

(A free translation of the original in Portuguese)

***Banco BOCOM
BBM S.A.***

***Financial statements at
June 30, 2018
and independent auditor's report***



(A free translation of the original in Portuguese)

Independent auditor's report

To the Board of Directors and Stockholders
Banco BOCOM BBM S.A.

Opinion

We have audited the accompanying parent company financial statements of Banco BOCOM BBM S.A. (the "Bank"), which comprise the balance sheet as at June 30, 2018 and the statements of income, changes in equity and cash flows for the six-month period then ended, as well as the accompanying consolidated financial statements of Banco BOCOM BBM S.A. and its subsidiaries ("Consolidated"), which comprise the consolidated balance sheet as at June 30, 2018 and the consolidated statements of income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Banco BOCOM BBM S.A. and of Banco BOCOM BBM S.A. and its subsidiaries as at June 30, 2018, and the Bank's financial performance and cash flows, as well as the consolidated financial performance and cash flows, for the six-month period then ended, in accordance with accounting practices adopted in Brazil, applicable to institutions authorized to operate by the Brazilian Central Bank (BACEN).

Basis for opinion

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Parent Company and Consolidated Financial Statements section of our report. We are independent of the Bank and its subsidiaries in accordance with the ethical requirements established in the Code of Professional Ethics and Professional Standards issued by the Brazilian Federal Accounting Council, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other information accompanying the parent company and consolidated financial statements and the auditor's report

The Bank's management is responsible for the other information that comprises the Management Report.

Our opinion on the parent company and consolidated financial statements does not cover the Management Report, and we do not express any form of audit conclusion thereon.

In connection with the audit of the parent company and consolidated financial statements, our responsibility is to read the Management Report and, in doing so, consider whether this report is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement in the Management Report, we are required to report that fact. We have nothing to report in this regard.



Banco BOCOM BBM S.A.

Responsibilities of management and those charged with governance for the parent company and consolidated financial statements

Management is responsible for the preparation and fair presentation of these parent company and consolidated financial statements in accordance with accounting practices adopted in Brazil, applicable to institutions authorized to operate by the Brazilian Central Bank (BACEN), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the parent company and consolidated financial statements, management is responsible for assessing the Bank and its subsidiaries' ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank and its subsidiaries or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the financial reporting process of the Bank and its subsidiaries.

Auditor's responsibilities for the audit of the parent company and consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the parent company and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Brazilian and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Brazilian and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the parent company and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Bank and its subsidiaries.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank and its subsidiaries' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in




Banco BOCOM BBM S.A.

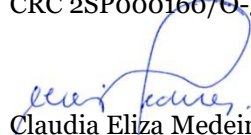
our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank and its subsidiaries to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the parent company and consolidated financial statements, including the disclosures, and whether these financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Rio de Janeiro, August 15, 2018


PricewaterhouseCoopers
Auditores Independentes
CRC 2SP000160/O-5


Claudia Eliza Medeiros de Miranda
Contadora CRC 1RJ087128/O-0

Management Report

Who We Are

Banco BOCOM BBM S.A. is a Brazilian financial institution controlled by Bank of Communications, which owns 80% of its equity, as a joint venture with Brazilians who own the rest.

Bank of Communications was founded in 1908 in the city of Shanghai with the aim of boosting Chinese industry. It opened its first branch in Hong Kong in 1934. Banco BOCOM BBM S.A.'s origins date from 1858 in the city of Salvador in Bahia State, Brazil.

Coherently with these two origins, today we are dedicated to meeting the credit and financial service requirements of companies established in Brazil, and to providing wealth management services for individuals, including the management of liquid assets and protection against financial risks.

We look to the future with determination to participate in the growing economic and cultural integration between Brazil and China, always based on the two institutions' and countries' core values.

Management Message

Uncertainty regarding both the Brazilian and global outlook increased in the first half. On the domestic front, a national truck drivers' strike impaired the economic performance. Moreover, the presidential race remained undefined. On the foreign front, the US dollar has started to appreciate, putting pressure on EM currencies. The US administration also introduced several protectionist measures. In sum, the economic environment has become more challenging.

The truck drivers' strike in late May has caused a strong drop in activity in the short term. Although the strike is over and a bounce in activity is already occurring, several confidence indicators have also deteriorated, pointing to a weaker recovery in the year. We expect GDP to grow 1.5% in 2018.

The strike also pushed inflation higher in June, owing mainly to higher food and gasoline prices. However, the supply shock was temporary and inflation measures began slowing down by late June. Our inflation forecast for this year is now close to 4.0%, up from 3.5% early in the year, but still below the 4.5% target.

As for monetary policy, the Central Bank of Brazil ended the easing cycle at 6.5%. The Selic is expected to remain on hold at this level until the end of the year, but the main risk to this scenario comes from the exchange rate.

The strengthening of the dollar around the globe and diminishing risk appetite toward emerging markets have pushed the Brazilian currency lower, forcing the Central Bank to intervene in the FX market through swap auctions. The protectionist measures announced by the US administration against other countries also contributed to higher risk aversion.

For now, the currency's weakness hasn't significantly altered the inflation outlook, as a large output gap continues to put downward pressure on prices. However, the situation deserves close watching.

The outcome of the presidential election continues to be important not only for next steps in monetary policy but also for the overall economic outlook. Polls continue to point to an open race and the number of undecided voters remains high.

In short, both the domestic and global economic outlooks are less positive, and the October election will be an important crossroad for the choices ahead.

Management Report

Performance of Prudential Conglomerate

The Prudential Conglomerate posted equity of R\$ 595 million and net income of R\$ 39 million at June 30, 2018, which corresponds to annual profitability of 13.28% calculated based on the average equity for the period.

Total assets at the end of the year amounted to R\$ 6,078 million. The volume raised in the domestic and foreign markets totaled R\$ 4,963 million at the period end, an increase of 29% compared to June 30, 2017. The Bank's Basel Capital Adequacy Ratio was 14.37% at the end of the semester.

Credit for companies

The Bank's extended credit portfolio (including advances on foreign exchange contracts and guarantees provided through sureties and collateral) totaled R\$ 4,157 million at the end of the semester, an increase of 31% compared to June 30, 2017.

Capitalizing on the expertise developed over the years, both by the commercial team and the Products and Treasury areas, the Bank operates on a dynamic and selective basis, seeking to ensure that its products suit its clients' needs, adjusting flows and guarantees.

Wealth Management

Banco BOCOM BBM's Wealth Management area uses constantly updated tools for asset management of Brazilian and foreign clients, through diversified financial products in an open platform, meeting the long-term objectives. In the past year our Assets under advisory increased 40% from R\$ 4,103 million in June 30th, 2017 to R\$ 5,780 million in June 30th, 2018.

Financial Services

To better serve our clients, the continuous increase in the scope services and financial products is a priority in BOCOM BBM expansion strategy. In line with this objective, our service revenues as a percentage of total revenues have increased to more than 19% in first half of 2018.

Currently BOCOM BBM offer financial services such as debt capital market -DCM, distribution, pricing of derivatives and other products for clients.

The Bank coordinated the issuance of R\$ 150 million in Debentures and Promissory Notes and R\$ 120 million in CRA in the first half of 2018.

People

Banco BOCOM BBM is a center for identification and training of talents, which values the systematic pursuit of the latest knowledge and honors professionals who want to achieve their professional ambitions while adding value to the Group. We are in close contact with the academic environment, investing in the identification and qualification of talent, making partnerships with the most renowned universities of Brazil, offering scholarships and awards to essays and thesis. We provide ideal conditions for practical learning, once it offers a direct contact with the financial market day-to-day dynamics through a broad exchange of knowledge inside a highly qualified professional and teamwork environment.

Management Report

Credit Rating

In Banco BOCOM BBM's view, rating agencies' ratings are an important source of transparent and independent assessment of the quality of our credit.

Moody's Investors Service reaffirmed the ratings of Banco BOCOM BBM on April 10, 2018. In the national scale Banco BOCOM BBM was rated as "Aaa.br", the best possible credit rating in this category. On a global scale, "Ba1" rating was assigned to our senior unsecured local currency debts, with a notch above the sovereign rating ("Ba2"). The perspective improved from "negative" to "stable", coming along with the similar movement of the sovereign rating.

In addition, on October 3, 2017, the rating process was completed by Fitch. Nationwide was awarded the long-term rating "AAA (bra)", the highest possible rating in this category. On a global scale, long-term issuer default ratings (IDRs) "BB +" and "BBB-" were assigned in foreign currency and local currency respectively, being above the sovereign rating ("BB"). The long-term local currency IDR "BBB-" is the highest assigned to a bank in Brazil and places Banco BOCOM BBM as the only Brazilian bank with investment grade in this category.

Balance sheets

Assets	Note	In R\$ thousand			
		Bank		Operational Consolidated	
		06/30/2018	06/30/2017	06/30/2018	06/30/2017
Current assets		2,874,510	3,087,197	3,220,785	3,227,857
Cash and cash equivalents	4	12,440	5,315	34,954	6,863
Cash		3		3	
Free reserves		260	349	260	349
Funds in foreign currency		12,177	4,966	34,691	6,514
Short-term interbank investments	5	292,958	739,732	381,662	854,867
Open market investments	4	185,016	722,067	185,016	722,067
Investments in foreign currencies	4	107,942	17,665	196,646	132,800
Marketable securities and derivative financial instruments	6	432,551	527,219	628,602	528,889
Bank portfolio		242,761	507,721	242,761	507,726
Subject to repurchase agreements		3,921	14,447	3,921	14,447
Derivative financial instruments		127,852	5,051	323,903	6,716
Linked to guarantees given		58,017	-	58,017	-
Interbank accounts		7,341	12,796	7,341	12,795
Check payment services and other papers		-	10	-	10
Deposits - Central Bank of Brazil		1,479	3,310	1,479	3,310
Correspondent banks		5,862	9,476	5,862	9,475
Loan transactions	7	1,313,348	1,176,492	1,341,721	1,196,274
Discounted securities and loans		760,716	739,011	789,090	753,689
Financing		343,077	425,536	343,077	430,640
Rural and agroindustrial financing		242,345	40,169	242,345	40,169
Allowance for loans		(32,791)	(28,224)	(32,791)	(28,224)
Other receivables		778,909	599,939	789,474	602,398
Foreign exchange portfolio	8	687,104	558,439	687,104	558,439
Unearned income		5,000	2,548	5,000	2,548
Securities trading		2,979	846	2,979	846
Honoured guarantee and surety	7	19,954		19,954	
Sundry	14	37,213	12,405	47,722	13,580
Tax credits	24	52,999	30,324	53,055	31,608
Allowance for other receivables	7	(26,340)	(4,623)	(26,340)	(4,623)
Other assets	15	36,962	25,704	37,030	25,771

The accompanying notes are an integral part of these financial statements.

Balance sheets

Assets	Note	In R\$ thousand			
		Bank		Operational Consolidated	
		06/30/2018	06/30/2017	06/30/2018	06/30/2017
Non-current					
Long-term assets		2,686,917	1,882,934	2,727,042	1,906,633
Short-term interbank investments	5	3,361	3,130	3,361	3,130
Interbank deposits		3,361	3,130	3,361	3,130
Investments in foreign currencies					
Marketable securities and derivative financial instruments	6	1,189,518	876,643	1,189,518	878,730
Bank portfolio		828,990	556,796	828,990	556,796
Subject to repurchase agreements		168,158	59,409	168,158	59,409
Derivative financial instruments		4,818	39	4,818	2,126
Linked to guarantees given		187,553	260,399	187,553	260,399
Loan transactions	7	1,416,324	904,731	1,454,271	925,701
Discounted securities and loans		804,178	565,961	842,125	571,293
Financing		270,467	78,977	270,467	94,615
Rural and agroindustrial financing		359,652	298,861	359,652	298,861
Allowance for loans		(17,973)	(39,068)	(17,973)	(39,068)
Other receivables		77,713	97,745	79,892	98,387
Unearned income		2,115	2,240	2,115	2,240
Sundry	14	54,133	46,905	54,133	47,421
Tax credits	24	21,465	48,628	23,644	48,754
Allowance for other receivables	7	-	(28)	-	(28)
Other assets	15	-	685	-	685
Permanent assets		388,249	354,707	130,608	145,552
Investments		378,570	349,606	120,918	140,444
Interest in Subsidiaries					
In Brazil		10,541	10,718	-	-
Abroad	9	368,030	338,888	120,918	140,444
Other investments		1,810	1,760	2,628	2,628
Provisions for losses		(1,811)	(1,760)	(2,628)	(2,628)
Property and equipment in use		4,612	3,568	4,623	3,575
Intangible assets		5,067	1,533	5,067	1,533
Total assets		5,949,676	5,324,838	6,078,434	5,280,042

The accompanying notes are an integral part of these financial statements.

Balance sheets

Liabilities

	Note	In R\$ thousand			
		Bank		Operational Consolidated	
		06/30/2018	06/30/2017	06/30/2018	06/30/2017
Current assets		3,292,203	3,099,510	3,420,958	3,166,028
Deposits	10	819,019	738,279	926,740	852,398
Demand deposits		150,503	136,643	263,629	140,450
Interbank deposits		9,960	29,254	4,555	17,236
Time deposits		658,556	572,382	658,556	694,712
Repurchase agreements	11	166,258	743,716	166,258	743,716
Bank portfolio		166,258	73,736	166,258	73,736
Third-parties' portfolio		-	669,980	-	669,980
Funds from acceptance and issue of securities	12	1,853,134	944,576	1,853,134	891,625
Liabilities – marketable securities abroad		191,830	53,109	191,830	158
Liabilities from issue of agribusiness credit bills		1,123,891	732,426	1,123,891	732,426
Liabilities from issue of credit bills		465,069	135,636	465,069	135,636
Liabilities from issue of real estate credit bills		72,344	23,405	72,344	23,405
Interbank accounts		55	33	55	33
Receipts and payments to be settled		55	33	55	33
Interbranch accounts		101,007	54,098	101,007	54,098
Third-party funds in transit		101,007	54,098	101,007	54,098
Borrowings	13	148,970	544,614	148,970	544,614
Loans abroad		148,970	544,614	148,970	544,614
Lending Obligations - Official Institutions	13	1,551	-	1,551	-
Other institutions		1,551	-	1,551	-
Derivative financial instruments	6	48,323	4,542	52,153	5,539
Derivative financial instruments		48,323	4,542	52,153	5,539
Other liabilities		153,886	69,652	171,090	74,005
Collection of similar taxes		887	1,504	887	1,504
Foreign exchange portfolio	8	98,764	8,847	98,764	8,847
Social and statutory		18,318	28,400	18,711	28,554
Tax and social security		15,588	12,865	16,796	13,469
Securities trading		8	2	8	2
Allowance for financial guarantees	7 and 26	966	189	966	189
Sundry		19,355	17,845	34,958	21,440

The accompanying notes are an integral part of these financial statements.

