

**RISK AND CAPITAL MANAGEMENT
REPORT - PILLAR 3 4Q22**



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1. Introduction and Objective

The Risk and Capital Management Report - Pilar III¹ incentivizes market discipline and includes best practices for financial institutions through the disclosure of risk management information and capital calculation.

In accordance with the Central Bank of Brazil (Bacen) Circular 3,930/19 and subsequent amendments, this report presents, in detail, the main procedures of XP's risk and capital management.

Therefore, the calculation of risk-weighted assets (RWA), Total Capital and information in relation to Interest Rate Risk in the Banking Book (IRRBB) are shown.

In addition, XP controls risks in an integrated and independent manner, preserving and valuing collective decision making. XP's control structure is compatible with the nature of its operations, the complexity of its products, services, activities, processes, systems, and the dimension of its risk exposure.

¹ The information reported in this document is calculated in accordance with the XP Prudential Conglomerate ("XP"), which includes XP Investimentos CCTVM S.A. and Banco XP S.A., which fall under the definition of CMN Resolution 4,950/21.

2. Prudential Metrics and Risk Management

2.1. Key metrics at consolidated level (KM1)

Prudential regulation determines guidelines for financial institutions regarding the management of risk and capital in order to deal with the risks associated with their financial activities.

The main metrics established by this regulation are:

- Common Equity Tier 1, Tier 1 and Total Capital calculated in accordance with CMN (National Monetary Council) Resolution 4,955/21 and subsequent amendments;
- Total RWA;
- Capital Ratios;
- Leverage Ratio, calculated in accordance with Bacen Circular 3,748/15 and subsequent amendments;
- Liquidity Ratios².

² Circular Bacen 3,930/19 and subsequent amendments do not define mandatory disclosure of these ratios for XP.

R\$ thousand	12/31/2022	09/30/2022	06/30/2022	03/31/2022	12/31/2021
Available capital (amounts)					
Common Equity Tier I (CET1)	7.394.777	6.022.388	4.515.651	4.556.497	3.696.590
Tier I	7.394.777	6.022.388	4.515.651	4.556.497	3.696.590
Total Capital	7.981.066	6.022.388	4.515.651	4.556.497	3.696.590
Excess of capital committed to adjusted permanent assets	-	-	-	-	-
Total Capital detachments	-	-	-	-	-
Risk-weighted assets (amounts)					
Total risk-weighted assets (RWA)	39.405.137	37.384.566	31.716.974	29.307.425	26.338.917
Risk-based capital ratios as a percentage of RWA					
Common Equity Tier I ratio (CET1) (%)	18,77%	16,11%	14,24%	15,55%	14,03%
Tier I ratio (%)	18,77%	16,11%	14,24%	15,55%	14,03%
Total capital ratio (%)	20,25%	16,11%	14,24%	15,55%	14,03%
Additional CET1 buffer requirements as a percentage of RWA					
Capital conservation buffer requirements (%)	2,50%	2,50%	2,50%	2,00%	2,00%
Countercyclical capital buffer requirements (%)	0%	0%	0%	0%	0%
Systemic capital buffer requirements (%)	0%	0%	0%	0%	0%
Total of bank CET1 specific buffer requirements (%)	2,50%	2,50%	2,50%	2,00%	2,00%
CET1 available after meeting the bank's minimum capital requirements (%)	8,3%	5,6%	3,7%	5,5%	4,0%
Leverage Ratio (LR)					
Total exposure	147.150.760	126.784.670	113.360.662	111.009.594	85.746.577
LR ratio (%)	5,03%	4,75%	3,98%	4,10%	4,31%
Liquidity Coverage Ratio (LCR)					
Total high-quality liquid assets (HQLA)	NA	NA	NA	NA	NA
Total net cash outflow	NA	NA	NA	NA	NA
LCR ratio (%)	NA	NA	NA	NA	NA
Net Stable Funding Ratio (NSFR)					
Total available stable funding (ASF)	NA	NA	NA	NA	NA
Total required stable funding (RSF)	NA	NA	NA	NA	NA
NSFR ratio (%)	NA	NA	NA	NA	NA

The Total Capital Ratio reached 20.25 on December 31, 2022, with an increase of 4.14 percentage points compared to September 30, 2022, mainly due to the growth of RWA and PR in the quarter.

Additionally, the Common Equity Tier 1 Ratio is 12.25 percentage points above the minimum regulatory requirement (8.0%) as defined by Bacen.

2.2. Overview of Institution's Risk Management Approach (OVA)

The structure of XP's Integrated Risk and Capital Management, in accordance with CMN Resolution 4,557/17, aims to ensure that there is an effective process for risk management throughout the organization.

This process provides adequate transparency and understanding of existing and emerging risk issues, ensuring a holistic view of XP's inherent and residual risks.

Therefore, XP has adopted the three lines of defense approach, namely:

