
Banco BBM

***Prudential Consolidated Financial Statements
at June 30, 2017 and 2016
and Independent auditors' report***

Macroeconomic Outlook

The Brazilian economy seems to have reached a turning point in the first half of 2017. The recession ended in first quarter, inflation and interest rates have fallen significantly and external accounts continue to display strong numbers. However, political uncertainty has increased again and the fiscal agenda remains a challenge.

Corruption claims raised against the President of the Republic by the Attorney General has increased political uncertainty. But the economy has not derailed though. The recession ended in first quarter, with GDP growth turning positive for the first time since 2014. The agricultural sector rose strongly due to record soybean and corn production, while industrial, retail and services sectors stabilized. Political uncertainty could slow down the recovery going forward, but growth is still expected to be positive for the next two years, reaching +0.4% in 2017 and +1.7% in 2018.

Inflation has fallen from 6.3% at the end of 2016 to 3.0% this June, the lowest level since 2007 – and below the target of 4.5%. A large output gap, anchored inflation expectations and lower food prices have been pushing inflation down in the short term. Looking forward, inflation should stay close to recent numbers until the end of 2017 and then rise to 4% in 2018.

The Central Bank has reduced the policy rate from 13.75% in late 2016 to 10.25% in June and will probably reduce rates below 8% in upcoming months. Lower rates should help support the recovery looking forward. Moreover, the positive scenario for inflation has led the government to reduce the inflation target to 4.25% for 2019 and 4.0% for 2020.

External accounts remain solid. Accumulated 12 months' current account deficit decreased to 1% of GDP, while FDI continues to fully finance it. As a percentage of GDP, FDI is currently more than four times larger than the current account deficit. Therefore, the country remains insulated from capital outflows and large exchange rate movements.

Political uncertainty has slowed the reform agenda though. The Labor Reform has been approved by the Senate, but the Pension Reform, which should have been voted in early June by the Lower House, may face a long delay. As positive highlights, consensus built around the necessity of reforms remains strong.

In summary, the economy has decoupled from politics for now and appears to be in a turning point. Lower inflation, reduced interest rates and high credibility enjoyed by the current economic team have provided a cushion to markets and the economy in the short term. However, the reform agenda is moving slower, leaving fiscal outlook uncertain in the medium-term.

Our business

Banco BBM is a wholesale financial institution, focused on providing credit facilities to corporate clients and financial advisory services for wealth management of individuals.

We have corporate governance standards and procedures in place to meet and reconcile the interests of our depositors in a safe and time convenient environment. To accomplish this, we recruit, assess and motivate people through excellent knowledge, talent, ambition and ethical behaviour.

Performance of Prudential Conglomerate

The Prudential Conglomerate posted equity of R\$ 572 million and net income of R\$ 23 million at June 30, 2017, which corresponds to annual profitability of 8.08% calculated based on the average equity for the period.

Total assets at the end of the year amounted to R\$ 5.1 billion. The volume raised in the domestic and foreign markets totalled R\$ 3.7 billion at the period end, a 36% increase from 06/30/2016. The Bank's Basel ratio was 17.87% at the end of the semester.

Credit for Companies

The Bank's portfolio of loan transactions totaled R\$ 3.0 billion at the end of first semester of 2017 (including advances on foreign exchange contracts and guarantees provided through sureties and collateral), a 77.0% increase on June 30, 2016.

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.

Private Banking

Banco BBM's private banking area continuously uses up-to-date tools to provide wealth management advisory services for individuals, covering long term commitments using diversified financial products in an open platform.

Treasury

Treasury activities include cash management and equity hedging, in order to provide technical support and intelligence services for the Bank's business areas, as well as to identify opportunities in local markets, with capital preservation as a key principle, for prudent market risk management.

People

Banco BBM is a center for identifying and grooming 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 theses. 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.

Credit rating

Banco BBM believes that ratings from agencies are an important source of transparency and independent assessment of the quality of our credit. The current ratings granted by Moody's Investors Service are "Ba1" and "Aaa.br" in the global and national levels respectively. The complete Ratings report can be found in our website.

Banco BBM e Bank of Communications

On February 2016 China Popular Republic approved the transfer of the shareholding control from Banco BBM S.A. to Bank of Communications Co. Ltd. and on November 10, 2016 was approved by the Central Bank of Brazil.

After the regulatory approval, 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, account for 80% of total outstanding shares of Banco BBM. 20% of Banco BBM's shares continued to be held by the previous controlling group of Banco BBM.