Balance sheets

Liabilities	Note	In R\$ thousand			
		Bank		Operational Consolidated	
		06/30/2018	06/30/2017	06/30/2018	06/30/2017
Non-current					
Long-term payables		2.051.725	1.645.288	2.051.727	1.533.974
Deposits	10	303.299	306.414	303.299	306.414
Interbank deposits		343	1.571	343	1.571
Time deposits		302.956	304.843	302.956	304.843
Funds from acceptance and issue of securities	12	1.277.209	1.061.343	1.277.209	947.915
Liabilities – marketable securities abroad		-	113.428	-	-
Liabilities from issue of agribusiness credit bills		278.887	301.804	278.887	301.804
Liabilities from issue of credit bills		982.662	624.045	982.662	624.045
Liabilities from issue of real estate credit bills		15.660	22.066	15.660	22.066
Borrowings	13	387.038	252.273	387.038	252.273
Loans abroad		387.038	252.273	387.038	252.273
Derivative financial instruments	6	30.767	1.687	30.767	3.773
Derivative financial instruments		30.767	1.687	30.767	3.773
Other liabilities		53.413	23.571	53.416	23.599
Social and statutory		24.625	5.550	24.625	5.550
Tax and social security		11.499	12.383	11.502	12.411
Sundry		17.002	5.638	17.002	5.638
Allowance for financial guarantees	7 and 26	286	-	286	-
Deferred income		11.093	8.232	11.093	8.232
Equity	16	594.656	571.808	594.656	571.808
Capital		469.300	469.300	469.300	469.300
Domiciled in Brazil		469.300	469.300	469.300	469.300
Market value adjustment of securities and derivatives		(1.492)	(2.180)	(1.492)	(2.180)
Securities held for sale		(1.492)	(2.180)	(1.492)	(2.180)
Income reserves		308.687	289.157	308.687	289.157
Treasury stock		(181.839)	(184.469)	(181.839)	(184.469)
Total liabilities and equity		5.949.676	5.324.838	6.078.434	5.280.042

The accompanying notes are an integral part of these financial statements.

Statements of income

		In R\$ thousand			
		Bank		Operational Consolidated	
Notes		06/30/2018	06/30/2017	06/30/2018	06/30/2017
Financial income		320,498	270,756	329,609	272,392
Loan transactions		142,669	124,832	144,396	125,941
Income from marketable securities transactions	5 and 6	48,262	108,662	50,161	109,189
Result of exchange operations	17	97,287	37,262	97,285	37,262
Loss (gain) on derivative financial instruments	21	32,280	-	37,767	-
Financial expenses		(225,147)	(205,628)	(224,765)	(200,355)
Open market funding	17	(141,509)	(150,179)	(141,340)	(148,639)
Loss (gain) on derivative financial instruments	21	-	(19,184)	-	(15,451)
Loans, assignments and onlending operations	17	(62,563)	(17,331)	(62,348)	(17,331)
Provision for allowance doubtful accounts	7	(21,076)	(18,934)	(21,076)	(18,934)
Gross financial income		95,351	65,128	104,844	72,037
Other operating income (expenses)		(20,451)	(22,904)	(27,519)	(29,166)
Service revenues	18	26,949	16,447	31,923	17,310
Personnel expenses		(31,946)	(27,703)	(32,755)	(28,244)
Other administrative expenses	19	(26,562)	(19,920)	(27,745)	(20,820)
Tax expenses		(6,733)	(5,611)	(7,222)	(5,905)
Income from interest in subsidiaries	9	17,076	14,012	7,377	8,710
Other operating income		866	1,389	1,013	146
Other operating expenses		(102)	(1,518)	(112)	(1,684)
Operating income (loss)		74,899	42,224	77,325	42,871
Non-operating income (expenses)		(2,908)	(1,059)	(2,908)	(1,059)
Income before income taxes and profit sharing		71,991	41,165	74,417	41,812
Income Tax and Social Contribution	24	(13,857)	(5,466)	(15,890)	(5,959)
Provision for income tax		(5,444)	(4,530)	(6,532)	(4,727)
Provision for social contribution		(3,541)	(3,141)	(4,048)	(3,304)
Deferred tax asset		(4,872)	2,205	(5,309)	2,072
Profit sharing – managers and employees		(19,292)	(12,565)	(19,685)	(12,719)
Net income		38,842	23,134	38,842	23,134
Earnings per share		0.19	0.11	0.19	0.11

The accompanying notes are an integral part of these financial statements.

Statements of changes in equity of Banco BOCOM BBM S.A.

In R\$ thousand						
Capital	Income reserves		Market value adjustment of marketable securities and derivatives	Treasury stock	Retained earnings	Total Controllers
	Legal	Statutory	Bank			
Six-month period ended June 30, 2017						
Balances at January 1, 2017	469,300	26,321	259,860	(2,954)	(184,469)	568,058
Market value adjustment - marketable securities			774			774
Net income for the year					23,134	23,134
Allocations:						
Reserves		1,157	1,819		(2,976)	-
- Interest on equity (R\$ 0.10 per share)					(20,158)	(20,158)
Balances at June 30, 2017	469,300	27,478	261,679	(2,180)	(184,469)	571,808
Changes in the period	-	1,157	1,819	774	-	3,750
Six-month period ended June 30, 2018						
Balances at January 1, 2018	469,300	28,489	260,319	(1,356)	(181,839)	574,914
Market value adjustment - marketable securities			(136)			(136)
Net income for the year					38,842	38,842
Allocations:						
- Reserves		1,942	17,936		(19,878)	-
- Interest on equity (R\$ 1.06 per share)					(18,964)	(18,964)
Balances at June 30, 2018	469,300	30,431	278,256	(1,492)	(181,839)	594,656
Changes in the period		1,942	17,936	(136)	-	19,742

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows

	In R\$ thousand			
	Bank		Operational Consolidated	
	06/30/2018	06/30/2017	06/30/2018	06/30/2017
Cash flow from operating activities				
Net income	38,842	23,134	38,842	23,134
Adjustments to net income	6,840	10,139	25,711	12,342
Provision for allowance doubtful accounts	21,076	18,934	21,076	18,934
Depreciation and amortization	1,062	1,003	1,064	1,003
Expenses from civil, labor and tax allowances	1,273	643	1,273	643
Income from interest in subsidiaries	(17,076)	(11,060)	(7,377)	(8,857)
Deferred income tax and social contribution	4,872	(2,072)	5,309	(2,072)
Unrealized gains/losses on marketable securities and derivatives	(4,367)	1,771	4,367	1,771
Equity adjustments	-	147	-	147
Adjusted net income	45,682	33,272	64,553	35,476
(Increase) in short-term interbank investments	(103)	(167)	(103)	(167)
(Increase)/Decrease in marketable securities and derivative financial instruments	(116,546)	330,939	(316,838)	330,920
Decrease in interbank and interbranch accounts	13,701	6,852	13,701	6,852
(Increase) in loan and lease transactions	(381,544)	(827,706)	(407,069)	(815,839)
(Decrease)/Increase in deposits	159,519	(28,690)	121,495	(22,759)
Increase in the open market funding	62,412	399,755	62,412	399,755
Increase in securities issue resources	528,259	549,453	695,923	644,205
Increase/(Decrease) in borrowings and onlending	(298,954)	108,475	(155,817)	108,475
Increase in future period results	2,057	6,105	2,057	6,105
(Increase) in other assets	(147,342)	(192,445)	(153,855)	(183,855)
Increase/(Decrease) in other liabilities	92,640	8,692	106,995	(560)
Net cash flow arising from/(used in) operating activities	(85,901)	361,264	(31,100)	473,133
Cash flow from investing activities:				
Decrease in investments	(136)	(2,422)	34,836	3,583
Disposal of property and equipment for use and leased	(3,625)	(1,138)	(3,632)	(1,138)
Net cash used in investing activities	(3,761)	(4,333)	31,203	1,671
Cash flow from financing activities:				
Dividends and interest on equity receivable	(17,484)	(3,281)	(17,484)	(3,281)
Acquisition of treasury shares	-	-	(0)	-
Net cash used in financing activities	(17,484)	(3,281)	(17,484)	(3,281)
Net increase/decrease in cash and cash equivalents	(61,464)	386,923	47,173	507,000
Beginning of the year/six-month period	366,862	358,124	369,443	354,730
End of the year/six-month period	305,398	745,047	416,616	861,730
Net increase/decrease in cash and cash equivalents	(61,464)	386,923	47,173	507,000
Non-monetary transaction				
Unpaid interest on equity	18,964	20,158	18,964	20,158

The accompanying notes are an integral part of these financial statements.

Notes to the financial statements

1. Operations

Banco BOCOM BBM is the leading institution of the Financial Group Banco BOCOM BBM (Note 2) and is authorized to operate as finance bank across the following portfolios:

- Commercial
- Investment
- Loan, Financing and Investment
- Foreign Exchange

The Bank and the Financial Group operate in the context of a group of institutions which operate together in the financial market, with certain operations involving co-participation or intermediation of associated institutions which are part of the Financial Group Banco BOCOM BBM. The benefits from services rendered between such institutions and the costs of the Financial Group's operating and administrative structures in common are fully or individually absorbed, on a basis that is practical and reasonable in the circumstances.

On February 2016, the People's Republic of China approved the transfer of the shareholding control from Banco BBM S.A. To the Bank of Communications Co. Ltd. and on November 2016, it was approved by the Brazilian Central Bank.

After the regulatory approvals, on November 30, 2016 the Bank of Communications Co. Ltd. ("BoCom"), acquired 80% of the total outstanding common shares of Banco BBM and 80% of the total outstanding preferred shares of Banco BBM which, as a result, accounted for 80% of total outstanding shares of Banco BBM. Around 20% of the Bank's shares continued to be held by the previous controlling group of Banco BBM.

On February 20, 2017, the transfer of the shareholding control was published in the "Diário Oficial" (Federal Government's official journal) by the Brazilian Central Bank.

On February 2, 2018, the change of the corporate name to Banco BOCOM BBM was approved by the Central Bank of Brazil.

Notes to the financial statements

2. Presentation of the Financial Statements and Consolidation Criteria

The financial statements of Bank BOCOM BBM, including its facilities abroad, and of the Financial Group of Banco BOCOM BBM were prepared in accordance with the Resolution No. 4.280/2013, from the Brazilian National Monetary Board (CMN) and Circular Letter N. 3.701/2015 of the Central Bank of Brazil (BACEN), which are elaborated from the accounting guidelines arising from the Laws No. 4.595/64 (National Financial System Law) and No. 6.404/76 (Corporation Law), including the amendments introduced by the Laws No. 11.638/07 and No. 11,941/09, in compliance with the standards and instructions from CMN, BACEN, Federal Accounting Council(CFC) and the accounting practices adopted in Brazil applicable to financial institutions regulated by the BACEN.

The preparation of these statements in accordance with the accounting practices adopted in Brazil, applicable to financial institutions, requires management to use judgment in the determination and recording of accounting estimates, when applicable. Significant assets and liabilities subject to these estimates and assumptions include: provision for doubtful accounts, realization of deferred tax assets, provision for labor, tax and civil claims, valuation of financial instruments and other provisions. The definitive values of the transactions involving these estimates will only be known at the time of their settlement.

The financial statements of Banco BOCOM BBM and Financial Group of Banco BOCOM BBM were prepared in accordance with the consolidation criteria stated by Resolution No. 4.280/2013 from BACEN, which includes financial institutions and other institutions authorized to operate by the Central Bank of Brazil.

In the consolidation process of the entities members of Banco BOCOM BBM and of the Financial Group Banco BOCOM BBM, it was adjusted, at the base date, in order that the same classifications, criteria, procedures and accounting practices used in the lead institution are applied in the evaluation and recognition of the assets, liabilities, revenues and expenses, with the following eliminations:

- Capital share, reserves and accumulated results held between the institutions (it also should be noted that there is no intercompany transactions);
- Balances of current accounts and other Assets and/or Liabilities between the institutions, whose balance sheets were consolidated; and
- The effects on profit or loss arising from significant transactions between these institutions.

The Operating Consolidation comprises the financial statements at June 30, 2017 and 2016 of the following institutions:

Banco BOCOM BBM S.A. and Nassau branch

BBM Bank Ltd. (a)

BOCOM BBM Corretora de Câmbio e Valores Mobiliários S.A. (b) (c)

- (a) The indirect participation of 100% of Banco BOCOM BBM in the social capital of BBM Bank Ltd. were eliminated from the Operating Consolidate.
- (b) Banco BOCOM BBM directly holds 100% of the capital of this entity.
- (c) On February 22, 2018, the change in the Company's corporate name from BACOR Corretora de Câmbio e Valores Mobiliários S.A. to BOCOM BBM Corretora de Câmbio e Valores Mobiliários S.A. was approved by the Trade Board of the Estate of São Paulo.

Management understands that in accordance with BACEN Circular Letter No. 3,701/2015, the consolidation criteria used properly meet the requirements. As shown in Note 9.

Notes to the financial statements

3. Significant Accounting Practices

(a) Results of Operations

Calculated on an accrual basis.

(b) Marketable securities and derivative financial instruments

In accordance with BACEN Circular Letter No. 3,068, securities are classified into the following categories:

- I- Trading securities;
- II- Securities held for sale;
- III- Securities held up to maturity.

Securities classified in categories I and II are adjusted to market value, being the adjustment of the former directly accounted in the result and the adjustment of the latter in specific equity account, net of tax effects. Securities classified as "held up to maturity" are evaluated based on the cost plus the earnings.

Derivative financial instruments are adjusted to market value, in accordance with BACEN Circular Letter No. 3,082.

Investment fund shares are restated monthly based on the share value disclosed by the funds Administrators where funds are invested. The appreciation and depreciation of investment fund quotas are presented in "Result from transactions with marketable securities".