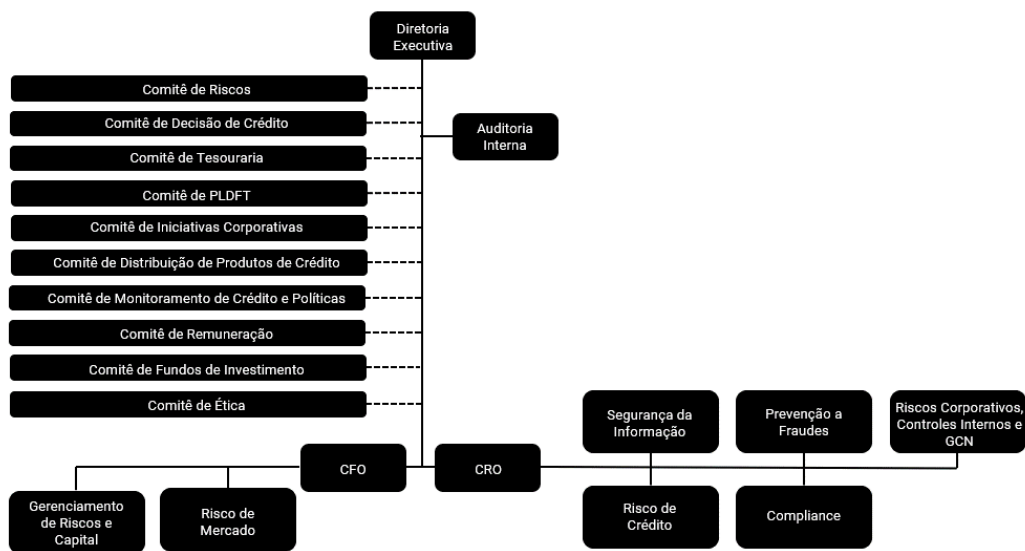
- First line, which represents the business units and support areas. They are responsible for identifying, assessing, reporting and controlling the risks inherent in XP's activities;
- Second line, which represents the control units. They are responsible for defining the strategy and structure of risk management, analysis and monitoring of operational limits of risks acting as a counterweight to the first line; and
- Third line which is an internal Audit – an independent assessment of the risk management structure, governance and internal controls.

These responsibilities are directly linked to the objectives of managers and teams. Therefore, the risk culture dissemination program is responsible for emphasizing the need for the timely analysis and management of XP's risks across all its processes, consequently enabling the effective functioning of the model.

XP's inherent risks are identified, assessed, and managed with a bottom-up approach, with periodic assessments of processes, risks, and controls at the department level.

XP's risk framework falls under the responsibility of the CRO, who reports directly to the Board of Directors and has the independence necessary to fulfill this role. The Internal Audit area operates independently and is responsible for supervising the risk management structure.

Organization diagram of XP's Risk Management Structure



The following is a brief outline of the main risks related to XP’s business model:

- Credit Risk:

Credit Risk is the potential that a borrower or counterparty will fail to meet its financial obligations as defined by their contract, value loss of credit agreements resulting from deterioration of the borrower’s credit rating, reduction of profit or income, benefits ceded upon subsequent renegotiations and debt recovery costs.

Credit Risk also encompasses other risks, such as:

- **Counterparty Credit Risk:** the risk arising from the potential failure by the counterparty to fulfill their obligations relating to the settlement of transactions involving the trading of financial assets, including those relating to the settlement of derivative financial instruments;
- **Country Risk:** the risk arising from the potential failure by a borrower or counterparty located outside the country to fulfill their contractual obligations, as a result of actions taken by the government of the country where the borrower or counterparty is located, and Transfer Risk which can occur due to the exchange restrictions on amounts received;

- **Concentration Risk:** exposures with the potential to produce losses large enough: to the same counterparty; to counterparties operating in the same sector, geographic region or segment of products and services; to counterparties whose revenues depend on the same type of commodity or activity; to financial instruments whose risk factors, including currencies and indices, are significantly related; associated with the same type of financial product or service; and whose risk is mitigated by the same type of instrument.

- **Market Risk:**

Market Risk is the risk of loss arising from fluctuations in the market values of positions held by financial institutions. The risks involved include variations in interest rates, stock prices, exchange rates and commodity prices for instruments held in the Trading Book and Banking Book.

- **Operational Risk:**

Operational Risk is the risk of loss arising from failure, deficiency or inadequacy of internal processes, people or systems or from external events.

The operational risk management structure of the XP Prudential Conglomerate has in place risk identification, assessment, classification, monitoring and reporting processes aligned with regulatory expectations and best practices in the market, in order to provide the Board of Directors, in a timely manner, of an overview of identified risks, degree of exposure, the quality of their controls, as well as supervision of mitigation mechanisms and implementation of controls.

- **Liquidity Risk:**

Liquidity Risk is the likelihood of the institution not being able to effectively honor its expected and unexpected obligations, both current and future, including those arising from guarantee commitments, without affecting daily operations and incurring significant losses; and the potential failure of the institution not being able to execute a

trade or liquidate a position, due to the size of the position in relation to the volume normally traded or because of some discontinuity in the market.

- **Socio-environmental Risk:**

Socio-environmental Risk is the risk of carrying out operations related to economic activities which have greatest potential to cause social and environmental harm.

Therefore, XP acts with social and environmental responsibility, directing efforts to collaborate with the economic and social development of the Brazilian market, considering the specific needs of the business, the complexity of services and products offered, as well as legal and regulatory aspects.

XP primarily takes into account the principles of relevance and proportionality to establish guidelines within the organization. In addition to these principles, it adopts an ethical and transparent stance in relations with the community in which it operates, respecting human rights and practicing sustainable development.

- **Regulatory and Compliance Risk:**

Regulatory and Compliance Risk refers to potential litigation, investigations and regulatory processes inherent in the organization's activities, resulting in the possible risk of legal or regulatory sanctions, fines or penalties, financial loss or reputational damage resulting from non-compliance with laws, regulations, rules or regulatory requirements.

Business Continuity Management

Business Continuity Management is a comprehensive management process that identifies potential threats to an organization and their potential impact on business operations, should these threats materialize.

This process provides a framework for developing an organizational resilience that is able to respond effectively and safeguard the interests of the organization's stakeholders, reputation, brand and value-added activities.

XP has an ongoing process that aims to continuously build and improve organizational resilience and it is divided into five macro-stages: Identify, Analyze, Define, Execute, and Monitor.