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



(A free translation of the original in Portuguese)

Independent auditor's report on the consolidated financial statements of the prudential conglomerate

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

Opinion

We have audited the accompanying consolidated financial statements of the prudential conglomerate of Banco BBM S.A. (the "Bank"), which comprise the consolidated balance sheet as at June 30, 2017 and the consolidated statements of income, changes in equity and cash flows for the six-month period then ended, and notes to the financial statements, including a summary of significant accounting policies. These special purpose consolidated financial statements were prepared in accordance with specified procedures as established in Resolution 4280, from October 31, 2013, issued by National Monetary Council (CMN), and supplementary regulations of the Brazilian Central Bank (BACEN), described in Note 2.

In our opinion, the consolidated financial statements of the prudential conglomerate referred to above present fairly, in all material respects, the financial position of Banco BBM S.A. as at June 30, 2017, and the consolidated financial performance and cash flows, for the six-month period then ended, in accordance with the provisions for the preparation of consolidated financial statements of the prudential conglomerate established by Resolution 4280 of the CMN and supplementary regulations of BACEN, for the preparation of these special purpose consolidated financial statements, as described in the Note 2.

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 consolidated financial statements of the prudential conglomerate". We are independent of the Bank and companies of the prudential conglomerate 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.



Banco BBM S.A.

Emphasis of matter - Basis of preparation of the consolidated financial statements of the prudential conglomerate

Without modifying our opinion, we draw attention to the Note 2, which discloses that the consolidated financial statements of the prudential conglomerate were prepared by management to comply with the requirements of Resolution 4280 of the CMN, and supplementary regulations of BACEN. Consequently, our report on these consolidated financial statements of the prudential conglomerate was prepared exclusively for the compliance with these specific requirements and, accordingly, may not be suitable for another purpose.

Other matters

Predecessor auditor

The consolidated financial statements of the prudential conglomerate of Banco BBM S.A. for the six-month period ended in June 30, 2016, presented for comparison purposes, were audited by other auditors whose report, dated August 31, 2016, expressed an unmodified opinion on those consolidated financial statements.

Financial statements of parent company and consolidated financial statements

Banco BBM S.A. prepared a set of parent company and consolidated financial statements for general purposes referring to the six-month period ended in June 30, 2017, in accordance with accounting practices adopted in Brazil, applicable to institutions authorized to operate by the Brazilian Central Bank (BACEN). Our independent auditor's report on those statements, dated August 17, 2017, was unmodified.

Other information accompanying the consolidated financial statements of the prudential conglomerate and the independent auditor's report

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

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

In connection with the audit of the consolidated financial statements of the prudential conglomerate, our responsibility is to read the Management Report and, in doing so, consider whether this report is materially inconsistent with the consolidated financial statements of the prudential conglomerate or with 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 BBM S.A.

Responsibilities of management and those charged with governance for the consolidated financial statements of the prudential conglomerate

Management is responsible for the preparation and fair presentation of the consolidated financial statements of the prudential conglomerate of Banco BBM S.A. in accordance with Resolution 4280 of the National Monetary Council (CMN), and supplementary regulations of the Brazilian Central Bank (BACEN), whose main criteria and accounting policies are disclosed in the Notes 2 and 3 and for such internal controls as management determines is necessary to enable the preparation of consolidated financial statements of the prudential conglomerate that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements of the prudential conglomerate, management is responsible for assessing the Bank and companies of the prudential conglomerate the ability to continue as going concerns, 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 companies of the prudential conglomerate or to cease operations, or has no realistic alternative but to do so.

Those charged with governance in the Bank and companies of the prudential conglomerate are responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements of the prudential conglomerate

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements of the prudential conglomerate, prepared in accordance with Resolution 4280 of the National Monetary Council (CMN), and supplementary regulations of the Brazilian Central Bank (BACEN), 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 the audit conducted in accordance with the 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, whereas the NBC TA 800 (Special Conditions – Audit Financial Statements in accordance with special purpose accounting conceptual structures), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the 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 companies of the prudential conglomerate.

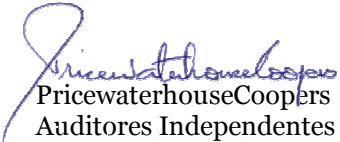



Banco BBM S.A.