(c) Current and non-current assets

These are presented at their realization amounts, including, when applicable, the earnings and monetary variations (on a pro rata basis) and foreign exchange variations, less corresponding proceeds from future realization and/or provision for losses. Balances maturing within 12 months (or 360 days) are classified as current assets.

(d) Permanent assets

These are stated at cost, plus the following aspects:

- Evaluation of the significant investments in subsidiaries on an equity accounting basis.
- Depreciation of property and equipment in use and lease calculated on a straight-line basis, based on annual rates that reflect the economic useful life of the assets, being properties in use - 4%; furniture and utensils - 10% and data processing - 20%.
- Amortization of intangible assets calculated according to the economic useful life of the asset.

In accordance with CMN Resolution No. 4.534/16, financial institutions and institutions authorized to operate by BACEN cannot record Deferred Assets. Balances recorded as deferred assets at the date this resolution became effective, except for lease losses to amortize, must be:

- I- Reclassified to the proper asset accounts, according to the operation nature, when they refer to items that constitute an asset, according to the effective regulation; and
- II- Amortized on a straight-line basis up to December 31, 2019, in the other cases.

In 2016, the deferred asset balance was fully reclassified to the facilities account and will be amortized according to the term established by the effective resolution.

(e) Current Liabilities and Long-term Liabilities

These are stated at their known or calculable values including, whenever applicable, the charges and the monetary (on a daily pro rata basis) and exchange variations, less the corresponding expenses to be allocated. Balances maturing within 12 months (or 360 days) are classified as Current Liabilities.

Notes to the financial statements

3. Significant Accounting Practices (Continued)

(f) Income Tax and Social Contribution

The provision for income tax is set up based on the taxable profit, at 15% rate, plus 10% surcharge on annual taxable profit exceeding R\$ 240 thousand. The provision for social contribution tax is set up at the rate of 20%.

The deferred tax assets and liabilities arising from temporary differences were recognized in accordance with CMN Resolution No. 3.059 issued on December 20, 2002, and CMN Resolution No. 3.355, issued on March 31, 2006, and take into account the history of profitability and the expected generation of future taxable income supported by technical feasibility studies. The deferred taxes were constituted based on the expected income tax and social contribution rates of 25% and 20% respectively, since used while the rate is effective.

In May 2015, Provisional Measure No. 675 was issued, amending the rate of Social Contribution on Net Income (CSLL) of financial institutions from 15% to 20%. According to the Provisional Measure, this rate increase became effect as from September 2015 and it remains in force up to December 2018.

(g) Swaps, futures, forwards and options

The nominal amounts of contracts are recorded in offsetting accounts. Daily adjustments of transactions conducted in the future market are recorded as effective income or expense as they are incurred. Premiums paid or received upon the realization of operations in the options market are recorded in the respective equity accounts at cost value, adjusted to market value as a counterparty to the result. The market value of swap and term operations are individually recorded in asset and liability equity accounts, as a counterparty to the respective income and expense accounts.

(h) Earnings per share

These are calculated based on the number of outstanding shares at the balance sheet dates.

(i) Impairment of assets

In accordance with CPC 1, as approved by CMN Resolution 3.566/08 of May 29, 2008, and based on management's analysis, if the book value of the Bank's and its subsidiaries' assets exceed their recoverable value, an impairment loss is recognized in the result.

(j) Contingent assets and liabilities and legal obligations

The recognition, measurement and disclosure of contingent assets and liabilities, and legal obligations are made pursuant to the criteria defined below:

Contingent assets - these are not recognized in the financial statements, except when there are evidences that offer guarantees of their realization, with no appeals.

Contingent liabilities - these are recognized in the financial statements when, based on the opinion of the legal advisors and of management, the loss of a lawsuit or administrative proceeding is evaluated as probable and whenever the amounts involved can be measured with sufficient reliability. The contingent liabilities classified as possible losses by legal advisors are not recorded and are just disclosed in the notes to the financial statements and those classified as remote loss do not require any provision disclosure. Regarding the labor suits with loss probability classified as possible by the external lawyers, management will consider some assumptions such as: procedure stage, involved right, losses background, deal possibility. Accordingly, we can have provision, even if the suits are classified as possible.

Legal obligations - tax and social security - these refer to lawsuits contesting the legality and constitutionality of some taxes and contributions. The discussed amount is quantified and accounted for.

(k) Short-term interbank investments

Interbank investments are stated at the acquisition, investment or release cost, plus foreign exchange, monetary and interest variations, as contractually defined. When the market value is lower, a provision for the adjustment of an asset to its realization value is made.

Notes to the financial statements

3. Significant Accounting Practices (Continued)

(l) Loan transactions

Credit operations are stated at the acquisition, investment or release cost, plus foreign exchange, monetary and interest variations, as contractually defined. When the market value is lower, a provision for the adjustment of an asset to its realization value is made. An allowance for doubtful accounts is set at an amount considered sufficient to cover any losses, and it considers, in addition to past experience, the assessment of debtors and their guarantors, as well as the specific characteristics of transactions, in accordance with the requirements of Brazilian Central Bank Resolution No. 2,682. These are recorded at present value on a daily pro rata basis, based on the index variation and the agreed-upon interest rate, restated up to the 59th day in arrears at the financial companies, observing the estimated receipt date. After the 60th day, the recognition in results occurs on the effective receipt of the installments. The renegotiated operations are maintained, at least, at the same level in which they were classified previously to the renegotiation and, if they have already been written-off against the provision, they are classified as level H; the gains are recognized in income upon the effective receipt.

Credit assignments without risk retention result in the write-off of the financial assets that are the object of the operation, which are then kept in a offsetting account. The result of the assignment is fully recognized when it is realized. As of January 2012, as determined by CMN Resolution 3,533/2008 and CMN Resolution 3,895/2010, all credit assignments with risk retention are recognized in the remaining terms of operations, and the financial assets subject to assignment are recorded as credit operations and the amount received as obligations for sales or transfer of financial assets.

(m) Cash and cash equivalents

These represent cash and cash equivalents, unlinked balances with the Central Bank of Brazil and financial assets of high liquidity with maturities within three months, subject to an immaterial risk of changes in their fair values, which are used by the Group to manage short term commitments. See Note 4.

(n) Other values and assets

The operations classified as Other values and assets represent operations arising from the execution of loan guarantees, which are initially valued at the remaining balance of the debt, and which are valued at fair value based on valuation reports prepared by professional entities with recognized qualifications, using evaluation techniques.

(o) Hedge Accounting

The Bank allocated derivative financial assets to hedge principal amounts raised and the corresponding interest due.

Derivative financial instruments used to mitigate risks arising from exposure to variations in the market values of financial assets and liabilities, and that are highly correlated regarding changes in its market value in relation to the market value of the item that is being protected, at the beginning and during the life of the contract and considered effective in reducing the risk associated to the exposure to be protected, are considered protection instruments (hedges) and are classified based on their nature:

- (a) Market risk hedge: the financial instruments classified under this category, as well as their related financial assets and liabilities, which are the hedge objects, are recorded at fair value and have their gains/losses, whether realized or not, reflected in the result; and
- (b) Cash flow hedge: the financial instruments classified in this category are marked at fair value, being the effective parcel of appreciation or depreciation registered, net of tax effects, in a specific account on equity. The ineffective portion of the respective hedge is recognized directly in the result.

If the hedging instrument expires or is sold, cancelled or exercised, or when the hedging position does not fall under hedge accounting conditions, the hedging relationship ends.

Notes to the financial statements

3. Significant Accounting Practices (Continued)

The risk management objectives of this operation, as well as the strategy of protection against such risks during the operation, are duly documented, as well as it is documented the evaluation, both at the beginning of the protection operation and on an ongoing basis, that the derivative financial instruments are highly effective in offsetting the variations of the fair value (mark-to-market) of the hedged item. A hedge is expected to be highly effective if the variation in the fair value or cash flow attributable to the risk being hedged during the hedge relation period nulls from 80% to 125% of the risk variation.

Derivative instruments used for hedging purposes, as well as the marked-to-market value of the hedged object are disclosed in Note 21.

(p) Deposits and Funding in the Open Market

The deposits and funding in the open market are recognized at the amounts of the liabilities, and the charges payable, when applicable, are recorded on a daily pro rata basis.

4. Cash and cash equivalents

	In R\$ thousand			
	Bank		Operational Consolidated	
	06/30/2018	06/30/2017	06/30/2018	06/30/2017
Funds in foreign currency	12,180	4,966	34,694	6,514
Free reserves in cash with the Central Bank	260	349	260	349
Open market investments (a)	185,016	722,067	185,016	722,067
Investments in foreign currencies	107,942	17,665	196,646	132,800
Total	305,398	745,047	416,616	861,730

(a) Committed transactions maturing within 90 days.

Notes to the financial statements

5. Short-term interbank investments

Short-term interbank investments are as follows:

	In R\$ thousand			
	Bank		Operational Consolidated	
	06/30/2018	06/30/2017	06/30/2018	06/30/2017
Open market investments	185,016	722,067	185,016	722,067
Self-funded position	185,016	52,068	185,016	52,068
National Treasury Bills	100,009	7,000	100,009	7,000
Financial Treasury Bills	15,002	45,068	15,002	45,068
National Treasury Notes - B series	70,004	-	70,004	-
Funded position	-	669,999	-	669,999
Financial Treasury Bills	-	669,999	-	669,999
Interbank deposits	3,361	3,130	3,361	3,130
Investments in foreign currencies (*)	107,942	17,665	196,646	132,800
	296,319	742,862	385,023	857,997
Current assets	292,958	739,732	381,662	854,867
Long-term receivables	3,361	3,130	3,361	3,130
Total	296,319	742,862	385,023	857,997

(*) The investments in foreign currencies in the Bank and in the Operational Consolidated in June 2018 and 2017 basically refer to Overnight operations with first-tier banks maturing on July 2, 2018.

At June 30, 2018 and 2017, the collateral received through repurchase agreements amounted to R\$ 187,897 thousand and R\$ 723,900 thousand respectively, in the Bank and in the Operational Consolidated. The collateral provided amounted to R\$ 103,731 and R\$ 683,597 thousand during the same periods.

The results of short-term interbank investments in the Bank and in the Operational Consolidated are as follows:

	In R\$ thousand			
	Bank		Operational Consolidated	
	06/30/2018	06/30/2017	06/30/2018	06/30/2017
Open market investments	4.894	31.880	4.894	31.880
Interbank deposits	103	167	103	167
Investments in foreign currencies	46	24	1.944	603
Income from marketable securities	5.044	32.071	6.942	32.650

Notes to the financial statements

6. Marketable securities and derivative financial instruments

	In R\$ thousand				In R\$ thousand			
	Bank				Operational Consolidated			
	Cost	Market	Cost	Market	Cost	Market	Cost	Market
	06/30/2018		06/30/2017		06/30/2018		06/30/2017	
I- Marketable securities	1,492,134	1,489,399	1,398,943	1,398,772	1,492,134	1,489,399	1,398,944	1,398,777
Trading securities (*)	113,363	113,373	458,849	458,800	113,363	113,373	458,849	458,800
Bank portfolio	113,363	113,373	458,849	458,800	113,363	113,373	458,849	458,800
Fixed-income securities	34,260	34,270	408,448	408,399	34,260	34,270	408,448	408,399
National Treasury Bills			406,388	406,343			406,388	406,343
National Treasury Notes	34,260	34,270	2,060	2,056	34,260	34,270	2,060	2,056
Linked to guarantees given	14,109	14,109			14,109	14,109		
Fund quotas given as guarantee	14,109	14,109			14,109	14,109		
Investment funds quotas	64,994	64,994	50,401	50,401	64,994	64,994	50,401	50,401
Multimarket fund quotas	64,994	64,994			64,994	64,994		
Credit rights fund quotas			50,401	50,401			50,401	50,401
Securities held for sale	775,566	772,821	940,094	939,972	775,566	772,821	940,095	939,977
Bank portfolio	543,705	540,924	605,888	605,717	543,705	540,924	605,889	605,722
Fixed-income securities	543,705	540,924	605,815	605,517	543,705	540,924	605,815	605,517
Financial Treasury Bills	291,034	291,124	466,277	466,269	291,034	291,124	466,277	466,269
National Treasury Notes - B series	9,893	9,825	9,866	9,459	9,893	9,825	9,866	9,459
Promissory notes			21,225	21,225			21,225	21,225
Bond Argentina	132,982	130,214			132,982	130,214		
Debentures	106,130	106,094	108,447	108,564	106,130	106,094	108,447	108,564
CRA	3,666	3,667			3,666	3,667		
Variable income securities			73	200			74	205
Shares of publicly listed company			73	200			74	205
Subject to repurchase agreements	64,922	64,977	73,757	73,856	64,922	64,977	73,757	73,856
Financial Treasury Bills			12,014	12,016			12,014	12,016
Debentures	64,922	64,977	61,743	61,840	64,922	64,977	61,743	61,840
Linked to guarantees given	166,939	166,920	260,449	260,399	166,939	166,920	260,449	260,399
Financial Treasury Bills	166,939	166,920	260,449	260,399	166,939	166,920	260,449	260,399
Securities held up to maturity	603,205	603,205			603,205	603,205		
Bank portfolio	603,205	603,205			603,205	603,205		
Fixed-income securities	431,562	431,562			431,562	431,562		
National Treasury Notes - F series	431,562	431,562			431,562	431,562		
Subject to repurchase agreements	107,102	107,102			107,102	107,102		
National Treasury Notes - F series	107,102	107,102			107,102	107,102		
Linked to guarantees given	64,541	64,541			64,541	64,541		
National Treasury Notes - F series	64,541	64,541			64,541	64,541		
II-Derivative financial instruments	128,860	132,670	5,409	5,090	324,913	328,722	9,160	8,842
Swap operations	77,084	77,058	4,162	4,100	270,663	270,636	5,569	5,509
Term	51,745	55,479	1,002	989	54,219	57,953	3,346	3,332
Options premium	31	133	245	1	31	133	245	1
Total marketable securities and								
Derivative financial instruments	1,620,994	1,622,069	1,404,352	1,403,862	1,817,047	1,818,121	1,408,104	1,407,619
Segregation of portfolio by maturity range:								
No maturity	-	-	73	200	-	-	74	205
Up to 3 months	385,966	387,319	484,840	484,405	390,570	391,923	486,504	486,070
From 3 to 12 months	45,260	45,232	42,876	42,614	236,707	236,679	42,876	42,614
More than 12 months	1,189,769	1,189,518	876,563	876,643	1,189,769	1,189,518	878,650	878,730
Total	1,620,994	1,622,069	1,404,352	1,403,862	1,817,047	1,818,121	1,408,104	1,407,619

Notes to the financial statements

6. Marketable Securities and Derivative Financial Instruments (Continued)

	In R\$ thousand				In R\$ thousand			
	Bank				Operational Consolidated			
	Cost	Market	Cost	Market	Cost	Market	Cost	Market
	06/30/2018		06/30/2017		06/30/2018		06/30/2017	
III-Derivative financial instruments	84,166	79,090	5,306	6,229	87,996	82,920	8,389	9,312
Swap operations	71,708	67,157	4,484	5,448	73,837	69,286	6,607	7,571
Term	12,458	11,933	822	781	14,159	13,634	1,782	1,741
Options premium								
Purchased position	84,166	79,090	5,306	6,229	87,996	82,920	8,389	9,312
Segregation by maturity range:								
Up to 3 months	36,069	36,263	2,039	2,086	39,899	40,093	3,035	3,083
From 3 to 12 months	12,326	12,060	1,901	2,456	12,326	12,060	1,902	2,456
More than 12 months	35,771	30,767	1,366	1,687	35,771	30,767	3,452	3,773
Total	84,166	79,090	5,306	6,229	87,996	82,920	8,389	9,312

The results of Marketable Securities in the Bank and in the Operational Consolidated are as follows:

	In R\$ thousand			
	Bank		Operational Consolidated	
	06/30/2018	06/30/2017	06/30/2018	06/30/2017
Investment funds quotas	532	2,864	532	2,864
Government bonds	32,700	57,565	32,700	57,565
Private securities	9,986	16,162	9,987	16,110
Income from marketable securities	43,218	76,591	43,219	76,539

The market values of marketable securities and derivative financial instruments are determined based on market price quotations at the balance sheet date, when available, or through price valuation models.