Risk Governance

XP has a governance structure suited to the characteristics of the business and the different bodies continuously work together, in accordance with company processes, making them more agile and effective. Below are the Risk Management governance bodies along with their respective responsibilities:

Board of Directors

- Approve the strategic objective, risk profile, as well as the limits and risk levels set out in XP's Risk Appetite Statement;
- Approve the policies and the reporting of Risk and Capital Management;
- Approve the Stress Test Program;
- Approve Business Continuity Policies;
- Approve the Capital Plan and the Capital and Liquidity Contingency Plans;
- Appoint the director responsible for the Management of Risks and Capital ("CRO");
- Ensure that the remuneration structure adopted does not encourage incompatible behaviors with a level of risk considered prudent as defined in the long-term policies and strategies adopted by XP;
- Ensure timely correction of deficiencies in the Risk and Capital Management structures;
- Ensure appropriate and sufficient resources to carry out Risk and Capital Management activities independently, objectively and effectively;
- Ensure there is an understanding and continuous monitoring of risks at the various levels of XP;
- Ensure that XP maintains adequate and sufficient levels of Capital and Liquidity;

- Set up a Risk Committee and define its responsibilities;
- Be responsible for the information provided on the structure of Risk Management;
- Delegate strategic decision making to the specific committees; and
- Disseminate the culture of risk management throughout the organization so that the subject is broadly and completely disseminated among all.

Risk Committee

- Approve corporate standards, procedures, measures and guidelines related to compliance, internal controls and operational risks;
- Ensure compliance with rules, regulations and laws;
- Evaluate the effectiveness and adherence to internal control systems and the risk management process of the brokerage;
- Ensure that risk control parameters, including policies, controls, exposure limits and other forms of mitigation, are adequate and effective in reducing risk exposure to acceptable levels;
- Be aware of and validate high to very high residual risks;
- Direct an appropriate action to material risks that draw the Committee's attention;
- Ensure that exposures to inherent and residual risks, weaknesses in controls, process changes, losses and near-losses are reported appropriately;
- Assist in setting and reviewing XP's levels of risk appetite in its RAS;
- Propose recommendations to the Board of Directors on the following issues, at least annually:
 - i. Risk Management policies, strategies and limits, which set boundaries and procedures designed to maintain exposure to risks in accordance with the levels set in the RAS;
 - ii. Capital Management policies and strategies that establish procedures aimed at maintaining Total Capital, Tier 1 Capital and Common Equity Tier 1, at levels compatible with the risks incurred;
 - iii. The Stress Test Program;

- iv. Policies and strategies for business continuity management;
 - v. The Liquidity Contingency Plan;
 - vi. The Capital Plan; and
 - vii. The Capital Contingency Plan.
- Assess the risk appetite levels set in the RAS and the strategies for managing these levels considering the risks individually and in an integrated manner;
 - Supervise the conduct and performance of the CRO;
 - Verify compliance, with XP's Board of Directors, in accordance with the terms of the RAS;
 - Understand, in a comprehensive and integrated way, the risks that can impact XP's Capital and Liquidity;
 - Understand the limitations and uncertainties related to risk assessment, their models, even when developed by third parties, and methodologies used for Risk Management;
 - Submit to the Board of Directors proposals for the adoption or changes to policies and manuals applicable to the area;
 - Monitor the policies, procedures, responsibilities and relevant definitions to the operational risk management and compliance structure;
 - Deliberate on contracting specialized professional services, investments in control systems and technology, when deemed convenient;
 - Ensure compliance procedures are being followed in line with rules, regulations and laws;
 - Define corrective measures and possible punishments in case of violation of internal compliance rules;
 - Assess the reports issued by the Regulatory Bodies and Internal and External Audits regarding the deficiencies of internal controls and compliance and respective measures in the areas involved;
 - Analyze and deliberate on issues that involve conflict of interest;
 - Review and approve the rules of commissions subordinate to this Committee;

- Revise the Terms of Reference whenever changes occur in the composition of its members or when it is deemed necessary;
- Propose the development and validation of the policies and methods of Information Security Management and Fraud Prevention, ensuring alignment with current legislation and best market practices;
- Propose, validate and monitor the status of the implementation of awareness programs for the dissemination of an Information Security and Fraud Prevention culture;
- Monitor the behavior of the most relevant information security risks, through Key Risk Indicators (KRIs), as well as the status of related strategies and action plans, recommending actions to respond to identified deviations and highlighting their status to those responsible;
- Establish, monitor and control of working groups to address specific issues of Information Security and Fraud Prevention, working as an input for proposing actions and decision-making by the Committee;
- Exchange information with the other committees, with internal and external audits, in order to promote the necessary adjustments to the risk governance structure and the effective handling of risks;
- Consider decisions and guidelines made in the "Technical Risk Commissions", established and designed with a specific scope related to XP's main corporate risks and with the objective of deeper analysis and mitigation strategies;
- The committee shall meet at least 6 times a year; and
- The composition of committee members, minimum quorum, and detailing of roles and responsibilities are described in the "Terms of Reference of the Risk Committee, Compliance, Information Security, Fraud Prevention and Internal Controls".

Treasury Committee

- Define strategies for asset and liability management;
- Define guidelines and parameters for XP's fundraising in relation to maturities, maximum rates and amounts, as well as the target audience and market;
- Ensure that risk control parameters, including policies, controls, exposure limits and other forms of mitigation, are appropriate and effective in order to maintain exposure to market, liquidity and credit risks within the risk profile of XP;

- Observe the framework of the limits contained in the RAS;
- Evaluate the periodic management reports on capital adequacy, and market, liquidity and credit risk management;
- Define the strategies to be adopted for the framing of the RAS limits and mitigation of the relevant risks incurred;
- Define hedging strategies;
- Deliberate on the activation of the Capital and Liquidity Contingency Plans.