- 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 companies of the prudential conglomerate ability to continue as going concerns. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements of the prudential conglomerate 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 companies of the prudential conglomerate to cease to continue as going concerns.
- Evaluate the overall presentation, structure and content of the consolidated financial statements of the prudential conglomerate, including the disclosures, and whether the 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 Consolidated to express an opinion on the consolidated financial statements of the prudential conglomerate. 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 17, 2017


PricewaterhouseCoopers
Auditores Independentes
CRC 2SP000160/O-5 "F" BA


Maria Salete Garcia Pinheiro
CRC 1RJ048568/O-7 "S" BA

Assets

	Note	In R\$ thousand	
		Prudential Consolidated	
		30/06/2017	30/06/2016
Current assets		3,230,894	2,582,918
Cash and cash equivalents	4	7,957	6,503
Free reserves		349	2,838
Funds in foreign currency		7,608	3,665
Short-term interbank investments	5	854,867	192,335
Open market investments	4	722,067	4,498
Interbank deposits		-	1,382
Investments in foreign currencies	4	132,800	186,455
Marketable securities and derivative financial instruments	6	530,906	1,101,472
Bank portfolio		509,783	1,015,312
Subject to repurchase agreements		14,447	48,266
Derivative financial instruments		6,676	29,865
Linked to guarantees given		-	8,029
Interbank accounts		12,795	5,474
Check Payment Services and Other Papers		10	150
Deposits – Central Bank of Brazil		3,310	774
Correspondent banks		9,475	4,550
Loan transactions	7	1,196,274	926,384
Discounted securities and loans		753,689	618,688
Financing		430,640	350,463
Rural and agroindustrial financing		40,169	-
Allowance for loans		(28,224)	(42,767)
Other receivables		602,324	348,788
Foreign exchange portfolio	8	558,439	295,617
Unearned income		2,548	1,155
Trading and brokerage		845	133
Sundry	14	13,507	43,138
Tax credits	24	31,608	12,361
Allowance for other receivables	7	(4,623)	(3,616)
Other assets	15	25,771	1,962

See accompanying notes.

Assets	Note	In R\$ thousand	
		Prudential Consolidated	
		30/06/2017	30/06/2016
Noncurrent assets			
Long-term assets		1,904,577	1,426,268
Short-term interbank investments	5	3,130	2,773
Interbank deposits		3,130	2,773
Marketable securities and derivative financial instruments	6	876,674	982,769
Bank portfolio		554,740	91,783
Linked to repurchase agreements		59,409	635,100
Derivative financial instruments		2,126	148
Linked to guarantees given		260,399	255,738
Loan transactions	7	925,701	257,355
Discounted securities and loans		571,293	170,126
Financing		94,615	98,424
Rural and agroindustrial financing		298,861	-
Allowance for loans		(39,068)	(11,195)
Other receivables		98,387	106,389
Other receivables		2,240	-
Sundry	14	47,421	48,121
Tax credits	24	48,754	58,838
Allowance for other receivables	7	(28)	(570)
Other assets	15	685	76,982
Permanent assets		5,108	96,742
Investments		-	91,247
Income from interest in subsidiaries	9		
In Brazil			
Abroad		-	91,196
Other investments		2,628	2,628
Provision for losses		(2,628)	(2,577)
Property and equipment in use		3,575	2,380
Intangible assets		1,533	1,741
Deferred		-	1,374
Total assets		5,140,579	4,105,928

See accompanying notes.

Liabilities

	Note	In R\$ thousand	
		Prudential Consolidated	
		30/06/2017	30/06/2016
Current liabilities		3,028,651	2,819,833
Deposits	10	712,822	621,633
Demand deposits		140,124	93,214
Interbank deposits		17,236	40,491
Time deposits		555,462	487,928
Repurchase agreements	11	743,716	679,046
Bank portfolio		73,736	679,046
Third-party funds		669,980	-
Funds from acceptance and issue of securities	12	891,625	1,031,891
Liabilities – marketable securities abroad		158	217
Liabilities from issue of agribusiness credit bills		732,426	416,731
Liabilities from issue of credit bills		135,636	580,554
Liabilities from issue of real estate credit bills		23,405	33,924
Funds raised by certificate of structured operations		-	465
Interbank accounts		33	64
Receipts and payments to be settled		33	64
Interbranch accounts		54,098	65,845
Third-party funds in transit		54,098	65,845
Borrowing	13	544,614	321,628
Loans abroad		544,614	321,628
Derivative financial instruments	6	5,570	3,529
Derivative financial instruments		5,570	3,529
Other liabilities		76,173	96,197
Collection of similar taxes		1,504	780
Foreign exchange portfolio	8	8,847	18,692
Social and statutory		28,554	17,216
Tax and social security		13,469	13,291
Securities trading		2	3,828
Allowance for financial guarantees	26	189	-
Sundry		23,608	42,390

See accompanying notes.