(*) Securities classified as "Securities for trading" maturing in more than 12 months and which, at June 30, 2018, amount to R\$ 16,143 thousand in the Bank and in the Operational Consolidated (June 30, 2017 - R\$ 2,056), are stated in current assets, according to BACEN Circular Letter No. 3,068/01. Securities classified as "Held for sale", maturing in more than 12 months, in the amount of R\$ 581,496 thousand on June 30, 2018 (June 30, 2017 - R\$ 874,548 thousand), in the Bank and in the Operational Consolidated, are stated as Long-term receivable assets, according to BACEN Circular Letter No. 3,068/01, regardless its liquidity level. The effect of this classification in net current capital is shown in Note 22 - Liquidity risk.

Notes to the financial statements

7. Loan Transactions, Sureties and Guarantees

At June 30, 2018 and 2017, loans and guarantees provided through sureties or guarantee agreements in the Bank and in the Operational Consolidated, classified according to the clients' economic activities, are as follows:

	In R\$ thousand			
	Bank/Operational Consolidated			
	06/30/2018		06/30/2017	
Sugar and ethanol	716,917	18.00%	611,268	20.49%
Agriculture	489,298	12.29%	388,115	13.01%
Real estate construction	257,014	6.45%	196,194	6.58%
Specialized services	208,744	5.24%	125,592	4.21%
Retail commerce	194,316	4.88%	198,080	6.64%
Foods - sundry	187,889	4.72%	116,230	3.90%
Capital goods	179,361	4.50%	104,742	3.51%
Energy concessions	153,564	3.86%	228,126	7.65%
Paper and pulp	110,459	2.77%	70,595	2.37%
Construction material	106,929	2.68%	69,005	2.31%
Pharmaceutics	105,826	2.66%	94,257	3.16%
Textile and leather	104,317	2.62%	57,304	1.92%
Civil aviation	89,738	2.25%	52,444	1.76%
Chemical and petrochem	75,554	1.90%	136,779	4.58%
Transport and Logistic	73,656	1.85%	53,990	1.81%
Mining	66,418	1.67%	19,199	0.64%
Finance	42,797	1.07%		
Foreign trade	49,102	1.23%	25,244	0.85%
Refrigeration	46,082	1.16%	28,672	0.96%
Others (*)	232,589	5.84%	220,617	7.40%
Private sector	3,490,570	87.65%	2,796,453	93.74%
Energy concessions	205,734	5.17%		
Oil and gas	132,152	3.32%	115,407	3.87%
State Government	97,826	2.46%		
Others (*)	56,328	1.41%	71,349	2.39%
Public sector	492,040	12.35%	186,756	6.26%
Total	3,982,610	100.00%	2,983,209	100.00%

(*) The activities classified within Others include all economic sectors that individually represent less than 1% of the total active loan portfolio at the base date of June 30, 2018.

Notes to the financial statements

7. Loan Transactions, Sureties and Guarantees (Continued)

Loans transactions are stated in the Bank and in the Operational Consolidated balance sheet as follows:

	In R\$ thousand	
	Bank/Operational Consolidated	
	06/30/2018	06/30/2017
Current assets		
Loan transactions	1,374,512	1,224,498
Private sector	1,227,961	1,217,027
Public sector	146,551	7,471
Other receivables	50,314	20,546
Foreign exchange portfolio - income receivable (a)	15,991	18,447
Securities and credits receivable (b)	34,323	2,099
Non-current		
Loan transactions	1,472,244	964,769
Private sector	1,268,091	907,497
Public sector	204,153	57,272
Other receivables		78
Securities and credits receivable (b)		78
Current liabilities		
Other liabilities	493,003	513,381
Foreign exchange portfolio - Advances on foreign exchange contracts (a)	493,003	513,381
Subtotal	3,390,073	2,723,272
Co-obligations and risks in guarantees provided (c)	592,537	259,936
Total	3,982,610	2,983,209

Notes to the financial statements

7. Loan Transactions, Sureties and Guarantees (Continued)

- (a) The Advances on Exchange Contracts are classified as reduction accounts of Other Liabilities – Exchange Portfolio and as Other Receivables – Exchange Portfolio, respectively, as shown in Note 8.
- (b) These refer to the portfolio of honored guarantees.
- (c) These refer to guarantees granted through sureties and guarantees. The granted guarantees are recorded in offsetting accounts and the respective earnings are classified as Results for Future Years and appropriated to the result according to the guarantees' contractual terms. In the Bank, these also include guarantees granted for loan transactions of BBM Bank Limited and Nassau Branch, which are eliminated in the Operational Consolidated.

The provision for loan transactions was calculated according to the criteria established by the CMN Resolutions No. 2.682 and 2,697, based on the risk classification of the transactions and on their level of arrears.

The classification of the loan transactions in the Bank and in the Operational Consolidated is as follows:

In R\$ thousand													
06/30/2018													
06/30/2017													
Risk level	Overdue - days					Falling due - days				Total	PDD	Total	PDD
	Up to 14	From 15 to 60	From 61 to 90	From 91 to 180	From 180 to 360	Up to 90	From 91 to 180	From 181 to 360	More than 360				
AA						157,480	208,525	415,905	563,562	1,345,473		984,140	
A	4,507					384,039	418,728	286,916	579,145	1,673,334	8,367	1,191,558	5,958
B	949	11				113,469	113,534	168,744	302,076	698,782	6,988	513,899	5,139
C	11,587					35,734	45,483	51,885	55,654	200,343	6,010	213,075	6,392
D													
E				5						5	2		
F			2,696			1,032	3,509	955	7,604	15,796	9,948	33,097	18,768
G						230	241	4,178	6,695	11,344	9,509	42,404	30,839
H		433	216	676	35,420	588	200			37,533	37,532	5,036	5,036
	17,043	444	2,912	681	35,420	692,572	790,220	928,583	1,514,736	3,982,610	78,356	2,983,209	72,132

Notes to the financial statements

7. Loan Transactions, Sureties and Guarantees (Continued)

The allowance below is presented in the Operational Consolidated balance sheets as follows:

	In R\$ thousand	
	06/30/2018	06/30/2017
Allowance for loans transactions	50,764	67,292
Current assets	32,791	28,224
Non-current	17,973	39,068
Allowance for other receivables	26,340	
Securities and credits receivable	21,650	
Current assets	21,650	
Non-current		
Provision for advances on foreign exchange contracts	4,690	4,651
Current assets	4,690	4,623
Non-current		28
Provision co-obligations and risks in guarantees provided (*)	1,252	189
Current liabilities	966	189
Non-current liabilities	286	
Total	78,356	72,132

(*) According to Resolution No. 4.512 of July 28, 2016, financial institutions began to classify as liabilities the provision for Co-Borrowing and Risks in Secured Guarantees See Note 26.

Changes in allowances are as follows:

	In R\$ thousand	
	06/30/2018	06/30/2017
At January 1	79,976	68,163
Constitution / (Reversal)	21,076	18,945
Write-off to loss	(22,696)	(14,976)
Total	78,356	72,132

In the six-month period ended June 30, 2018, loan transactions were renegotiated in the Bank and in the Operational Consolidated in the amount of R\$ 8,421 thousand (in the six-month period ended June 30, 2017, no loan transaction was renegotiated).

In the six-month period ended June 30, 2018, there was a recovery of losses on loan transactions in the amount of R\$ 4,421 thousand (six-month period ended June 30, 2017 - R\$ 209 thousand).

Notes to the financial statements

7. Loan Transactions, Sureties and Guarantees (Continued)

The breakdown of sales or transfers of assets without the substantial retention of risks and rewards in the periods ended June 30, 2018 and 2017 was as follows:

	Bank/Operational Consolidated	
	In R\$ thousand	
	06/30/2018	06/30/2017
Number of contracts	3	19
Amount of the assignment	3,013	22,515
Provision net book value	2,974	22,045
Result earned in the assignments	39	470

The credit risk concentration in the Operational Consolidated is as follows:

	In R\$ thousand			
	06/30/2018	%	06/30/2017	%
Main debtor	132,152	3.3%	121,073	4.1%
10 top debtors	965,437	24.2%	715,138	24.0%
20 top debtors	1,485,346	37.3%	1,093,900	36.7%
50 top debtors	2,412,296	60.6%	1,849,545	62.0%
100 top debtors	3,329,023	83.6%	2,569,872	86.1%

The breakdown of the Operational Consolidated credit portfolio by type is as follows:

	In R\$ thousand	
	06/30/2018	06/30/2017
Working capital	1,739,518	1,432,035
Trade Finance	562,486	661,085
Export credit notes	538,373	335,461
Co-obligations and risks in guarantees provided	592,538	259,935
Others	549,695	294,693
Total	3,982,610	2,983,209

Notes to the financial statements

8. Foreign exchange portfolio

	In R\$ thousand	
	06/30/2018	06/30/2017
Other receivables - Foreign exchange portfolio		
Foreign exchange purchases pending settlement	575.694	539.952
Rights on foreign exchange sales	95.420	40
Income receivable from advances granted (a)	15.991	18.447
Total	687.105	558.439
Other payables - foreign exchange portfolio		
Foreign exchange sales pending settlement	98.117	39
Exchange purchase obligations	493.650	522.189
Advances on foreign exchange contracts granted (a)	(493.003)	(513.381)
Total	98.764	8.847

(a) See Note 7.

On June 30, 2018, the Company made deposits of federal government securities securing foreign exchange transactions with BM&F Bovespa S.A. – Bolsa de Valores, Mercadorias e Futuros in the amount of R\$ 60,525 thousand (2017 – R\$ 73,110 thousand).

Notes to the financial statements

9. Investments – Interest in Subsidiaries

a) Bank

	BACOR CCVM S.A.	The Southern Atlantic Investments Ltd.	Others (a)	Total
On June 30, 2018:				
Number of issued shares	127,374	229,201,370		
Nominative common	63,687	229,201,370		
Nominative preferred	63,687			
Direct interest	100%	100%		
Share capital - R\$ thousand	8,755	229,201		237,956
Equity - R\$ thousand	8,935	353,100		361,495
Net income for the year - R\$ thousand	2,146	14,930		17,076
Book value of investments - R\$ thousand				
June 30, 2018	10,541	368,030		378,571
Income from interest in subsidiaries - R\$ thousand				
1st half of 2018	2,146	14,930		17,076
On June 30, 2017:				
Number of issued shares	127,374	229,201,370		
Nominative common	63,687	229,201,370		
Nominative preferred	63,687			
Direct interest	100%	100%		
Share capital - R\$ thousand	8,755	229,201		237,956
Equity - R\$ thousand	10,476	324,972		335,448
Lucro Líquido do Semestre - R\$ Mil	242	13,916		14,158
Book value of investments - R\$ thousand				
June 30, 2017	10,718	338,888		349,606
Income from interest in subsidiaries - R\$ thousand				
1st half of 2017	242	13,916	(147)	14,012

(a) It partly refers to the foreign exchange variation on the equity of the Nassau branch, not eliminated in the consolidation process.

Notes to the financial statements

b) Operational Consolidated

	In R\$ thousand			
	Investment book value		Income from interest in subsidiaries	
	06/30/2018	06/30/2017	06/30/2018	06/30/2017
The Southern Atlantic Investments Ltd. (a)	120,918	140,444	7,377	9,303
Others	-	-	-	(593)
Total	120,918	140,444	7,377	8,710

- (a) The indirect participation of 100% of Banco BOCOM BBM in the social capital of BBM Bank Ltd. was eliminated in the Operational Consolidated as "Interest in Subsidiaries - The Southern Atlantic Investments Ltd.". In the six-month period ended June 30, 2018, this elimination gave rise to the following effects in the Operational Consolidated: decrease in the permanent investment of R\$ 247,112 thousand (June 30, 2017 - R\$ 198,426 thousand) and decrease in the equity result of R\$ 7,377 thousand (June 30, 2017 - R\$ 5,060 thousand).
- (b) In the interest result "Others", in the Operational Consolidated, it is mainly presented the subsidiaries' equity variation, which are eliminated, such as foreign exchange variation of the interest abroad, update of equity securities and adjustments of previous years, when applicable.