Credit Decision Committee

- Approve limits and operations;
- Approve, monitor and review, if necessary, the repayment capacity of companies eligible for credit operations;
- Deliberate on a shorter credit review period in relation to the current Credit Policy, if the Committee deems it necessary;
- Observe and deliberate on changes in either client credit risk quality or specific operations;
- Ensure the identification and measurement of credit risk, through a fundamental analysis of credit risk takers, as well as the assessment of their guarantee structures and/or repayment sources;

Credit and Policy Monitoring Committee

- Ensure participants are aware of the performance of the credit portfolio by way of portfolio indicators;
- Present the P&L of both individuals and business entities for credit analysis;
- Deliberate on the creation or alteration of policies in relation to credit, credit risk and collection, and models for both individuals and business entities;

Corporate Initiatives Committee

- Analyze and deliberate on the request for implementation of new strategic projects to be carried out within the XP Group, including, but not limited to, inclusion of new products and services, decision to create new business, platforms, channels and experiences, observing the following aspects: (i) legal; (ii) regulatory; (iii) compliance; (iv) risks; and (v) viability;

- Analyze and deliberate whenever any product, service, channel, experience, platform or business currently in operation has any relevant changes in its characteristics, scope or objective;
- Ensure that all products, services, business, experiences, channels and platforms in operation in the XP Group are aligned with the Group's values;
- Ensure the compatibility of approved strategic projects with XP's risk profile; analyze and deliberate on the potential risks identified for new XP Group strategic projects, including potential image and compliance risks, regulatory risks, information security and technology infrastructure risks;
- Analyze and deliberate on the risk of concentration to counterparties operating in the same segment of products or businesses or associated with the same type of financial service; analyze and deliberate on the need to exclude products, services, business, channels, experiences or platforms from the XP Group portfolio;
- Ensure that all services, products, channels, experiences and platforms that are part of the XP Group portfolio meet the internal rules of the XP Group, and meet all legal and regulatory requirements;
- Analyze and deliberate on the economic and commercial viability of new products, services, channels, experiences or platforms, mapping the costs involved, distribution potential, revenue and profit margin;
- Revise this Terms of Reference whenever changes occur in the composition of its members or when it is deemed necessary.

Credit Products Distribution Committee

- Deliberate on the counterparty risk of eligible securities for: (i) composition of XP's own security portfolio; and (ii) distribution to XP Investimentos' customers;
- Ensure that the criteria of counterparty credit analysis meets XP's internal rules and all legal and regulatory requirements.

CRO

- Ensure effective management of Market, Liquidity, Credit, Operational, Socio-environmental, Legal and Compliance Risks and other relevant risks and Capital Management.
- Responsible for capital adequacy, the RAS and the strategic objectives of XP, the processes, reports, systems and models used in Risk Management;

- Ensure adequate training on the policies, processes, reports, systems and models of the risk management structure, even if developed by third parties;
- Provide support and participation in the strategic decision-making process related to Risk Management and, when applicable, to Capital Management, assisting the Board of Directors;
- Carry out the CRO's duties and report, independently, directly and without the presence of the members of the Board of Directors, to the Risk Committee and the chief executive of XP.

Risk and Capital Management (Market Risk, Credit, Liquidity and Capital)

- Perform the necessary procedures for effective compliance with Risk Policies and defined processes, which include identifying, measuring, evaluating, monitoring and reporting the Market, Capital and Liquidity Risks;
- Highlight any non-compliance of XP's risk limits to the Board of Directors, Treasury Committee and Risk Committee, and monitor the reframing of exposures;
- Conduct the stress tests program;
- Assess in advance the Market, Credit and Liquidity Risks of new products/services or significant alteration of products/services or alteration of XP's business model;
- Disclose the reports to aid in decision-making specific to Market, Credit and Liquidity Risks;
- Calculate and monitor the Total Capital Ratio so that it is kept within the regulatory limits and limits defined by the RAS;
- Analyze whether the allocated Capital is consistent with the risks assumed by XP, including the risks not covered by the Total Capital;
- Prepare the Capital Plan;
- Assess and monitor hedging strategies and risk-taking initiatives;
- Disseminate a culture of Market, Credit and Liquidity Risk Management and Capital Management;
- Prepare the Risk and Capital Management Report – Pillar III;
- Draw up and maintain the Policies, Procedures and Manuals relevant to Market, Credit and Liquidity Risks and Capital Management.

Internal Controls

- Review and update internal controls, periodically, so that any deficiencies are identified and corrected;
- Test the effectiveness of controls in all areas of XP.

Treasury

- Prepare long-term cash flow projections in accordance with established liquidity horizon assumptions;
- Manage XP's daily cash flow process, analyze current and future liquidity levels, and take action designed to keep liquidity limits in place;
- Carry out the negotiation of the funding operations, in accordance with the parameters defined by the Treasury Committee;
- Circulate the reports to aid decision making.

Compliance

- Promote an organizational culture that encourages ethical conduct and XP's commitment to compliance with current regulations and laws;
- Test and evaluate XP's adherence to the legal framework, regulations, the recommendations of the supervisory bodies and, where applicable, codes of ethics and conduct;
- Carry out an in-depth analysis of customers, partners and suppliers, ensuring compliance with prevention of money laundering regulations, sanctions and Socio-economic Risk;
- Assess in advance the Image and Regulatory Risks on new products/services, relevant changes in processes, systems or XP's business model.

Legal

- Ensure the inclusion of risk mitigation in operations and service contracts with suppliers, where applicable;
- Management of legal, administrative or regulatory processes related to Socio-environmental Risks, involving customers, suppliers, employees and other partners.

Controllership

- Develop the strategic plan with a time horizon of at least three years;
- Measure and control assets, liabilities and results for XP.