Liabilities	Note	In R\$ thousand	
		Prudential Consolidated	
		30/06/2017	30/06/2016
Noncurrent liabilities			
Long-term payables		1,531,888	700,360
Deposits	10	306,414	105,612
Interbank deposits		1,571	2,713
Time deposits		304,843	102,899
Funds from acceptance and issue of securities	12	947,915	253,311
Liabilities from issue of agribusiness credit bills		301,804	119,595
Liabilities from issue of credit bills		624,045	128,728
Liabilities from issue of real estate credit bills		22,066	4,988
Borrowings	13	252,273	317,969
Loans abroad		252,273	317,969
Derivative financial instruments	6	1,687	-
Derivative financial instruments		1,687	-
Other liabilities		23,599	23,468
Social and statutory		5,550	4,669
Tax and social security		12,411	4,302
Sundry		5,638	14,497
Deferred income		8,232	1,581
Equity	16	571,808	584,154
Capital		469,300	411,358
Domiciled in Brazil		469,300	411,358
Market value adjustment - marketable securities and financial instruments		(2,180)	(3,839)
Available-for-sale securities		(2,180)	(3,839)
Income reserves		289,157	355,605
Treasury stock		(184,469)	(184,469)
Non-controlling interests		-	5,499
Total liabilities		5,140,579	4,105,928

See accompanying notes.

		In R\$ thousand	
		Prudential Consolidated	
	Note	30/06/2017	30/06/2016
Financial income		272,394	322,639
Loan transactions		125,941	109,984
Loan, Assignment and Onlending Operations	17	-	109,371
Income from marketable securities transactions	5 e 6	109,191	103,284
Result of exchange operations	17	37,262	-
Financial expenses		(202,283)	(269,822)
Income from derivative financial instruments	21	(16,697)	(126,177)
Market funding operations	17	(149,321)	(68,329)
Result of exchange operations	17	-	(54,633)
Loans, assignments and onlending operations	17	(17,331)	-
Set up (reversal) of allowance doubtful accounts	7	(18,934)	(20,683)
Gross financial income		70,111	52,817
Other operating income (expenses)		(27,240)	(20,519)
Service revenue	18	17,212	7,692
Personnel expenses		(28,244)	(22,042)
Other administrative expenses	19	(20,999)	(18,379)
Tax expenses		(5,905)	(3,571)
Income from interest in subsidiaries	9	10,913	8,427
Other operating income		1,467	7,712
Other operating expenses		(1,684)	(358)
Operating income (loss)		42,871	32,298
Non-operating income (expenses)		(1,059)	(253)
Income before income taxes and profit sharing		41,812	32,045
Income and social contribution taxes	24	(5,959)	(2,984)
Provision for income tax		(4,727)	(2,691)
Provision for social contribution tax		(3,304)	(2,928)
Deferred tax asset		2,072	2,635
Profit sharing – managers and employees		(12,719)	(8,483)
Attributable to:			
Leading institution		23,134	20,979
Non-controller		-	(401)
Net income		23,134	20,578
Earnings per share		0.11	0.11

See accompanying notes.

BancoBM Prudential Consolidated

Statement of changes in stockholders' equity

In R\$ thousand									
Capital	Income reserves		Market value adjustment - marketable securities and derivatives	Treasury shares	Retained earnings	Total Controllers	Non-Controlling Interest	Total	
	Legal	Statutory	Bank						
Six month Ended June 30, 2016									
Balances at January 1, 2016	413,131	82,626	273,381	(4,139)	(185,809)	579,190	5,900	585,090	
Profit reserve						-	(401)	(401)	
Market value adjustments - marketable securities				300		300		300	
Split-Up (Note 16)	(1,773)		(797)		797	(1,773)		(1,773)	
Purchase of treasury shares				543		543		543	
Net income for the period					20,979	20,979	(401)	20,578	
Allocations:								-	
- Reserves			396		(396)	-	401	401	
- Interest on equity (R\$ 0.11 per share)					(20,583)	(20,583)		(20,583)	
Balances at June 30, 2016	411,358	82,626	272,979	(3,839)	(184,469)	-	578,655	5,499	584,154
Changes in the period	(1,773)	-	(401)	300	1,340	-	(534)	(401)	(935)
Period Ended at June 30, 2017									
Balances at January 1, 2017	469,300	26,321	259,860	(2,954)	(184,469)	568,058	5,519	573,577	
Market value adjustments - marketable securities				774		774		774	
Investment sale (Note 2c)						-	(5,519)	(5,519)	
Net income for the period					23,134	23,134		23,134	
Allocations:								-	
- Reserves		1,157	1,819		(2,976)	-		-	
- Interest on equity (R\$ 0.10 per share)					(20,158)	(20,158)		(20,158)	
Balances at June 30, 2017	469,300	27,478	261,679	(2,180)	(184,469)	-	571,808	-	571,808
Changes in the period	-	1,157	1,819	774	-	-	3,750	(5,519)	(1,769)

See accompanying notes.