Notes to the financial statements

10. Deposits

Maturity ranges	In R\$ thousand							
	Time deposits		Interbank deposits		Total 06/30/2018		Total 06/30/2017	
	Bank	Operational Consolidated	Bank	Operational Consolidated	Bank	Operational Consolidated	Bank	Operational Consolidated
Within 1 month	434,374	434,374	160	160	434,534	434,534	228,399	350,730
From 1 to 3 months	71,382	71,382	2,841	2,842	74,223	74,224	122,769	122,769
From 3 to 6 months	67,419	67,419	5,302	1,024	72,721	68,443	154,576	143,083
From 6 to 12 months	85,380	85,380	1,658	529	87,038	85,909	95,892	95,366
More than 12 months	302,956	302,956	343	343	303,299	303,299	306,414	306,414
Subtotal	961,512	961,512	10,304	4,898	971,815	966,409	908,050	1,018,362
Demand deposits and other deposits					150,503	263,629	136,643	140,450
Total					1,122,318	1,230,038	1,044,693	1,158,812

The average term of interbank and time deposits, for outstanding transactions at June 30, 2018, in the Operational Consolidated, is 829 days and 636 days (June 30, 2017 - 525 and 374 days), respectively.

Maturities upon issue	In R\$ thousand							
	Time deposits		Interbank deposits		Total 06/30/2018		Total 06/30/2017	
	Bank	Operational Consolidated	Bank	Operational Consolidated	Bank	Operational Consolidated	Bank	Operational Consolidated
Within 1 month	428,226	428,226	-	-	428,226	428,226	183,940	306,271
From 1 to 3 months	29,561	29,561	-	-	29,561	29,561	2,480	2,480
From 3 to 6 months	76,210	76,210	-	-	76,210	76,210	514	513
From 6 to 12 months	66,996	66,996	5,405	-	72,401	66,996	69,821	69,821
More than 12 months	360,518	360,518	4,898	4,898	365,416	365,416	651,295	639,277
Subtotal	961,512	961,512	10,303	4,898	971,815	966,409	908,050	1,018,362
Demand deposits and other deposits					150,503	263,629	136,643	140,450
Total					1,122,318	1,230,038	1,044,693	1,158,812

The breakdown per segment of the Prudential Conglomerate is as follows:

	In R\$ thousand									
	Demand deposits		Time deposits		Interbank deposits		Total			
	06/30/2018	06/30/2017	06/30/2018	06/30/2017	06/30/2018	06/30/2017	06/30/2018	06/30/2017	06/30/2018	06/30/2017
Legal entities	139,526	123,433	402,837	225,925	-	-	542,363	44.09%	349,358	30.15%
Institutional customer	4	4	-	328,362	3,180	1,312	3,183	0.26%	329,678	28.45%
Group	115,569	720	129,888	136,448	-	4,238	245,458	19.96%	141,406	12.20%
Financial institutions	-	3,398	427,273	305,426	1,718	13,257	428,991	34.88%	322,081	27.79%
Individuals	8,530	12,895	1,514	3,394	-	-	10,043	0.82%	16,289	1.41%
Total	263,629	140,450	961,512	999,555	4,898	18,807	1,230,038	100%	1,158,812	100%

Notes to the financial statements

10. Deposits (Continued)

	In R\$ thousand			
	06/30/2018		06/30/2017	
Top depositor	474,147	9.53%	304,643	26.29%
10 top depositors	2,420,409	48.66%	766,103	66.11%
20 top depositors	2,992,774	60.16%	892,054	76.98%
50 top depositors	3,812,857	76.65%	1,051,111	90.71%
100 top depositors	4,305,251	86.55%	1,140,735	98.44%

11. Repurchase agreements

The obligations from repurchase agreements in the Operational Consolidated are as follows:

	In R\$ thousand			
	Bank		Prudential Conglomerate	
	06/30/2018	06/30/2017	06/30/2018	06/30/2017
Bank portfolio	166,258	73,736	166,258	73,736
Financial Treasury Bills	-	11,987	-	11,987
National Treasury Notes - B series	101,357	-	101,357	-
Debentures	64,901	61,749	64,901	61,749
Third-parties' portfolio		669,980		669,980
Financial Treasury Bills	-	669,980	-	669,980
	166,258	743,716	166,258	743,716

Notes to the financial statements

12. Funds from Acceptance and Issue of Securities and Real Estate Bills

Banco BOCOM BBM issued Eurobonds in the amount of R\$ 191,830 thousand in June 2018 (June 2017 - R\$ 166,537), acquired by The Southern Atlantic Investments Ltd, company not consolidated in the Operational Consolidated. On December 28, 2015, it was issued US\$ 30,000 thousand maturing on January 31, 2019, on June 30, 2017, it was issued US\$ 4,000 thousand maturing on February 28, 2019, and on August 6, 2017, it was issued US\$ 17,000 thousand maturing on October 26, 2018.

On June 30, 2018 and 2017, fundraising through Agribusiness Credit Bills (LCA), Housing Credit Bills (LCI), Financial Bills (LF) were segregated by maturity range as follows:

In R\$ thousand						
Bank/Operational Consolidated						
	LCA (a)		LCI (b)		LF (c)	
Maturity	06/30/2018	06/30/2017	06/30/2018	06/30/2017	06/30/2018	06/30/2017
Within 1 month	53,735	15,195	1,582	-	17,719	-
From 1 to 3 months	68,387	85,681	14,584	21	34,475	1,348
From 3 to 6 months	480,757	364,012	14,771	20,217	116,276	8,825
From 6 to 12 months	521,012	267,538	41,406	3,167	296,599	125,463
More than 12 months	278,887	301,804	15,661	22,066	982,662	624,045
Total	1,402,778	1,034,230	88,004	45,471	1,447,731	759,681

- (a) Agribusiness Credit Bills (LCA) are issued by the Bank and registered with the Brazilian OTC Clearing House (CETIP) or on the Securities, Commodities and Futures Exchange (BM&FBOVESPA S.A.), according to the Law No. 11.076/2004 and Law No. 11,311/2006 and subsequent amendments.
- (b) Housing Credit Bills (LCI) are nominative securities created by Provisional Measure No. 2.223 on September 4, 2011, which resulted in Law No. 10.931 of August 2, 2004.
- (c) Financial Bills (LCA) are issued by the Bank and registered with the Brazilian OTC Clearing House (CETIP) - according to the Law No. 12.249/10 (Section II, articles 37 to 43), and ruled by CMN (Law No. 3.836).

Notes to the financial statements

13. Borrowings and onlendings

a) Borrowings abroad

Borrowings abroad in the Bank and in the Operational Consolidated are as follows:

	In R\$ thousand			
	Bank		Operational Consolidated	
	06/30/2018	06/30/2017	06/30/2018	06/30/2017
Obligations with borrowings abroad (a)	387,038	605,685	387,038	605,685
Export credit facility	144,260	159,243	144,260	159,243
Import credit facility	4,710	31,959	4,710	31,959
	536,008	796,887	536,008	796,887
Current liabilities	148,970	544,614	148,970	544,614
Long-term payables	387,038	252,273	387,038	252,273
	536,008	796,887	536,008	796,887

(*) The amount of R\$ 387,038 thousand in June 2018, classified as Borrowings Abroad, refers to the fundraising in U.S. dollars with Bank of Communications with final maturity in September 2022 (in June 2017, the amount of R\$ 605,685 refers to fundraising operations in U.S. dollars with the International Finance Corporation (IFC) and Bank of Communications).

On February 7, 2018, Banco BOCOM BBM pre settled the US dollar funding operation with the International Finance Corporation (IFC), in the amount of R\$ 248,668 thousand, due in December 2019. Additionally, the entire Hedge assembled structure for this operation has been discontinued.

In spite of the early settlement of the loan with the International Finance Corporation (IFC), the Bank has pre-export credit lines with that institution on which financial covenants are required. The amount used for these credit lines totals R\$ 42,637 thousand as of June 30, 2018 and the restrictive rates are fully complied with.

b) Onlendings in the Country

Banco BOCOM BBM has funding line operations with resources from the Fund for Defense of the Coffee Economy (Funcafé) for coffee growers, their cooperative and the agribusiness companies, to use for storage and acquisition of coffee and working capital.

	In R\$ thousands					
	06/30/2018					06/30/2017
	Within 1 month	Within 3 months	From 3 to 6 months	From 6 to 12 months	More than 12 months	Total
Funcafé - FAC	-	-	1,025	-	-	1,025
Funcafé - working capit	-	-	526	-	-	526
Total	-	-	1,551	-	-	1,551

Notes to the financial statements

14. Other Receivables/ Sundry

	In R\$ thousand			
	Bank		Operational Consolidated	
	06/30/2018	06/30/2017	06/30/2018	06/30/2017
Sundry				
Debtors Deposits on warranty	50,107	46,047	50,639	46,563
Taxes and contributions to offset	14,353	6,612	14,811	6,706
Sundry debtors - domestic	6,712	2,514	8,047	2,850
Receivables from related parties	15	15	-	-
Securities and credits receivable	14,369	2,422	14,369	2,422
Advances - salaries and constructions	1,178	1,115	1,202	1,140
Sundry debtors - foreign	4,612	585	12,787	1,320
	91,346	59,310	101,855	61,001
Current assets	37,213	12,405	47,722	13,580
Long-term assets	54,133	46,905	54,133	47,421
	91,346	59,310	101,855	61,001

15. Other assets

	In R\$ thousand			
	Bank		Operational Consolidated	
	06/30/2018	06/30/2017	06/30/2018	06/30/2017
Other assets	36,962	26,389	37,030	26,456
Properties	36,198	24,285	36,198	24,285
Others	764	2,104	832	2,171
	36,962	26,389	37,030	26,456
Current assets (a)	36,962	25,704	37,030	25,771
Long-term assets	-	685	-	685
	36,962	26,389	37,030	26,456

(a) In June 2018, the amount of R\$ 36,198, classified as current assets, refers mainly to the execution of guarantee of properties, recorded as properties not for own use (BNDU), according to independent appraisal report.

Notes to the financial statements

16. Equity

(a) Capital - Banco BOCOM BBM S.A.

The capital is comprised of 282,201,085 registered shares with a par value of R\$ 1.60 each, divided into 188,626,652 common shares and 93,574,433 preferred shares. Each common share is entitled to 1 (one) vote in resolutions of the General Meeting. Preferred shares have no voting rights.

(b) Legal reserve

This reserve is calculated at the rate of 5% of the net income at each balance sheet date, up to the limit determined by the Corporation Law of 20% of Capital.

(c) Statutory reserve

In accordance with the articles of incorporation, this reserve represents the remaining balance of net income at each balance sheet date, after the legal allocations.

(d) Treasury stock

In August 2017, R\$ 2,630 thousand were reversed to the price complement of the shares repurchased by the treasury on March 28, 2011. In the earn out contract, the purchaser (Banco BOCOM BBM) took on the future obligation of paying to the buyer, throughout 72 months from the signature date, an amount calculated based on the revenue earned with the recovery of a specific loan transaction, determined in this contract. This obligation was extinct in this period.

On June 30, 2018, Banco BOCOM BBM has 76,296,769 shares to hold in treasury in the amount of R\$ 181,839 thousand.

(e) Interest on Equity

According to article 9 of Law No. 9.249/95 and its subsequent amendments, Banco BOCOM BBM S.A., in first six-month period of 2018, declared interest on equity of R\$ 18,964 thousand (June 30, 2017 - R\$ 20,158 thousand), with the retention of withholding income tax of R\$ 2,845 thousand (June 30, 2017 - R\$ 3,024 thousand), calculated at the rate of 15%. This amount was determined based on the legal limits in force and classified in the group's official records as "Other Operating Expenses".

For the purposes of the publication of the statement of income, as established by BACEN Circular Letter No. 2,739, the expense related to the payment of interest on equity capital was adjusted by a reclassification to retained earnings, and recognized in the statement of changes in equity as an allocation of income.

Interest on equity proposed in the first six-month period of 2017 reduced tax burden by R\$ 8,534 thousand. (June 30, 2017 - R\$ 9,071 thousand).

(f) Carrying value adjustments

In the six-month period ended June 30, 2018, the carrying value adjustments are comprised by the market adjustment variation of the securities held for sale in the amount of R\$ 1,627 thousand (June 30, 2017 - R\$ 152 thousand), by the variation of the cash flow hedges in the amount of R\$ 1,491 (June 30, 2017 - R\$ 150 thousand), by the hedge instruments variation of investments abroad in the amount of R\$ 0 thousand (June 30, 2017 - R\$ 0), by the foreign exchange variation in investment abroad in the amount of R\$ 0 thousand (June 30, 2017 - R\$ 472), net of tax effects.

Notes to the financial statements

16. Equity (Continued)

(g) Dividends

In accordance with the Bank's articles of incorporation, the shareholders are entitled to minimum mandatory dividends of 25% of net income for the year, after specific allocations.

	In R\$ thousand	
	06/30/2018	06/30/2017
Net income - Banco BOCOM BBM S.A.	38,842	32,750
(-) Legal reserve	(1,942)	(1,638)
Calculation basis	36,900	31,113
Minimum mandatory dividends (a)	25%	25%
	9,225	7,778
Interest on own capital (b)	18,964	43,836
Total	18,964	43,836

(a) Minimum mandatory dividends were approved as interest on equity.

(b) The dividends higher than the mandatory dividends were approved by the stockholders and will be ratified in Ordinary General Meeting.

Notes to the financial statements

17. Financial Intermediation Expenses and Foreign Exchange Gains (Losses)

	In R\$ thousand			
	Bank		Operational Consolidated	
	06/30/2018	06/30/2017	06/30/2018	06/30/2017
Open market funding				
Agriculture Credit Bills	(38,779)	(42,454)	(38,779)	(42,455)
Financial Bills	(49,851)	(34,607)	(49,851)	(34,607)
Time deposits	(16,236)	(43,246)	(16,236)	(43,072)
Repurchase agreements	(3,965)	(21,142)	(3,965)	(21,142)
Expenses with securities abroad	(28,698)	(6,968)	(28,698)	(6,278)
Interbank deposits	(538)	(4,596)	(379)	(3,919)
Real Estate Credit Bills	(2,075)	(2,017)	(2,075)	(2,017)
Credit Guarantee Fund	(1,275)	(1,263)	(1,275)	(1,263)
Deposits Previous Notice	(92)	(34)	(82)	(34)
Foreign exchange variation (a)	-	6,149	-	6,149
	(141,509)	(150,179)	(141,340)	(148,639)
Loans, assignments and onlending operations				
Loans expenses abroad	6,115	(11,824)	6,330	(11,824)
Foreign exchange variation (a)	(68,609)	(5,507)	(68,609)	(5,507)
Other expenses	(69)	-	(69)	-
	(62,563)	(17,331)	(62,348)	(17,331)
Result of exchange operations				
Revenue from advances on exchange contracts	22,348	20,054	22,348	20,055
Foreign exchange variations and interest differences	75,222	17,324	75,220	17,324
Other expenses	(283)	(117)	(283)	(117)
	97,287	37,262	97,285	37,262

(a) This substantially represents the effects of foreign exchange variations on loans raised by the Bank from its branch abroad through the transfer of funds raised in foreign currency.