Risk Appetite

XP establishes, through the Risk Appetite Statement (RAS), the level of the institution's Risk Appetite for all risk categories in a discretionary manner.

Aligned with XP's mission, the risk management structure focuses mainly on the following pillars:

- 1- Guarantee the highest ethical standards of conduct of all employees;
- 2- Ensure compliance with existing regulatory obligations;
- 3- Safeguard XP's financial resilience;
- 4- Maintain a robust and efficient internal control environment; and
- 5- Preserve XP's image and reputation.

The Risk Appetite guidelines are defined by XP's Board of Directors, performing their responsibilities with the support of the Risk, Treasury and Credit Approval Committees.

These Committees define the objectives, targets and limits for risk management business units, whose functions include ensuring that the operations and activities of these areas follow XP's Risk Appetite guidelines.

Dissemination of risk culture

The risk culture is transmitted through different channels within XP. The main sources of disclosure are the policies and risk manuals available on the XP intranet and training for employees and outsourced workers.

These training courses are mandatory for employees and are available on an internal platform. For third-party workers, XP has an open platform for the general public.

The main objective of this program is to ensure that all employees have a clear understanding of the entire scope of business risks.

Stress Testing Program

The Stress Test Program is a coordinated set of processes and routines for the preparation and approval of scenarios, modeling, calculation, validation, reporting and use of the obtained results.

The ultimate goal of the Stress Test Program is to provide support for XP's strategic decisions and assessment of capital and liquidity levels.

Contingency plans, proposing a review of risk appetite levels and, if necessary, of policies and strategies and testing of limits established for the purpose of integrated risk management and capital management.

The Stress Testing Program is developed by the Risk and Capital Management area, with support from the Economics, Credit Approval, Credit Operations, Collateral Management, Operational Risk, Legal, Treasury, Financial Planning and Controllership areas.

XP uses sensitivity analysis in its stress test program.

The guidelines to be followed and the results are discussed and approved by the Board of Directors.

The methodology, premises and parameters are duly detailed and described in specific documents, under the responsibility of the Risk and Capital Management area.

Reporting and Mitigation Process

Once the risks and causes have been measured, those which have a residual equal to or greater than a high level, at the very least should have action plans established to reduce the risk to an acceptable level, with actions that include reducing, mitigating, accepting or transferring the risks in accordance with the assessment of the effect, costs and benefits.

The action plans contain the measures for control, the individual responsible, and the deadlines for carrying out the strategies adopted, in accordance with the level of risk identified.

Capital Management

For XP, maintaining the Common Equity Tier 1, Tier 1 and Total Capital ratios higher than the mandatory minimum requirements, as defined by CMN Resolution 4,958/21, is essential to ensure the organization's capital adequacy.

Therefore, XP's Capital Management is carried out in accordance with its strategic objectives and adhere to regulations set out by the Central Bank of Brazil. Capital risk appetite metrics are established, which the organization defines as adequate to ensure business growth and meet minimum requirements and the Capital Buffer Requirement³.

An assessment of XP's Capital is effectuated periodically through the following controls:

- Reports with daily controls of the Total Capital Ratio;
- Definition and updating of Policies and Procedures;
- Capital Plan;
- Mapping of areas responsible for monitoring, controlling, assessing capital needs and goal setting;
- Risk and Treasury Committees as decision-making bodies;
- Top level management for strategic decision making.

In addition, XP considers that having robust Risk Management and solid Capital Management are important principles of due diligence to protect itself in adverse scenarios and avoid, through a contagion effect, a disruption to the financial system.

2.3. Overview of Risk-Weighted Assets (RWA) (OV1)

The risks covered by Total Capital are monitored and represented by risk-weighted assets (RWA) and the Risk of Variation in Interest Rates on Instruments classified in the Banking Book (IRRBB).

Risk-Weighted Assets⁴ are calculated by adding the exposures of Credit (RWA_{CPAD}), Market (RWA_{MPAD}) and Operational (RWA_{OPAD} – basic indicator approach) risk.

³ Currently, XP is subject to the Conservation and Countercyclical Capital Buffers Requirements.

⁴ The credit risk (RWA_{CPAD}) and Operational Risk (RWA_{OPAD}) are calculated according to Bacen Circular 3,644/13 and 3,640/13 and subsequent changes, respectively.

The total minimum capital requirement is 8% of the indicative values of the RWA exposures as of December 31, 2022. These values are reported in accordance with CMN Resolution 4,958/21, represented in the following table:

R\$ thousand	RWA		Minimum capital requirements
	12/31/2022	09/30/2022	12/31/2022
Credit Risk: standardized approach	25.956.270	24.028.963	2.076.502
Credit risk (excluding counterparty credit risk)	16.857.427	14.808.772	1.348.594
Counterparty credit risk (CCR)	4.715.150	4.477.513	377.212
Of which: standardized approach for counterparty credit risk (SA-CCR)	-	-	-
Of which: Current Exposure Method approach (CEM)	3.528.492	3.773.966	282.279
Of which: other CCR	1.186.658	703.547	94.933
Increase related to Credit valuation adjustment (CVA)	2.026.294	1.759.349	162.104
Equity investments in funds - look-through approach	382.435	1.389.271	30.595
Equity investments in funds - mandate-based approach	-	-	-
Equity investments in funds - fall-back approach	-	-	-
Securitisation exposures - standardized approach	102.191	46.216	8.175
Amounts for exposures not deducted from Total Capital calculation	1.872.772	1.547.842	149.822
Market risk	1.590.316	1.497.051	127.225
Of which: standardized approach (RWA_{MPAD})	1.590.316	1.497.051	127.225
Of which: internal models approach (IMA) (RWA_{MINT})	-	-	-
Operational risk	11.858.551	11.858.551	948.684
Total	39.405.137	37.384.566	3.152.411

Total RWA increased by R\$ 2.0 billion in the quarter mainly due to the growth in the credit operations in the RWA_{CPAD} (R\$ 1.9 billion).