	In R\$ thousand	
	Prudential Consolidated	
	30/06/2017	30/06/2016
Cash flow statements		
Net income	23,134	20,578
Adjustments to net income	10,140	10,748
Set up (reversal) of allowance doubtful accounts	18,934	20,683
Depreciation and amortization	1,003	860
Expenses from civil, labor and tax allowances	643	(397)
Income from interest in subsidiaries	(10,913)	(8,427)
Deferred income and social contribution taxes	(2,072)	(2,635)
Unrealized gains/losses on marketable securities and derivatives	1,771	364
Restatement of membership certificates	774	300
Adjusted net income	33,274	31,326
(Increase)/Decrease in short-term interbank investments	(167)	1,221
(Increase)/Decrease in marketable securities and derivative financial instruments	328,889	(318,578)
(Increase)/Decrease in interbank and interbranch accounts	6,852	15,387
(Increase)/Decrease in loan and lease transactions	(815,840)	(113,534)
(Increase)/Decrease in deposits	(61,317)	273,291
Increase/(Decrease) in open market funding	399,755	108,389
Increase/(Decrease) in securities issue resources	644,205	(92,361)
Increase/(Decrease) in borrowing and onlending	108,475	8,751
Increase/(Decrease) in future period results	6,105	681
Increase/(Decrease) in other assets	(183,830)	(34,751)
(Increase)/Decrease in other liabilities	1,464	(2,885)
Net cash flow from (used in) operating activities	434,591	(154,389)
Cash flow from investing activities:		
Increase/(Decrease) in investments	48,473	(51,046)
Disposal of investment	(5,519)	(1,773)
Disposal of property and equipment for use and leased	(1,138)	(663)
Disposal of deferred charges	-	154
Dividends and interest on equity received	-	300
Net cash provided by (used in) investing activities	41,816	(53,028)
Cash flow from financing activities:		
Dividends and interest on equity paid	(3,281)	(16,329)
Purchases of treasury shares	-	543
Net cash provided from (used in) financing activities	(3,281)	(15,786)
Net increase (decrease) in cash and cash equivalents	506,400	(191,877)
At beginning of period	356,424	389,333
At end of period	862,824	197,456
Net increase (decrease) in cash and cash equivalents	506,400	(191,877)
Non-monetary transaction		
Interest on equity	20,158	20,583

See accompanying notes.

1. Operations

Banco BBM S.A. is the leading entity of the Prudential Consolidated (Note 2) and is authorized to operate as a multi-finance bank across the following portfolios:

- Commercial;
- Investment;
- Loan, Financing and Investment;
- Foreign exchange

Prudential Consolidated operates 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 Banco BBM Financial Group. 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 Bank of Communications Co. Ltd. and on November 10, 2016 was approved by the Central Bank of Brazil.

After the regulatory approval, 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. 20% of Banco BBM's shares continued to be held by the previous controlling group of Banco BBM.

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

The administration authorized the issue of these Financial Statements on August 14, 2017.

2. Presentation and consolidation of the financial statements

The Prudential Consolidated Financial Statements were prepared in accordance with accounting practices derived from the Brazilian Corporation Law, in accordance with Resolution No. 4.280/2013, from Brazilian National Monetary Board (CMN) and Circular No. 3.701/2015, from the Central Bank of Brazil (BACEN), presented in conformity with the accounting practices from Law No. 4.595/64 (National Financial System Law) and No. 6.404/76 (amended by Law No. 11.638/07 and No. 11.941/09, in compliance with the norms and instructions from CMN, BACEN and Federal Accounting Council (CFC) and the accounting practices adopted in Brazil, applicable to financial institutions regulated by 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, assets and liabilities related to post-employment benefits to employees and other provisions. The definitive values of the transactions involving these estimates will only be known at the time of their settlement.

2. Presentation of the financial statements and consolidation criteria (Continued)

The prudential consolidated financial statements were prepared in accordance with the consolidation criteria stated by Resolution No. 4280/2013 from BACEN, which includes financial institutions and other institutions authorized to function by the Central Bank of Brazil.

In the consolidation process, the entities members of the Prudential the evaluation and recognition of asset and liability accounts, revenue and expenses in the database was base on the same classifications, criteria, procedures and accounting practices used on the lead institution, 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 on);
- Balances of current accounts and other Assets/Liabilities between the institutions, whose balance sheets were consolidated; and
- The effects on profit or loss arising from significant transactions between these institutions.