Notes to the financial statements

18. Service revenues

Service revenues

Structuring commission
 Guarantee commission and letter of credit
 Management and performance fees of investment funds
 Other services (*)

Total

In R\$ thousand			
Bank		Operational Consolidated	
06/30/2018	06/30/2017	06/30/2018	06/30/2017
7,243	2,287	11,075	2,287
7,131	3,584	7,131	3,584
5,929	3,329	7,398	4,502
6,645	7,247	6,319	6,937
26,949	16,447	31,923	17,310

(*) This refers mainly to revenue from bank fees.

19. Other administrative expenses

In R\$ thousand			
Bank		Operational Consolidated	
06/30/2018	06/30/2017	06/30/2018	06/30/2017
Fines (*)	(3,704)	(6)	(3,704)
Rentals	(2,980)	(3,006)	(3,272)
Financial system services (a)	(1,840)	(2,291)	(1,982)
Specialized technical services	(1,208)	(1,927)	(1,242)
Other administrative expenses	(1,231)	(1,882)	(1,500)
Registry	(2,404)	(1,865)	(2,408)
Travel	(2,147)	(1,736)	(2,149)
Data processing	(2,982)	(1,241)	(3,094)
Communications	(1,476)	(1,128)	(1,487)
Third-party services	(2,372)	(1,026)	(2,621)
Amortization and depreciation	(1,062)	(1,002)	(1,064)
Property maintenance and upkeep	(863)	(757)	(867)
Condominium	(782)	(709)	(782)
Promotion/ Advertising/ Publications	(697)	(602)	(759)
Water, energy and gas	(469)	(420)	(469)
Transportation	(258)	(210)	(258)
Material	(68)	(60)	(68)
Insurance expenses	(5)	(43)	(5)
Surveillance and security services	(14)	(11)	(14)
(26,562)	(19,920)	(27,745)	(20,820)

(*) In June 2018, the amount of R\$ 3,651 thousand refers to expenses with pre-settling of the IFC contract.

(a) In the six-month period ended June 30, 2018, this includes brokerage expenses, charges and commission related to guarantee transactions and derivative financial instruments of R\$ 987 thousand. (June 30, 2017 - R\$ 1,178 thousand).

Notes to the financial statements

20. Related-parties Significant Transactions

	In R\$ thousand			
	Bank		Operational Consolidated	
	06/30/2018	06/30/2017	06/30/2018	06/30/2017
Assets				
Short-term interbank investments				
Investments in foreign currencies	107,942	17,169		
BBM Bank Limited	107,942	17,169		
Other receivables	149	113		98
BACOR CCVM S.A.	15	15		
Bahia Fund	134	98		98
Derivative financial instruments		3	2,474	2,347
Bahia Fund		3		3
The Southern Atlantic Investments Ltd.			2,474	2,344
Sundry	3,463		11,319	541
The Southern Atlantic Investments Ltd.	3,463		11,319	541
Liabilities				
Demand deposits	22,572	5,950	131,291	6,020
Évora S.A.	10	181	10	181
Ravenala Participações S.A.	1	1	1	1
Haitan Fund	9,861		9,861	
BBM Bank Limited	7,204	58		
BACOR CCVM S.A.	3,933	545		
Bahia Fund			105,124	674
The Southern Atlantic Investments Ltd.			14,732	4,693
Bocom Brazil Holding Company Ltda	188	4,693	188	
BBM Administração de Recursos DTVM S.A.	472	14	472	
Bahia Adm. de Recursos DTVM S.A.	519		519	458
Other related individuals/legal entities	384	458	384	
Interbank deposits	8,585	17,569	3,180	5,550
BACOR CCVM S.A.	5,405	12,019		
BBM Administração de Recursos DTVM S.A.	3,180	5,550	3,180	5,550
Time deposits	545,951	168,403	545,951	168,403
Bahia Holding S.A.	126,765		126,765	
Évora S.A.	3,123	3,010	3,123	3,010
Bocom Brazil Holding Company Ltda	27,856		27,856	
Bank of Communications Co., Ltd	388,207	165,393	388,207	165,393
Repo operations - Debentures	10,856	6,735	10,856	6,735
Other related individuals/legal entities	10,856	6,735	10,856	6,735
Agriculture Credit Bills	274,425	305,269	274,425	305,269
Other related individuals/legal entities	274,425	305,269	274,425	305,269
Real Estate Credit Bills	43,933	22,893	43,933	22,893
Other related individuals/legal entities	43,933	22,893	43,933	22,893
Obligations for securities abroad	191,830	166,537	191,830	158
The Southern Atlantic Investments Ltd.	191,830	166,537	191,830	158
Loans abroad	387,038	269,332	387,038	269,332
Bank of Communications Co., Ltd	387,038	269,332	387,038	269,332
Dividends and bonus payable	16,119	17,134	16,119	17,134
Interest on capital credited to shareholders	16,119	17,134	16,119	17,134
Social and statutory	13,090	8,257	13,091	8,257
Bonus payable to management	4,853	8,257	4,853	8,257
Deferred bonus payable to management	8,237		8,237	
Sundry		53	36	112
The Southern Atlantic Investments Ltd.			36	112
BBM Bank Limited		53		

Notes to the financial statements

20. Related-parties Significant Transactions (Continued)

	In R\$ thousand			
	Bank		Operational Consolidated	
	06/30/2018	06/30/2017	06/30/2018	06/30/2017
Result				
Earnings from investment abroad	(1,915)	(1)	(1,915)	(1)
Loss (gain) on derivative financial instruments	(2,603)	(3,718)	48,533	(4,301)
The Southern Atlantic Investments Ltd.	11,746	-	58,432	(5,616)
BBM Bank Limited	(5,602)	(3,693)	-	-
Bahia Fund	(8,745)	(25)	(9,899)	1,315
Earnings from investments funds	-	5,189	-	5,189
Real Estate Fund Structure II - FII	-	5,189	-	5,189
Open market funding	(57,119)	(2,829)	(57,119)	(16,067)
Earnings with securities abroad	(41,299)	9,211	(41,299)	(308)
The Southern Atlantic Investments Ltd.	(28,698)	(891)	(28,698)	(130)
BBM Nassau Branch	(12,601)	10,102	(12,601)	(178)
Repo operations - Debentures expenses	(233)	(217)	(233)	(217)
Other related individuals/legal entities	(233)	(217)	(233)	(217)
Interbank deposits expenses	26	385	26	(284)
BACOR CCVM S.A.	-	669	-	-
BBM Administração de Recursos DTVM S.A.	26	(284)	26	(284)
Time deposits expenses	(8,015)	(238)	(8,015)	(238)
Ravenala S.A.	-	(158)	-	(158)
Évora S.A.	84	-	84	-
Real Estate Fund Structure II - FII	-	(80)	-	(80)
Bocom Brazil Holding Company Ltda	(201)	-	(201)	-
Bahia Holding S.A.	(3,329)	-	(3,329)	-
Bank of Communications Co., Ltd.	(4,569)	-	(4,569)	-
Financial Bills	-	(82)	-	(82)
Other related individuals/legal entities	-	(82)	-	(82)
Agriculture Credit Bills	(6,551)	(10,702)	(6,551)	(10,702)
Other related individuals/legal entities	(6,551)	(10,702)	(6,551)	(10,702)
Real Estate Credit Bills	(1,046)	(1,186)	(1,046)	(1,186)
Other related individuals/legal entities	(1,046)	(1,186)	(1,046)	(1,186)
Loans expenses abroad	(60,479)	(3,049)	(60,479)	(3,049)
Bank of Communications Co., Ltd.	(60,479)	(3,049)	(60,479)	(3,049)
Other administrative expenses	(35)	(31)	(8)	
Services provisions	(35)	(31)	(8)	
BBM Bank Limited	(35)	(31)	(8)	
Other operating income	561	460	174	98
BBM Bank Limited	312	287	-	
BACOR CCVM S.A.	75	75	-	
Bahia Fund	174	98	174	98
Earnings from securities abroad	-	91	-	
Key management compensation	(6,794)	(4,406)	(6,794)	(4,406)
Interest on capital credited to shareholders	(18,964)	(20,158)	(18,964)	(20,158)
Total	(147,347)	(33,641)	(96,572)	(47,884)

The transactions between related-parties were carried out at the average rates practiced by the market, effective on the transactions dates.

Notes to the financial statements

21. Derivative financial instruments

The Bank and the other institutions of the Operational Consolidated participate in transactions involving derivative financial instruments to meet their own needs as well as on behalf of their clients.

Derivative financial instruments are classified according to management's intent at the inception of the transaction, taking into consideration whether or not the purpose is to hedge risks.

In accordance with BACEN Circular Letter No. 3,082, the derivative financial instruments assigned to offset, in whole or in part, exposure to risks from assets, liabilities, commitments or projected future transactions (hedged items), since they are considered effective in reducing the risk associated with the exposure to be hedged, are classified according to their nature:

These transactions are traded, recorded or held on BM&F Bovespa S.A. or CETIP S.A. – Mercados Organizados. In the Operational Consolidated, international derivatives transactions are traded and recorded in the OTC market, at the Chicago Board of Trade (CBOT) or Chicago Mercantile Exchange (CME).

The criteria used to calculate the market values of the derivative financial instruments are:

- Futures: value of daily adjustments to the transactions;
- Swap and term transactions: Cash flow is estimated for each part discounted to present value according to the corresponding interest rate curves, obtained based on BM&F prices or on the assets' prices;
- Options: average trading price on the calculation date or, when not available, estimated price based on pricing models, such as Black & Scholes.

At June, 30 2018, the guarantees for the transactions involving derivative financial instruments are represented mainly by government securities in the total amount of R\$ 164,727 thousand (June 30, 2017 - (R\$ 164,927 thousand) and fund quotas in the total amount of R\$ 7,055 thousand (June 30, 2017 - R\$ 0).

Notes to the financial statements

a.) Recorded in offsetting and equity accounts

The commitments arising from these financial instruments, recorded in offsetting accounts, on June 30, 2018, within maturity up to January 2023 (June 30, 2017 - up to January 2025) are as follows:

	In R\$ thousand											
	Bank					Operational Consolidated						
	06/30/2018					06/30/2017	06/30/2018					06/30/2017
	Up to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total	Total	Up to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total	Total
Future market												
Purchased position												
Foreign exchange col	10,816	42,124	3,782	1,180,035	1,236,757	630,084	10,816	42,124	3,782	1,180,035	1,236,757	630,084
Interest rate	36,991	-	39,639	209,507	286,137	674,329	36,991	-	39,639	209,507	286,137	674,329
Foreign currency	470,774	-	-	-	470,774	464,921	470,774	-	-	-	470,774	464,921
IPCA	-	-	-	17,386	17,386	-	-	-	-	17,386	17,386	-
Sold position												
Foreign exchange col	321,476	76,831	102,361	546,727	1,047,395	293,396	321,476	76,831	102,361	546,727	1,047,395	293,396
Interest rate	105,302	209,476	11,884	27,869	354,531	560,057	105,302	209,476	11,884	27,869	354,531	126,723
Foreign currency	76,726	-	-	-	76,726	161,556	76,726	-	-	-	76,726	161,556
IPCA	53,333	-	227,665	197,038	478,036	-	53,333	-	227,665	197,038	478,036	-
Non-deliverable forward - NDF												
Asset position												
Currency	55,391	87	-	-	55,478	1,708	57,866	87	-	-	57,953	3,372
Liability position												
Currency	5,063	6,709	162	-	11,934	784	6,763	6,709	162	-	13,634	1,780
Swaps												
Asset position												
Interest rate	104,480	33,422	35,486	1,055,589	1,228,977	301,471	104,480	103,053	159,433	1,055,589	1,422,555	303,557
Liability position												
Currency	12,177	-	1,367	14,197	27,741	-	12,177	-	1,367	14,197	27,741	-
Interest rate	52,274	33,742	36,384	1,068,937	1,191,337	303,534	52,274	35,177	37,078	1,068,937	1,193,466	305,620
Options market												
Asset position												
Currency	-	133	-	-	133	1	-	133	-	-	133	1

Notes to the financial statements

b.) At cost and market value

In R\$ thousand						
Bank						
06/30/2018						06/30/2017
Cost	Market	Up to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total
Future market						
Purchased position	2,011,054	518,581	42,124	43,421	1,406,928	1,769,335
Sold position	1,956,688	556,838	286,308	341,909	771,634	1,015,009
Swaps						
Asset position	1,175,369	1,228,977	104,480	33,422	1,055,589	301,471
Liability position	1,169,992	1,219,079	64,451	33,742	1,083,134	303,534
Non-deliverable forward - NDF						
Asset position	51,745	55,478	55,391	87	-	1,708
Liability position	12,458	11,934	5,063	6,709	162	784
Options market						
Asset position	31	133	-	133	-	1
Liability position						

In R\$ thousand						
Operational Consolidated						
06/30/2018						06/30/2017
Cost	Market	Up to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total
Future market						
Purchased position	2,011,054	518,581	42,124	43,421	1,406,928	1,769,335
Sold position	1,956,688	556,837	286,308	341,909	771,634	1,015,009
Swaps						
Asset position	1,368,946	1,422,555	104,480	103,053	1,055,589	303,557
Liability position	1,172,121	1,221,207	64,451	35,177	1,083,134	305,620
Non-deliverable forward - NDF						
Asset position	54,219	57,953	57,866	87	-	3,372
Liability position	14,159	13,634	6,763	6,709	162	1,780
Options market						
Asset position	31	133	-	133	-	1
Liability position	-	-	-	-	-	