3. Liquidity Risk Management

3.1. Qualitative Liquidity Risk Management Information (LIQA)

The Liquidity Risk Management structure aims to identify, measure, assess, monitor and control the risks associated with each individual institution and with XP, ensuring that the level of Liquidity Risk is within the risk appetite and established operating limits.

The Liquidity Management implemented is aligned with XP's strategy and business model, and is compatible with the nature of its operations, the complexity of the institution's products, the relevance of risk exposure, and the systemic importance of XP.

XP's Liquidity Risk Management structure provides for:

- Liquidity Risk Management policies and strategies that establish parameters and limits to ensure liquidity levels are considered acceptable by XP;
- Stress Tests that identify the need to reassess liquidity policies and contingency plans, observing minimum liquidity limits;
- Liquidity Contingency Plan, to face liquidity stress situations;
- Liquidity Risk Management Activities, allocated to the Risk and Capital Management area, which acts independently in proposing risk management policies and standards.

XP always maintains an adequate level of liquidity working with a minimum cash limit. This is done through management that is compatible and consistent with the ability to obtain resources in the market and with budget targets for the growth in the volume of assets.

Communication and Risk Information

Daily, management reports with cash information, control of internal and customer resources, and asset liquidity ratios are available for business units and members of the Treasury Committee.

Liquidity Contingency Plan

In the event of a lack of liquidity in the financial markets, or the identification of an internal risk that results in a violation of the minimum liquidity limit, the Prudential Conglomerate's Liquidity Contingency Plan will be triggered.

XP's Liquidity Contingency Plan provides for a sequence of actions that must be taken if there is a stressful situation. The positive effects on liquidity generated by the execution of the Contingency Plan should be sufficient to bring cash back within the required minimum liquidity limits.

The implementation of alternatives may vary due to market timing or because of the profile of XP's asset and liability portfolios.

4. Credit Risk Management

4.1. Qualitative information on credit risk management (CRA)

Credit Risk Management, pursuant to CMN Resolution 4,557/17, aims to maintain the quality of the credit portfolio at levels consistent with XP's Credit Risk Appetite and operational limits.

The Credit Management structure is compatible with the nature of the operations, the complexity of its products, the relevance of risk exposure, and the systemic importance of XP.

XP manages its Credit Risk exposure throughout the entire credit cycle, from granting and monitoring, to collection and recovery activities.

This structure allows for the identification, assessment, monitoring and control of exposure to credit risk and is composed of the following elements:

- Internal Policies and Procedures;
- Processes for granting, maintaining, and recovering credit, in addition to monitoring credit risk;
- Committees as decision-making bodies.

XP has defined and approved policies for the processes of granting, maintaining and recovering credit, aiming to provide greater transparency and cohesion to internal guidelines and procedures.

4.2. Credit quality of operations – (CR1)

R\$ thousand	12/31/2022			
	Gross values:		Allowances, advances and unearned income (c)	Net Values (a+b-c)
	Defaulted exposures (a)	Non- defaulted exposures (b)		
Loans	23.034	58.569.313	43.190	58.549.156
Debt Securities	-	41.313.731	-	41.313.731
of which: national sovereign bonds	-	34.720.480	-	34.720.480
of which: other debts	-	6.593.251	-	6.593.251
Off-balance sheet exposures	-	5.018.373	33	5.018.340
Total	23.034	104.901.417	43.223	104.881.228

In the table above, the amount of repurchase transactions represents approximately R\$ 44,9 billion of the total amount of credit granted.

4.3. Changes in the stock of defaulted loans and debt securities – (CR2)

As of December 31, 2022, the value of defaulted loans and debt securities was R\$ 23,033,672.

R\$ thousand	Total
Defaulted loans and debt securities at end of the previous reporting period (06/30/2022)	29.103
Loans and debt securities that have defaulted since the last reporting period	9.163
Amount returned to non-defaulted status	- 18.235
Amount written off	3.003
Other adjustments	-
Defaulted loans and debt securities at end of the reporting period (12/31/2022)	23.034

4.4. Additional disclosure related to the credit quality of assets – (CRB)

The tables below present the details of XP's exposures and defaulted loans, segregated by geographic region, by country, by economic sector and remaining term of maturity:

12/31/2022 In R\$ thousand	Total Exposure (Net values)	Contracts with Remaining Maturity			
		Up to 6 months	Between 6 months and 1 year	Between 1 year and 5 years	Above 5 years
Geographic Region	104.881.228	36.485.539	13.135.283	40.497.764	14.762.641
Southeast	59.497.746	20.764.536	8.209.237	21.833.706	8.690.267
South	4.044.622	1.206.670	213.503	2.570.165	54.284
Midwest	2.153.523	38.065	93.036	2.014.867	7.554
North	345.324	20.182	21.008	299.694	4.440
North East	804.384	67.275	105.137	616.506	15.465
National (TPF)	36.291.941	12.645.123	4.493.362	13.162.825	5.990.631
Offshore	1.743.688	1.743.688	-	-	-
Economic Sector	104.881.228	36.485.539	13.135.283	40.497.764	14.762.641
Pessoa Física	20.510.164	6.076.813	5.900.489	8.305.151	227.711
Pessoa Jurídica	84.371.064	30.408.726	7.234.794	32.192.613	14.534.931
Public sector	38.035.629	14.388.811	4.493.362	13.162.825	5.990.631
Private sector	46.335.434	16.019.914	2.741.431	19.029.788	8.544.300
Financial	37.440.773	14.779.978	2.139.672	12.916.362	7.604.761
Industry	13.781	-	-	4.064	9.717
Services	27.289	2.117	188	7.726	17.258
Oil and Energy	1.249.891	57.951	5.210	728.104	458.627
Agroindustry	1.206	-	-	29	1.177
Others	7.602.494	1.179.869	596.361	5.373.503	452.760