The Prudential Consolidated financial statements comprise the financial statements at June 30, 2017 and 2016 of the following institutions:

Banco BBM S.A. and Nassau Branch

BBM Bank Ltd. (a)

BACOR Corretora de Câmbio e Valores Mobiliários S.A. (b)

BBM Administração de Recursos DTVM S.A. (c)

ESTRUTURA II – Fundo de Investimento Imobiliário – FII (d)

Bahia Fund (a)

- (a) The indirect interest of 100% of Banco BBM S.A. in BBM Bank Ltd capital and Bahia Fund were eliminated from the operational consolidated statements as "Interest in Subsidiaries - The Southern Atlantic Investments Ltd.". The consolidation of Bahia Fund occurred in March 2015.
- (b) Banco BBM S.A. directly holds 100% of the capital of this entity.
- (c) In October 2015, Banco BBM S.A. sold its 100% direct ownership interest in BBM Administração de Recursos DTVM S.A. to BBM Holding S.A., However, on June 30, 2016, it was still part of Prudential Conglomerate, pursuant to item II of Art.3º of Resolution no. 4.280/2013. On February 20, 2017, the transfer of shareholding control of Banco BBM. S.A. to the Bank of Communications Co. Ltd. was published in the Diário Oficial of the Central Bank of Brazil, and from this time BBM Administração de Recursos DTVM S.A. was no longer part of Prudential Consolidated.
- (d) In November 2016 Banco BBM S.A. sold its 100% direct ownership of ESTRUTURA II – Fundo de Investimento Imobiliário – FII to BBM Holding S.A.

Management understand that in accordance with BACEN Circular No. 3.701/2015, the consolidation criteria used adequately meet the requirements. Accordingly, the company The Southern Atlantic Investments Ltd. was not considered as a consolidated company for the six month period ended June 30, 2017 and June 30, 2016 as show in Note 9.

3. Summary of significant accounting practices

(a) P&L from operations

Profit and loss are recorded on an accruals basis.

(b) Marketable securities and derivative financial instruments

In accordance with BACEN Circular No. 3068, securities are classified into the following categories:

I- Trading securities;

II - Securities available for sale;

III - Securities held to maturity.

Securities classified in categories I and II are adjusted to market value. For trading securities, this adjustment is directly recorded in P&L, and for available-for-sale securities it is recorded in a specific account in equity, net of tax effects. Securities classified as "held to maturity" are recorded at cost plus accrued interest.

Derivative financial instruments are adjusted to market value, in accordance with BACEN Circular No. 3082.

Investment fund shares are restated monthly based on the share value disclosed by the Fund Administrators where funds are invested. The appreciation and depreciation of investment fund shares are presented in "P&L from operations" under "Marketable securities".

(c) Current and noncurrent assets

These are presented at their realization amounts, including, where applicable, monetary and foreign exchange proceedings and variations (on a *pro rata* basis), less corresponding proceeds from future realization and/or provision for losses. Balances maturing within 12 months (or 360 days) are classified in current assets. Securities classified as "available for sale" are presented in current assets, regardless of maturity.

(d) Permanent assets

These are stated at cost, adjusted by the following aspects:

- Significant investments in subsidiaries are accounted for based on the equity pickup method in the individual financial statements;
- Property and equipment and leased assets are depreciated on the straight line basis, at annual rates which take into account the economic and useful lives of assets, as follows: property in use - 4%; furniture and fixtures, machinery and equipment - 10%; and EDP equipment – 20%.
- Amortization of intangible assets is computed in accordance with the assets' economic useful lives.

In accordance with Resolution no. 3.617/08 from CMN, financial institutions must record deferred charges, mainly represented by leasehold improvements, pre-operational expenses and restructuring expenses that will effectively contribute to the increase in the result of more than one semester and which do not represent a reduction of costs or an increase in the operational efficiency, allowing the remainder of the existing balances as of September 30, 2008 until their effective write-off.

3. Summary of significant accounting practices (Continued)

(e) Current and noncurrent liabilities

These are stated at their known or calculable values and, whenever applicable, the charges and 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 in current liabilities.

(f) Income and social contribution taxes

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. 3059 issued on December 20, 2002, and CMN Resolution No. 3355, 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 recognized based on the expected income and social contribution tax rates of 25% and 20% respectively.

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%. This rate increase went into effect, according to the Provisional Measure, from September 2015 and it remains in effect until 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 expenses 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 through P&L. The market value of swap and term operations are individually recorded in asset and liability equity accounts, reconciled with 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 01, as approved by CMN Resolution 3566/08, 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 P&L.

(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 - not recognized in the financial statements, except if there is evidence substantiating the high level of reliability of realization, representing claims for which a final and unappeasable judgment has been awarded.

Contingent liabilities – These are recognized in the financial statements in cases where legal counsel and management rate the likelihood of an unfavourable outcome on a lawsuit or administrative proceeding as probable, and where the amounts involved are measurable with sufficient certainty. Contingent liabilities classified by the legal advisors as representing possible losses are only disclosed in the notes, whereas those classified as remote losses do not require any provision or disclosure.

