Educate 50% of our SFO (Single Family Offices)	
	10x the volume of ESG bonds (transition, green, social, sustainable, and sustainable linked). Base year: 2020. Volume 2020: BRL 6.46 billion	<ul style="list-style-type: none"> <li>• Volume of Emissions</li> <li>• Number of Emissions</li> <li>• Industry</li> <li>• UOP</li> <li>• Destination Resources/ESG Goals</li> </ul>
	Develop products to mitigate the effects of climate change	<ul style="list-style-type: none"> <li>• Kind of product</li> <li>• Volume</li> <li>• Quantity of products developed by semester</li> </ul>
#2 BTG Pactual as a reference on the theme of climate change in Latin America	Accounting and reporting CO2e emissions financed from credit portfolios and asset management	<ul style="list-style-type: none"> <li>• Quantity of CO2e by sector</li> <li>• Quantity of CO2e per year</li> <li>• Amount of CO2e per strategy</li> </ul>
	Engage Corporate and IB clients in the Oil & Gas & Energy sectors in issues related to climate change	<ul style="list-style-type: none"> <li>• % of customers with carbon inventory</li> <li>• % of customers with carbon reduction targets</li> <li>• % of customers with zero net commitments</li> </ul>

	Foster the distributed generation/clean energy market	<ul style="list-style-type: none"> <li>Volume financed by period</li> <li>Avoided CO2 emission by transaction</li> </ul>
#3 Providing credit and fostering sustainable practices in the SME segment	Engage in ESG aspects with the SME customers	<ul style="list-style-type: none"> <li>% of customers trained for the Sustainability Policy</li> <li>% of customers participating in the UN Global Compact</li> <li>% of customers with GHG inventory</li> </ul>
	Democratize access to financial products and services	<ul style="list-style-type: none"> <li>Volume of operations per year</li> <li>Number of operations per year</li> </ul>

## 5 SDG Investments

BTG Pactual's SDG-aligned investment in 2020 was related mainly to LEED-certified building (headquarters), M&A operations, credit available under the Green, Social and Sustainable Framework, operating expenses linked to the management of sustainability material issues, and CSR projects.

SDG-aligned corporate investment in 2020	Description	Value	SDG
<b>CAPEX</b>			
Permanent assets	LEED-certified building (headquarters)	BRL 4,7 million	6,7,8,9
<b>M&amp;A</b>			
- Business combinations (50% ownership and higher) Offer digital products for the low-income individual segment (Consumer Finance: Banco pan, Insurance: Too insurance)	Investment in Banco Pan (Consumer Finance) and Too Insurance: offering digital products for the low-income individual segment	Banco Pan: BRL 5,3 billion Too Insurance: BRL332 million	8,9,10
- Equity method (between 20% and 50% ownership)	Investments in Prime Oil & Gas: supporting the integration of ESG agenda in company's strategy		7,13
<b>Financial Investment</b>			
Green, Social and Sustainable Framework	Credit available for sectors: Renewable Energy, Energy Efficiency, Sustainable Water and Wastewater Management, Clean Transportation, Green Buildings, Affordable Housing, Affordable Basic Infrastructure	BRL 6.5 billion	1,3,6,7,9,10,11,13
<b>OPEX (Expenses related to the management of material issues)</b>			
Ethics and compliance in all business dealings	Expenses related to the Compliance Area structure	BRL 26,6 million	16
Cyber and security risks and data protection	Expenses related to cyber security	BRL 17,5 million	8,17
Integrate E&S risks into corporate risk management	Expenses related to ESG & Impact Investing	BRL 1,5 million	8,13,16
Diversity and Inclusion	-	-	4,5
Innovation and Technology driven by digital transformation	-	-	8,17
Corporate social responsibility initiatives and private social investment	Social projects and social microcredit	BRL 65 million	1,3,4,7,8,10,14,15
Human capital management and development	Expenses related to training & development	-	16

The investments required to implement the four Commitments are currently being assessed.

## 6 Assessing Sustainability Outcomes and Financial Results

BTG Pactual has a Board-level ESG oversight which helps to drive a focus on sustainability and SDG issues across the bank's strategy, policies, and programs:

- **The Board of Directors:** Responsible for the strategic vision of the ESG risk management criteria and approval of the Sustainability Global and Environmental & Social Risk Assessment policies, as well as to oversee the implementation of the ESG Policy at the business areas.
- **ESG Committee:** Chaired by the CEO of BTG Pactual and composed by many c-levels including the chairman of the Board of Directors. Responsible for supporting the board of director's responsibilities related to definition of the strategy, polices and measures related to the adoption of best practices, aiming to identify environmental, social and climate risks as well as to correct the problems related to noncompliance of regulation and/or self-regulation norms.
- **ESG Division:** Composed of environmental and health & safety specialists. Responsible for integrating ESG aspects into BTG's Pactual business units and companies of BTG Pactual's group, as well as to develop ESG reports together with the Research Team. At the sustainability front, ESG team is dedicated to answer investors demands, respond to ESG due diligence/questionnaires/indexes and establish a strategy for an ecoefficiency program as well as to expand the GHG inventory.

This division provides technical support, coordination and independent supervision of the implementation of the Global ESG Policy by the various business areas. It also advises on the development of tools and procedures, ensuring that the ESG Risk is properly identified, evaluated, classified, approved and controlled and consolidates the information and data that evidence the adoption of best market practices and compliance with the legal and regulatory requirements applicable to the management of ESG Risk.

- **Business Areas:** Focused on the routine identification of ESG Risk, it activates the Socio-environmental Risk Management and Corporate Governance team to obtain technical support for identified risk management.