Notes to the financial statements

c.) Notional value per counterparty

In R\$ thousand							
Bank							
06/30/2018							06/30/2017
Financial Institutions	Related-parties	Legal entities	Stock exchanges	Institutional customers	Individuals	Total	
Future market							
Purchased position			2,011,054			2,011,054	1,769,335
Sold position			1,956,688			1,956,688	1,015,009
Swaps							
Asset position	93,302	1,135,675				1,228,977	301,471
Liability position	48,806	1,170,272				1,219,078	303,534
Non-deliverable forward - NDF							
Asset position		55,478			-	55,478	1,708
Liability position		11,510			424	11,934	784
Options market							
Asset position			133			133	1
Liability position			-			-	-

In R\$ thousand							
Operational Consolidated							
06/30/2018							06/30/2017
Financial Institutions	Related-parties	Legal entities	Stock exchanges	Institutional customers	Individuals	Total	
Future market							
Purchased position			2,011,054			2,011,054	1,769,335
Sold position			1,956,688			1,956,688	1,015,009
Swaps							
Asset position	286,879	1,135,675				1,422,555	303,557
Liability position	50,935	1,170,272				1,221,207	305,620
Non-deliverable forward - NDF							
Asset position	57,726	226			-	57,953	3,372
Liability position	3,473	9,737			424	13,634	1,780
Options market							
Asset position			133			133	1
Liability position			-			-	-

Notes to the financial statements

21. Derivative financial instruments

The futures market includes the following positions maturing on the first business day of the subsequent month:

- Purchased foreign exchange coupon contracts (DDI) in the amount of R\$ 0.00 thousand (on June 30, 2017 – purchased foreign exchange coupon (DDI) in the amount of R\$ 630,084 thousand);
- Sold foreign exchange coupon contracts (DDI) in the amount of R\$ 0.00 thousand (on June 30, 2017 – sold foreign exchange coupon (DDI) in the amount of R\$ 293,396 thousand);
- Purchased interest contracts (DI1) in the amount of R\$ 36,901 thousand; (June 30, 2017 – R\$ 658,704 thousand);
- Sold interest contracts (DI1) in the amount of R\$ 85,479 thousand; (June 30, 2017 – R\$ 558,227 thousand);
- Purchased currency contracts (DOL) in the amount of R\$ 293,041 thousand; (June 30, 2017 – Purchased currency contracts (DOL) in the amount of R\$ 464,921 thousand);
- Sold currency contracts (DOL) in the amount of R\$ 0.00 thousand (June 30, 2017 – Sold currency contracts (DOL) in the amount of R\$ 161,556 thousand);
- Purchased currency contracts (DAP) in the amount of R\$ 0.00 thousand; (June 30, 2017 – R\$ 15,625 thousand);
- Sold currency contracts (DAP) in the amount of R\$ 0.00 thousand (June 30, 2017 – R\$ 1,830 thousand);

Net gains (losses) on derivative financial instruments are as follows:

	R\$ thousand			
	Bank		Operational Consolidated	
	06/30/2018	06/30/2017	06/30/2018	06/30/2017
Futures contracts	32,763	(18,779)	32,763	(18,779)
Options contracts	102	(460)	102	(460)
Swap and term contracts	(585)	55	4,902	3,788
Total	32,280	(19,184)	37,767	(15,451)

Notes to the financial statements

21. Derivative Financial Instruments (Continued)

d.) Hedge Accounting

Fundraising hedge (I)

At September 30, 2014, Banco BBM made a loan transaction to provide long term funding for use in transactions with agribusiness customers, structured by three counterparties, one of which is responsible for 50% of the funds provided, and the other two for 25% each, maturing in 2019 (for two of them, of 50% and 25%) and 2017 (the remaining 25%), amounting to US\$ 100,000 thousand payable subject to half-yearly post-fixed interest at six-month LIBOR plus 2.70% p.a. and six-month LIBOR plus 2.40% p.a., respectively. Furthermore, in addition to the half-yearly payments, 1% commission is payable on the total notional value plus an annual fee of US\$ 35 thousand.

This loan allowed Banco BOCOM BBM to have a disbursement option until March 2016 and, based on the transaction structure, the first withdrawal, of US\$ 10,000 thousand, took place on December 30, 2014 and the second, of US\$ 90,000 thousand, occurred on August 18, 2015. Up to this date, Banco BOCOM BBM has entered into a cash flow hedge transaction against the risks arising from exposure to variable interest rates and future cash flow, for this purpose, a swap transaction was entered into, receiving the variable interest rate of the transaction and paying a fixed interest rate, both levied on the amount of the principal of the transaction denominated in US Dollars. This results in a fixed cash flow in US Dollars. In order to peg this cash flow to the CDI, a series of foreign exchange coupon transactions were performed with BMF, in accordance with the maturities and exposures of the respective agreements, all designated as hedges. The cash outlays were in US Dollars and, upon cash receipt, a market risk hedge was contracted, designating derivative financial instruments entirely for hedging purposes, considering the foreign exchange exposure risk as well as the market funding conditions prevailing abroad. With a view to equalizing the effects of the marking-to-market of derivative financial instruments designated as hedges, the amount of the hedge principal, plus interest due, is stated at fair value and also marked to market.

In the first six-month period of 2018, management decided to discontinue this hedge. June 30, 2017 - 107.67%).

Fundraising Hedge (II)

During the 3rd quarter of 2017, Banco BOCOM BBM entered into loan contracts in US dollars with the Bank of Communications Shanghai Branch, in order to provide funding. On September 6, 2017, in the amount of USD 35,000 thousand, with payment of interest fixed in 2.05% p.a. On September 11, 2017, in the amount of USD 35,000 thousand, with payment of interest fixed in 2.05% p.a. On September 18, 2017, in the amount of USD 30,000 thousand, with payment of interest fixed in 2.06% p.a.

In order to peg this cash flows to the CDI, a series of foreign exchange coupon transactions were performed with BM&F, in accordance with the maturities and exposures of the available FRC contracts and the maturity of the operations. The cash outlays were in US Dollars and, upon cash receipt, a market risk hedge was contracted, designating a derivative financial instruments portfolio, comprised of DDI, DOL and ED contracts for total hedge, considering the foreign exchange exposure and interest rates risks. With a view to equalizing the effects of the marking-to-market of derivative financial instruments designated as hedges, the amount of the hedge principal, plus interest due, is stated at fair value and also marked to market.

Due to the fact that the hedge object flows and hedge derivatives results are gathered, the effectiveness of the transaction remained close to 98.54%.

Notes to the financial statements

21. Derivative Financial Instruments (Continued)

Fundraising Hedge (III)

In June 2017, Banco BOCOM BBM designated a derivative financial instruments portfolio constituted by DI1 and DAP contracts in order to peg to CDI a portion of its fundraising portfolio indexed to the IPCA. With a view to equalizing the effects of the marking-to-market of derivative financial instruments designated as hedges, the amount of the fundraisings indexed to IPCA is stated at fair value and also marked to market.

Due to the fact that the hedge object flows and hedge derivatives results are gathered, the effectiveness of the transaction remained close to 107.94%.

Loan Transactions Hedge

In August 2017, Banco BOCOM BBM designated a derivative financial instruments portfolio constituted by future contracts in U.S. Dollar and Euro in order to hedge the U.S. Dollar short term interest rate variations. In order to equalize the effects of the marking to market of the derivative financial instruments assigned as hedge, the amount of USD 29,761 thousand from the loan transaction released in August 2017 by Banco BOCOM BBM Nassau Branch, with interest rate fixed in 4.28% p.a., is stated at fair value and also marked to market.

Due to the fact that the hedge object flows and hedge derivatives results are gathered, the effectiveness of the transaction remained close to 110.81%.

Investment Hedge Abroad

In September 2016, CMN edited the Resolution No. 4.524, establishing the criteria to record the transactions with financial instruments contracted in order to mitigate the risks associated to the foreign exchange exposure of the investments abroad.

In January 2017, Banco BOCOM BBM assigned a derivative financial instruments portfolio constituted by DI1 and DOL contracts, with the purpose of hedging the foreign exchange rate risk of its investment abroad in the amount of USD 5,000,000, which is consolidated in the Operational Consolidated.

Due to the fact that the hedge object flows and hedge derivatives results are gathered, the effectiveness of the transaction remained close to 100%.

Notes to the financial statements

22. Risks Management

Market Risk

Banco BOCOM BBM was a pioneer in terms of quantifying market risk in Brazil, and developed a proprietary system in 1997 which became a benchmark for the industry. The market risk management structure includes the following: a) the Executive Board, responsible for reviewing risk management policies and proposing risk management operating limits, submitting these for the approval of the Board of Directors at least once a year; b) the Board of Directors, which approves the risk policies and limits at least once a year; c) the Market Risk area, subordinated to the Risk Officer, is responsible for identifying, measuring, monitoring and reporting online to the Executive Board the Bank's market risk, ensuring compliance with the market risk management policy, as well as guaranteeing that operational limits are observed; d) the Price department, which among other duties is responsible for defining the price models and sources used in mark-to-market adjustments of traded products, independently of management departments; e) Internal Audit, which is responsible for ensuring the adequacy of procedures and the consistency between market risk management policies and the structure actually implemented.

The market risk is monitored through daily calculations of the Value at Risk (VaR), a statistical tool that measures the institution's maximum potential loss at a given confidence level over a given investment horizon. A VaR limit is established, which may be allocated by the Chief Treasury Officer among the various risk factors. The VaR calculation model is submitted to periodical back testing. Furthermore, scenarios are analyzed daily, and these scenarios are quarterly defined by the Risk Committee, independently of the management departments. A full description of the Bank's market risk management structure is available on Banco BOCOM BBM's website (www.bancobocombbm.com.br).

*VaR = Maximum potential risk, given the level of reliability and the investment scenario. For Banco BBM, the limit is established based on a 95% likelihood of loss at a maximum of 2% of equity in 1 day.

Liquidity Risk

Banco BOCOM BBM's liquidity target is to ensure that at any given time the Bank has sufficient cash to meet all its liabilities and other commitments. It is the responsibility of the Liquidity Risk area to monitor whether there is a sufficient free cash position to guarantee the continuity of the bank's operations in a severe stress scenario, following the limits and guidelines defined by the Risk Committee and approved by the Board of Directors.

Liquidity risk is managed based on cash flow forecasts, considering different scenarios for funding, loan and treasury operations. These cash flow analyses take into consideration: (a) the implicit risk of each client, (b) possible additional cash for compulsory deposits, (c) derivative adjustments; and (d) other existing obligations. The general principle is to ensure that the Bank's commitments are aligned with its equity and the current policies for fundraising, credit and treasury.

Banco BOCOM BBM has a liquidity risk management structure comprised of the following agents, with their respective assignments: a) Liquidity Risk area, subordinated to the Risk Director, which is responsible for centralizing and measuring the information referring to liquidity risk management, ensuring that operational limits are observed and disclosing reports to support decision making on liquidity risk; b) Internal Audit, which is responsible for ensuring the adequacy of the procedures and the consistency between the liquidity risk management policies and the effectively implemented structure. A full description of the Bank's liquidity risk management structure is available on the website of Banco BOCOM BBM (www.bocombbm.com.br).

Notes to the financial statements

22. Risks Management (Continued)

	In R\$ thousand			
	Bank		Operational Consolidated	
	06/30/2018	06/30/2017	06/30/2018	06/30/2017
Current assets	2.874.510	3.087.197	3.220.785	2.569.359
Current liabilities	(3.292.203)	(3.105.061)	(3.420.958)	(2.762.750)
Working capital, net	(417.693)	(17.864)	(200.173)	(193.391)
Short term securities available for sale presented in long-term receivables	581.496	566.755	581.496	566.755
	163.803	548.891	381.323	373.364

Credit Risk

Banco BOCOM BBM has a credit risk management structure comprised of the following elements and respective duties: a) the Credit Committee, responsible for defining credit limits of the economic groups and for monitoring and evaluating the consolidated portfolio position, its concentration and risk level. It is also responsible for establishing the terms for solving default on credit operations or with a certain level of deterioration of the guarantees and deciding whether or not to initiate judicial collection proceedings, as applicable; b) Board of Directors, responsible for approving the risk policies and limits, at least once a year; c) Credit Risk area, subordinated to the Risk Director, is responsible for centralizing and evaluating information related to the individual and consolidated credit risk management, per operation, ensuring that operating limits are complied with, disclosing reports facilitating decision making related to credit limits approved by the Credit Committee. It is also the responsibility of the risk area to previously evaluate new operational genres related to credit risk; d) Credit Analysis area, responsible for assessing the credit risk of economic groups with which the Bank maintains or intends to maintain credit relationships; e) Internal Audit, which carries out periodic audits of the business units and of the Credit processes of the Group; f) Legal Department, responsible for analyzing the contracts entered into by Banco BOCOM BBM and its clients, as well as coordinating measures to recover credits or protect the Bank's rights; and g) Contracts Department, responsible for checking the adherence of operations to the parameters established in the Credit Limit Proposal ("PLC"), as well as the making of adequate guarantees. It is also responsible for issuing contracts to be entered into by Banco BOCOM BBM and the client. A full description of the credit risk management structure is available on the website of Banco BOCOM BBM (www.bocombbm.com.br).

Notes to the financial statements

22. Risks Management (Continued)

Operational Risk

Banco BOCOM BBM has implemented an operational risk management structure based on market best practices and in compliance with the regulatory requirements in force. The structure is documented in the internal manual "Policy on Operational Risk Management" which defines the methodology, management process, roles and responsibilities, categories, information storage and documentation procedures, and also the disclosure process in order to ensure the transparency of management activities.

The Operational Risk Department is an independent organizational unit segregated from the Internal Audit department, subordinated to the Chief Internal Control, Capital and Risk Officer. This area is responsible for working with the other components of the operational risk structure to ensure the compliance with the guidelines established by the mentioned Policy. A full description of the operational risk management structure is available on the website of Banco BOCOM BBM (www.bocombbm.com.br).

Capital Management

Banco BOCOM BBM manages its capital through a structure composed of the following bodies: Board of Directors, Executive

Board, Internal Control, Capital and Risk Board, Treasury Board, Fund Raising Board, Back Office, Business Units and Audit Board. The Board of Directors is the highest body within this structure, in charge of monitoring the capital adequacy. The Executive Board must review the documents to be submitted to the Board of Directors, as well as approving the methodologies to be used for the management and monitoring of the capital adequacy. Capital management and centralization is the responsibility of the Capital and Risk Board, which must continuously work to improve and oversee the institution's compliance with the capital management policy and its capital plan. The Treasury and Fundraising Boards are responsible for planning the issuance of equity instrument, if necessary. The capital management department periodically generates reports on the capital adequacy, which are sent to the Executive Board and the Board of Directors.