Legal, tax and social security liabilities – These refer to litigation challenging the legality and constitutionality of certain taxes and contributions. The amount being challenged is quantified and recorded in the books.

3. Summary of significant accounting practices (Continued)

(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.

(l) Loan transactions

Loan transactions are stated at their 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 the 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. 2682. 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.

Following the 60th day, the P&L are recognized when the instalments are effectively received. Renegotiated transactions are recorded at least at the same level they were previously classified and, if they are written off against a provision, they are then classified at H level, and gains are recognized in revenue when they are effectively received.

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 clearing 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 Brazilian Central Bank 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 for investment properties that were consolidated from the Estrutura II FII Fund on June 30, 2016, and which are valued at fair value based on valuation reports prepared by professional entities with recognized qualifications, and evaluation techniques are used.

(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 assets and liabilities, and that are highly correlated with 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 with the exposure to be protected, are considered protection instruments (hedgies) 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

3. Summary of significant accounting practices (Continued)

(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 non-effective parcel of the respective hedge is recognized direct 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.

The risk management objectives of this operation, as well as the strategy of protection against such risks throughout the period of operations 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 instruments Financial instruments are highly effective in offsetting the variations in the fair value (mark-to-market) of the hedged item. A hedge is expected to be highly effective if the change in the fair value or cash flow attributable to the risk being hedged during the period in the annual hedge ratio from 80% to 125% of the risk variation.

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

(p) **Deposits and Funding in the Open Market**

The deposits and borrowing 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	
	Prudential Consolidated	
	30/06/2017	30/06/2016
Cash and checking accounts in Banks	7,608	3,665
Free reserves in cash with the Central Bank	349	2,838
Interbank investments (a)	722,067	4,498
Investments in foreign currencies	132,800	186,455
Total	862,824	197,456

(a) Committed transactions maturing within 90 days.

5. Short term interbank investments

Short term interbank investments are as follow:

	In R\$ thousand	
	Prudential Consolidated	
	30/06/2017	30/06/2016
Open market investments	722,067	4,498
Self-funded position	52,068	4,498
National Treasury Bills	7,000	-
Financial Treasury Bills	45,068	-
National Treasury Notes – B serie	-	4,498
Funded Position	669,999	-
National Treasury Bills	669,999	-
Interbank deposits	3,130	4,155
Investments in foreign currencies (*)	132,800	186,455
	857,997	195,108
Current assets	854,867	192,335
Long-term receivables	3,130	2,773
Total	857,997	195,108

(*) The investments in foreign currencies are comprised of Overnights and Time Deposits.

At June 30, 2017 and 2016, the collateral received through repurchase agreements amounted to R\$ 723,900 thousand and R\$ 4,499 thousand respectively. The collateral provided amounted to R\$ 683,597 thousand and R\$ 633,714 thousand during the same periods.

The results of short term interbank investments for the Bank and Operational consolidated are as follow:

	In R\$ thousand	
	Prudential Consolidated	
	30/06/2017	30/06/2016
Open market investments	31,879	12,599
Interbank deposits	167	350
Investments in foreign currencies	608	266
Income from marketable securities transactions	32,654	13,215