12/31/2022	Defaulted Loans		
	In R\$ thousand	Total	Provision
Geographic Region	23.034	23.034	-
Southeast	23.034	23.034	-
South	-	-	-
Midwest	-	-	-
North	-	-	-
North East	-	-	-
Offshore	-	-	-
Economic Sector	23.034	23.034	-
Pessoa Física	23.034	23.034	-
Pessoa Jurídica	-	-	-
Public sector	-	-	-
Private sector	-	-	-
Financial	-	-	-
Industry	-	-	-
Services	-	-	-
Oil and Energy	-	-	-
Others	-	-	-

In December 2022, the value of defaulted loans and debt securities was R\$ 23,033,673.

Additionally, the following tables detail:

- i) the total past due loans exposures segmented by past due loans band;
- ii) segregation of total restructured exposures and;
- iii) percentage of the ten and one hundred largest exposures presented in the CR1 table, respectively:

12/31/2022	Past due operations	
	In R\$ thousand	
Less than 30 days	33.329	
Past due 31 to 90 days	13.492	
Past due 91 to 180 days	10.076	
Past due 181 to 365 days	9.153	
Past due more than 365 days	3.805	
Total	69.855	

12/31/2022	Defaulted Loans		Others
	In R\$ thousand		
Total Restructured Exposures	1.638		1.709

12/31/2022	Exposures		% of Portfolio ¹
	In R\$ thousand		
10 largest Exposures	35.828.451		32%
100 largest Exposures	41.571.355		37%

¹ Percentage in relation to the total Non- defaulted exposures of table CR1.

5. Securitization Exposures

5.1. Qualitative disclosure requirements related to securitization exposures (SECA)

XP has a portfolio of bonds and securities (TVM) arising from a securitization process. This portfolio comprises Real Estate Receivables Certificates (CRI), Credit Rights Investment Funds (FIDC) and Agribusiness Receivables Certificates (CRA).

The Institution's objectives when carrying out operations of this nature are related to XP's business. Coordination of product distribution is one of the main businesses, which acts as a market maker and facilitator of investment options in fixed income for the organization's client network. All of these exposures are also subject to XP's governance rules.

XP's proprietary portfolio has CRIs and CRAs that are intended for trading. The bonds are updated daily in the accounting system, calculated on a daily pro rata basis, based on the negotiated interest rate and maturity date. On balance sheet closing dates, securities are marked to market based on an internal asset pricing methodology.

6. Market Risk Management

6.1. Qualitative disclosure requirements related to market risk (MRA)

The Market Risk Management process complies with CMN Resolution 4,557/17 and includes identification, analysis, evaluation, treatment, monitoring and communication.

The Trading Book consists of all transactions with financial instruments and commodities, including derivatives, acquired with the intent to trade or to hedge other elements of the trading book, and which are not subject to the limitation of trading.

Market Risk monitoring uses historical and statistical data to predict the behavior of the economy and possible scenarios that may eventually affect the assets of an investment portfolio.

The controls for measuring the market risk exposure used by XP are reputable and widely used in the market, and include:

- Parametric Value At Risk (VAR): this is the value of a portfolio at risk and can be defined as an estimate of maximum loss under normal market conditions, given a confidence level of 95% and a time horizon of 1 day; and
- Stress test: this is a method for measuring potential losses arising from extreme market events, through projections of critical and low probability scenarios. It is a mechanism that requires an analysis of future scenarios and understanding of the vulnerability of portfolios under unlikely conditions, which helps in reviewing the internal risk exposure limits.
- DV01: this is a market risk metric that represents sensitivity to a given yield curve against an increase of 1 basis point;
- Exposure limits by risk factor and instrument.

6.2. Market risk under standardized approach (MR1)

The table below shows the values of assets weighted by market risk (RWA_{MPAD}) in accordance with Bacen 3,634/13 to 3,646/13 and subsequent changes.

Risk factors (In R\$ thousand)	12/31/2022	09/30/2022
Interest Rates	1.438.029	1.328.379
Prefixed interest rates in Brazilian Real (RWA_{JUR1})	307.975	158.772
Foreign exchange coupon rates (RWA_{JUR2})	32	522
Price index coupon rates (RWA_{JUR3})	1.130.022	1.169.085
Interest rate coupon rates (RWA_{JUR4})	-	-
Stock prices (RWA_{ACS})	101.078	52.465
Exchange rates (RWA_{CAM})	40.823	89.974
Commodity prices (RWA_{COM})	10.386	26.234
Total	1.590.316	1.497.051

As of December 31, 2022, the RWA_{MPAD} totaled R\$ 1.6 billion. Compared to September 30, 2022, there was an increase of the expositions in RWA_{JUR1} and RWA_{ACS} .

6.3. Exposure associated with derivative instruments

The tables below show the exposure values, as of September 30, 2022, of Derivative Financial Instruments owned by the company by market risk factor. Long and short positions are segregated and subdivided into positions held in Brazil and abroad.