These reports comprise simulations of severe events and extreme market conditions. The Business Units must provide all information that the Internal Control, Capital and Risk Board deems necessary for effective capital management. The Audit department is responsible for evaluating, from time to time, the effectiveness of the capital management process. The description of the capital management structure is available on the website of Banco BOCOM BBM (www.bocombbm.com.br).

Notes to the financial statements

23. Operating Limits

In October 2013, the new rules related to capital measurement became effective. The financial institutions and similar entities have to maintain minimum equity of 8.625% of their assets, weighted by grades of risk to expositions in gold, foreign exchange and operations subject to the operating risk and to the variations in: foreign exchange, interest rate, price of commodities and price of shares classified as held in portfolio for trade, according to BACEN's rules and instructions. The Operational Consolidated of Banco BOCOM BBM is within this operational limit on June 30, 2018.

	In R\$ thousand	
	Prudential Conglomerate	
	06/30/2018	06/30/2017
Reference Equity Level I	575,076	550,340
Adjusted Equity (*)	594,662	573,922
Decrease in intangible / deferred assets according to CMN Resolution No. 4.192	19,587	23,582
Reference Equity (PR)	575,076	550,340
Risk-Weighted Assets (RWA)	345,269	284,255
Portions referring to:		
Credit Risk (RWACPAD)	308,898	240,288
Foreign exchange risk (PCAM)	8,690	1,936
Interest rate risk (RWAMPAD)	1,541	20,492
Operating risk (RWAOPAD)	26,140	21,540
RBAN		
Margin or Insufficiency Value (PR - RWA)	229,806	266,085
Risk factor -8.625% of PR	49,600	50,906
Basel Rate (Risk Factor / RWA)	14.37%	17.91%
RBAN	79,268	3,293
ACP Required	75,059	
Reference Equity Margin + RBAN	75,479	262,792

(*) This does not consider losses of equity valuation adjustments of cash flow hedge.

Notes to the financial statements

24. Income Tax and Social Contribution

Changes in tax credits and provision for deferred taxes on temporary differences are as follows:

	In R\$ thousand			
	Bank		Operational Consolidated	
	06/30/2018	06/30/2017	06/30/2018	06/30/2017
Asset Tax Credit:				
Balance at January 1	73.363	56.289	76.035	78.075
Constitution (Reversal)				
- With effects in the result	(4.872)	1.554	(5.309)	2.072
- With effects in equity				
(Securities held for sale)	5.973	3.331	5.973	215
Balance at June 30	74.464	61.174	76.699	80.362
Provision for deferred taxes: (*)				
Balance at January 1	12.338	8.539	12.371	11.456
Constitution (Reversal)				
- With effects in the result	2.396	154	2.366	1.456
- With effects in equity				
(Securities held for sale)	1.230	2.731	1.230	462
Balance at June 30	15.963	11.424	15.966	13.372

(*) The amount of provision for deferred taxes is recorded as Other tax and social security obligations.

Notes to the financial statements

24. Income Tax and Social Contribution (Continuing)

The breakdown of tax credits and provision for deferred taxes is as follows:

	In R\$ thousand			
	Bank		Operational Consolidated	
	06/30/2018	06/30/2017	30/06/2018	06/30/2017
Asset Tax Credit:				
Temporary Differences (a)				
- Allowance for loans transactions	43.722	21.544	43.722	39.576
- Market adjustment of marketable securities and derivatives	8.586	5.787	8.586	5.752
- Provision for contingencies (Note 25a)	3.619	2.957	3.619	2.754
- PIS / COFINS (Note 25b)				1.284
- Others	6.121	2.041	6.252	3.022
Social contribution Negative Basis	3.987	12.486	4.778	15.081
Tax loss	8.428	16.359	9.742	12.894
Total	74.464	61.174	76.699	80.362
Provision for deferred taxes:				
Temporary Differences (a)				
- Market adjustment of marketable securities and derivatives	1.346	3.028	1.348	663
- Others	14.618	8.396	14.618	12.708
Total	15.963	11.424	15.966	13.372

(a) It is expected that these tax credits will be realized up to the end of 2022 for income tax and social contribution, with a present value of R\$ 21 million and R\$ 28 million, respectively. The social contribution on the tax credits was calculated considering the new effective rate.

In December 2017, Banco BOCOM BBM, Assignor, entered into a credit assignment agreement with the Assignee, BOCOM BBM Corretora de Câmbio e Valores Mobiliários S.A., arising from tax losses and negative basis regularly constituted due to tax assessment of 2013, mainly considering the accounting impact of the adhesion, by the Assignor, to the payment in installments ruled by the Law No. 12.865 of October 9, 2013 and by the PGNF/RFB Joint Ordinance No. 8 of October 18, 2013. With the Provisional Measure No. 783 of May 31, 2017 and the RFB Normative Instruction No. 1.711 of June 16, 2017, which established the Tax Regularization Special Program, to which the Assignee adhered in order to settle the tax debits through the Social Contribution negative basis.

Notes to the financial statements

24. Income Tax and Social Contribution (Continuing)

The conciliation of the expense calculated using the tax rates and the expense of income tax and social contribution accounted for in the Bank is as follows:

	In R\$ thousand			
	06/30/2018		06/30/2017	
	IRPJ	CSLL	IRPJ	CSLL
Profit before income tax and social contribution	31.332	31.332	8.442	8.442
Bank's profit	38.842	38.842	23.134	23.134
(-) Interest on capital	(18.964)	(18.964)	(20.158)	(20.158)
(-/+) Income Tax and Social Contribution	(11.454)	(11.454)	(5.465)	(5.465)
Tax rate	25%	20%	25%	20%
Income Tax and Social Contribution				
By the tax rate	(7.833)	(6.266)	(2.110)	(1.688)
Permanent additions	30.223	23.429	26.632	22.226
Non-deductible expenses	6.969	176	4.709	303
Addition of income abroad	23.254	23.254	21.923	21.923
Permanent exclusions	30.279	30.279	21.645	21.645
Tax-free revenues	7.691	7.691	7	7
Equity in the results of investees	22.587	22.587	21.638	21.638
Temporary additions / exclusions	(8.558)	(6.617)	8.537	9.589
Tax Basis	22.719	17.866	21.965	18.612
Utilization tax losses and negative basis	(6.816)	(5.360)	(6.590)	(5.584)
Tax basis with utilization of tax loss and negative basis	15.904	12.506	15.376	13.028
Income Tax and Social Contribution (a)	(3.964)	(2.501)	(3.832)	(2.606)
Utilization of tax incentives and taxes of subsidiaries abroad	(613)		193	
Income tax and social contribution in the result for the six--month period	(4.577)	(2.501)	(3.638)	(2.606)
DIPJ Adjustment	7	10	-	-
Liability deferred taxes	(1.346)	(1.050)	(892)	(535)
Income tax and social contribution in the result for the six-month-period- Banco BOCOM BBM	(5.915)	(3.541)	(4.530)	(3.141)
Income Tax and Social Contribution of other institutions of the Operational Consolidated	(617)	(507)	(197)	(164)
Provision for income tax and social contribution in the result for the six-month-period- Operational Consolidated	(6.532)	(4.048)	(4.727)	(3.304)

(a) In May 2015, Provisional Measure No. 675 was issued, amending the rate of Social Contribution on Net Income (CSLL) of financial institutions from 15% to 20%. According to the Provisional

Measure, this rate increase became effect as from September 2015 and it remains in force up to December 2018.

Notes to the financial statements

25. Provisions and liabilities for legal obligation

The Operational Consolidated are a party to lawsuits and administrative proceedings arising from the normal course of operations, involving tax, labor and civil matters among others.

a) Breakdown of provisions

Based on information from its legal counsels and an analysis of the pending legal proceedings and labour suits, considering previous experience related to the claimed amounts, management recorded a provision in an amount considered sufficient to cover the estimated losses expected in connection with ongoing litigation, as follows:

In R\$ thousand				
Bank		Operational Consolidated		
	06/30/2018	06/30/2017	06/30/2018	06/30/2017
Labor	7,811	5,638	7,811	5,638
Civil	477	451	477	451
Total - Provisions for contingencies	8,288	6,089	8,288	6,089

These provisions are recorded as "Other liabilities - sundry" under Long-term liabilities. During the period ended June 30, 2018, the amount of R\$ 571 was translated and the amount of R\$ 1,286 of the provisions for contingencies was constituted in the Operational Consolidated.

b) Liabilities for legal obligations

Since April 2007, based on a preliminary court order contesting the constitutionality of the law that increased the PIS and COFINS tax bases, Banco BOCOM BBM S.A. and BOCOM BBM Corretora de Câmbio e Valores Mobiliários S.A. have been paying the said taxes calculated only on service revenue, recording a liability for the remaining balances until a final decision is handed down, recorded as "Other Liabilities - Sundry" under long-term liabilities, as follows:

In R\$ thousand				
Bank		Operational Consolidated		
	06/30/2018	06/30/2017	06/30/2018	06/30/2017
PIS e COFINS	-	-	-	3,211
Total - Liabilities for legal obligations (*)	-	-	-	3,211

(*) in August 2017, Pis and Cofins liability arising from increase of the calculation basis mentioned above was settled due to adhesion to the Tax Regularization Special Program (PERT), established by the Provisional Measure No. 783/2017, which provides the settlement for payment in installment the tax and social security obligations before the Federal Revenue Secretariat (SRF). It resulted in a reversal of R\$ 1,244 thousand. On October 24, 2017, Provisional Measure No. 783/17 became the Law No. 13.496/17, amended but with no impacts in the Operational Consolidated.

Notes to the financial statements**25. Provisions and liabilities for legal obligation (Continued)****C) BM&F and Bovespa Demutualization**

In December 2013, Banco BOCOM BBM and BOCOM BBM Corretora de Câmbio e Valores Mobiliários S.A. adhered to the program of payment/payment in installments of debts before Federal Revenue Secretariat (SRF), the National Treasury General Attorney's Office (PGFN) and the Brazilian National Social Security Institute (INSS), established by the Law No. 11,941/2009, amended by Law No. 12.865/2013 ("REFIS"), in order to settle the debts discussed in administrative procedures and tax enforcements, enjoying the benefits of decrease of fine and interest related to tax assessment notices issued by the Brazilian Federal Revenue in December 2011, with the purpose of: (i) income tax and social contribution taxation on the reserve of equity securities of BM&F and Bovespa, due to demutualization of the mentioned entities and (ii) PIS and COFINS taxation on the capital gain in the sale of the mentioned securities. It is worth mentioning that only Banco BOCOM BBM adhered to the program for the purpose of PIS and COFINS taxation, remaining the discussion for the company BOCOM BBM Corretora de Câmbio e Valores Mobiliários S.A.

In August 2017, BOCOM BBM Corretora de Câmbio e Valores Mobiliários S.A. adhered to the Tax Regularization Special Program (PERT), in order to settle debts discussed in administrative procedures and tax enforcements, related to PIS and COFINS, of the demutualization of BM&F and Bovespa. It resulted in a provision of R\$ 6,783 thousand.

d) Others

On December 5, 2016, Banco BOCOM BBM S.A. was named by the Brazilian Administrative Council for Economic Defense (CADE) in an administrative proceeding investigating alleged anticompetitive practices in relation to the onshore foreign exchange market between 2008 and 2012. The Bank, together with its legal counsels, is in the process of making defense arguments.

Notes to the financial statements

26. Allowance for financial guarantees

The Allowance for doubtful in account related with financial guarantees are based on the analysis of operations according to the type of obligation provided, past experience, future expectations and management's risk assessment policy. They are reviewed periodically, as established by CMN Resolution No. 4.512/2016.

Type of financial guarantee	In R\$ thousand			
	Bank		Operational Consolidated	
	06/30/2018	06/30/2017	06/30/2018	06/30/2017
Linked to international trade	10.700	3.882	10.700	3.882
Linked to bids, auctions, service render or construction	244.826	120.160	244.826	120.160
Surety or guarantee in lawsuits and administrative procedures	182.621	121.073	182.621	121.073
Other sureties	180.885	51.241	114.564	10.489
Total	619.032	296.356	552.711	255.604
Changes in allowance for financial guarantees				
Beginning balance	538	14.611	538	14.611
Constitution	7.198	1.155	7.198	1.155
Reversal (*)	(6.483)	(15.576)	(6.483)	(15.576)
Ending balance	1.252	189	1.252	189

(*) Refers to the reclassification of the provision of external credit operations, transferred to the group of the provision for credit operations.

Notes to the financial statements

27. Other information

(a) Compensatory and settlement of obligations arrangement

Banco BOCOM BBM has a compensatory and settlement of obligations arrangement within the scope of the National Financial System, according to CMN Resolution No. 3.263/05, resulting in more guarantee to settle its debits with financial institutions with which it has this kind of arrangement. On June 30, 2018, the total assets mitigated by compensatory arrangement was of R\$ 47,728 thousand (2017 - R\$ 317,583 thousand).

(b) Result for future years

Result for future years refers mainly to the earnings of guarantees granted (Note 7(c)) and its increase in the period ended June 30, 2018 is aligned with the variation of the guarantees.

(c) Marketable Securities Portfolio

On February 2, 2018, based on the Resolution No. 3.181 of the Central Bank of Brazil, considering the positive incline of the government bonds nominal rates, mainly that the nominal rate of the NTN-F 01/2023 was 80 basis points higher than NTN-F 01/2021, that the nominal rate of the NTN-F 01/2023 was around 9.16% and that for our budget and business plan for the next years, it is important to be able to foresee and to avoid decrease in the revenues, the Executive Board of Banco BOCOM BBM unanimously approved the continuity of the increase of the nominal securities portfolio held to maturity, selling R\$ 316,003,385.10 in NTN-F 01/2021 and purchasing R\$ 316,040,126.10 in NTN-F 01/2023, which had an effect of R\$ 10,580 thousand in the result, registered in "Income from marketable securities transactions".

At the end of the period, Banco BOCOM BBM had R\$ 603,205 thousand in marketable securities classified as "held to maturity", according to Circular Letter No. 3,068 of Central Bank of Brazil. Banco BOCOM BBM has financial capacity and intention to hold them to maturity.

* * *

Aline Gomes – Controller
CRC 087.989/0-9 "S" - BA