12/31/2022

Onshore - with Central Counterparty (In R\$ thousand)		
Risk Factors	Long position	Short position
Interest Rates	103.424.423	101.796.177
Exchange Rates	5.073.034	2.747.732
Stock Prices	-	-
Commodities	-	-
Total	108.497.457	104.543.909

Onshore - without Central Counterparty (In R\$ thousand)		
Risk Factors	Long position	Short position
Interest Rates	147.690.376	151.911.707
Exchange Rates	40.853.282	47.083.408
Stock Prices	145.024	101.744
Commodities	1.660	1.660
Total	188.690.342	199.098.519

Offshore - with Central Counterparty (In R\$ thousand)		
Risk Factors	Long position	Short position
Interest Rates	-	-
Exchange Rates	-	-
Stock Prices	-	-
Commodities	-	-
Total	-	-

Offshore - without Central Counterparty (In R\$ thousand)		
Risk Factors	Long position	Short position
Interest Rates	-	-
Exchange Rates	214.612	214.612
Stock Prices	139.873	139.873
Commodities	-	-
Total	354.485	354.485

7. Interest rate risk from instruments held in the banking book – IRRBB

7.1. IRRBB Risk Management Objectives and Policies (IRRBBA)

The risk of exchange rate variation in instruments held in the Banking Book refers to the potential impact on capital due to adverse interest rate movements affecting the positions of the Banking Book. XP calculates the IRRBB in accordance with Bacen Circular

3,876/18, which comprises methodologies for evaluating the Total Capital in the face of such risks.

As a result, it aims to estimate whether the organization has sufficient capital when mismatches between assets and liabilities arise (from the perspective of interest rate variation). The risks generated by these mismatches are controlled by two metrics: (i) the impact of the variation in interest rates on the economic value of the instrument (Δ EVE) and: (ii) the impact of the variation in interest rates on the organization's results (Δ NII).

The ultimate goal of managing the Banking Book is to minimize the oscillations of Banking Instruments and maximize the potential return of the portfolio. In addition, XP has risk appetite metrics that establish levels that the organization considers to be appropriate for the IRRBB.

The Treasury unit is responsible for the management of bank assets and liabilities and acts in the execution of IRRBB's hedging operations. To mitigate accounting mismatch, OTC derivative products are used, as well as government bonds. Additionally, risk measurement criteria and internal manuals are used to guide the management of the IRRBB.

The periodicity of calculation of the IRRBB measures occurs through daily reports for the Treasury team, which are also presented monthly to the Treasury Committee and bimonthly to the Risk Committee.

7.2. Quantitative information on IRRBB (IRRBB1)

The table below presents the main results arising from changes in Interest Rates on the Banking Portfolio in the standardized scenarios:

In R\$ thousand	12/31/2022		12/31/2021	
	Δ EVE	Δ NII	Δ EVE	Δ NII
Scenarios ¹				
Parallel Up	788.920	287.368	13	126.367
Parallel Down	-912.163	65.044	345.462	5.123
Short rate Up	NA	0	NA	0
Short rate Down	NA	0	NA	0
Steeper	NA	0	NA	0
Flatter	NA	0	NA	0
Maximum	788.920	287.368	345.462	126.367
Tier I	7.394.777		3.696.590	

¹Losses in variation measurements are shown as positive values, as per Art. 13 §3º of Circular 3,876.

8. Glossary of Acronyms

ACP – Additional Buffer Requirements

ACP Conservation – Capital Conservation Buffer Requirement

ACP Countercyclical – Countercyclical Buffer Requirement

ACP Systemically Important Bank – G-SIB and/or D-SIB Additional Requirement

ASF – Available Stable Funding

BACEN – Central Bank of Brazil

CCR – Counterparty Credit Risk

CEM – Current Exposure Method

CEO – Chief Executive Officer

CRA – Certificate of Agribusiness Receivables

CRI – Certificate of Real Estate Receivables

CRO – Chief Risk Officer

CVA – Credit Valuation Adjustment

DV01 – Amount at risk for a given interest rate movement

FIDC – Credit Rights Investment Fund

CET 1 – Common Equity Tier 1

IRRBB – Interest Rate Risk in the Banking Book

HQLA – High Quality Liquid Assets

LCR – Liquidity Coverage Ratio

NSFR – Net Stable Funding Ratio

OTC – Over the Counter

LR – Leverage Ratio

RAS – Risk Appetite Statement

RSF – Required Stable Funding

RWA – Risk-Weighted Assets

RWA_{CPAD} – Portion relating to exposures to credit risk

RWA_{MINT} – Portion relating to exposures to market risk, using internal approach

RWA_{MPAD} – Portion relating to exposures to market risk, using standard approach

RWA_{JUR1} – RWA_{MPAD} portion of prefixed interest rates

RWA_{JUR2} – RWA_{MPAD} portion of foreign currency coupons

RWA_{JUR3} – RWA_{MPAD} portion of price index coupons

RWA_{JUR4} – RWA_{MPAD} portion of interest rates

RWA_{ACS} – RWA_{MPAD} portion of stock prices

RWA_{CAM} – RWA_{MPAD} portion of exchange rate

RWA_{COM} – RWA_{MPAD} portion of commodities

RWA_{OPAD} – Assets Weighted by Operational Risk

SA - CCR – Standardized Approach for Counterparty Credit Risk

TVM – Securities

VaR – Value at Risk

9. Glossary of Regulations

BACEN Circular No. 3,644 of March 4, 2013

BACEN Circular No. 3,634 of March 4, 2013

BACEN Circular No. 3,646 of March 4, 2013

BACEN Circular No. 3,640 of March 4, 2013

BACEN Circular No. 3,748 of February 27, 2015

CMN Resolution No. 4,557 of February 23, 2017

BACEN Circular No. 3,876 of January 31, 2018

BACEN Circular No. 3.930 of February 14, 2019

BACEN Resolution No. 54 of December 16, 2020

CMN Resolution No. 4,950 of September 30, 2021

CMN Resolution No. 4,955 of October 30, 2021

CMN Resolution No. 4,958 of October 30, 2021