6. Marketable securities and derivative financial instruments

	In R\$ thousand			
	Prudential Consolidated			
	Custo	Mercado	Custo	Mercado
	30/06/2017		30/06/2016	
I - Marketable securities	1,398,944	1,398,777	2,056,370	2,054,228
Securities for trading	458,849	458,800	955,160	953,701
Own Portfolio	458,849	458,800	867,367	867,234
Fixed income securities (*)	408,448	408,399	816,090	815,957
Financial Treasury Bills			2,494	2,494
National Treasury Notes	406,388	406,343	813,199	813,071
National Treasury Notes – B series	2,060	2,056	397	391
Investment fund shares	50,401	50,401	51,277	51,277
Fund shares of securities funds			705	705
Fund shares in credit rights	50,401	50,401	50,572	50,572
Subject to repurchase agreements			87,793	86,468
Financial Treasury Bills			521	521
Financial Treasury Bills-Repurchase			87,272	85,947
Available-for-sale securities	940,095	939,977	664,377	663,694
Own Portfolio	605,889	605,722	235,742	235,699
Fixed income securities	605,815	605,517	235,668	235,532
Financial Treasury Bills	466,277	466,269	32,344	32,334
National Treasury Notes – B series	9,866	9,459	3,220	3,191
Promissory note	21,225	21,225	108,054	108,059
National Treasury Notes – F series			53	54
Debentures	108,447	108,564	91,997	91,895
Variable income securities	74	205	74	167
Shares of listed companies	74	205	74	167
Subject to repurchase agreements	73,757	73,856	164,667	164,227
Financial Treasury Bills	12,014	12,016	84,767	84,662
National Treasury Notes – B series			32,476	32,321
Debentures	61,743	61,840	47,424	47,245
Linked to guarantees given	260,449	260,399	263,968	263,767
Financial Treasury Bills	260,449	260,399	243,118	242,917
Debentures			20,850	20,850
Held to maturity securities			436,833	436,833
Own Portfolio			4,162	4,162
Fixed income securities			4,162	4,162
National Treasury Notes – B series			4,162	4,162
Subject to repurchase agreements			432,671	432,671
National Treasury Notes – B series			432,671	432,671
II - Derivative financial instruments	9,120	8,802	29,895	30,013
Swap transactions	5,529	5,469	25,393	25,794
Forward	3,346	3,332	4,099	4,018
Options premiums	245	1	385	183
Futures			18	18
Total marketable securities and derivative financial instruments	1,408,064	1,407,579	2,086,265	2,084,241
Segregation of portfolio by maturity:				
No maturity	74	205	74	167
Within 3 months	486,464	486,030	967,182	967,004
From 3 to 12 months	42,876	42,614	134,270	134,301
Above 12 months	878,650	878,730	984,739	982,769
Total	1,408,064	1,407,579	2,086,265	2,084,241
Current Assets	529,414	528,849	1,101,526	1,101,472
Long-Term Assets	878,650	878,730	984,739	982,769
Total	1,408,064	1,407,579	2,086,265	2,084,241

6. Marketable securities and derivative financial instruments (Continued)

	In R\$ thousand			
	Prudential Consolidated			
	Cost	Market	Cost	Market
	30/06/2017		30/06/2016	
III-Derivative financial instruments				
Swaps	4,553	5,517	(219)	186
Forwards	1,782	1,740	3,316	3,316
Option premiums			269	8
Futures contracts			18	18
Liabilities	6,335	7,257	3,384	3,529
Maturity term				
until 3 months	3,035	3,083	3,334	3,334
from 3 to 12 months	1,934	2,487	50	195
up to 12 months	1,366	1,687		
Total	6,335	7,257	3,384	3,529

Gains (losses) on marketable securities for Prudential are as follow:

	In R\$ thousand	
	Prudential Consolidated	
	30/06/2017	30/06/2016
Fund quotas	2,864	3,412
National treasury bills	57,565	69,283
Corporate Securities	16,108	17,374
Net income	76,537	90,069

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 within longer than 12 months and which, at June 30, 2017, amount to R\$ 2,056 thousand (2016 - R\$ 2,885), are stated in current assets, according to BACEN Circular No. 3068/01. The effect of this classification on net working capital is stated in Note 22.

7. Loan transactions, sureties and guarantees

At June 30, 2017 and 2016, loans and guarantees provided through sureties or guarantee agreements by the Bank and the Operational Consolidated statements, classified according to the clients' economic activities, are as follow:

Economic activity	In R\$ thousand			
	Prudential Consolidated			
	30/06/2017		30/06/2016	
Sugar and Ethanol	611,268	20.49%	168,299	9.99%
Agriculture	388,115	13.01%	314,667	18.68%
Utilities (energy)	228,126	7.65%	114,761	6.81%
Retail market	198,080	6.64%	161,472	9.59%
Civil Construction	196,194	6.58%	100,505	5.97%
Chemical and Petrochemical	136,779	4.58%	110,329	6.55%
Specialized Services	125,592	4.21%	53,769	3.19%
Foods - Sundry	116,230	3.90%	11,751	0.70%
Oil & Gas	115,407	3.87%	85,046	5.05%
Capital Goods	104,742	3.51%	62,801	3.73%
Pharmaceuticals	94,257	3.16%	77,081	4.58%
Banks and Insurers	71,349	2.39%	10,177	0.60%
Pulp and Paper	70,595	2.37%	43,158	2.56%
Construction Material	69,005	2.31%	9,301	0.55%
Water and Sewage Concessions	64,744	2.17%	20,346	1.21%
Textile and Leathers	57,304	1.92%	8,176	0.49%
Transportation and Logistics	53,990	1.81%	27,949	1.66%
Civil Aviation	52,444	1.76%	15,702	0.93%
Computing	35,841	1.20%	-	
Metallurgy	32,151	1.08%	2,480	0.15%
Transport Concessions	-	0.00%	61,542	3.65%
Beverages	-	0.00%	15,856	0.94%
Others	160,997	5.40%	209,064	12.41%
Total	2,983,209	100.00%	1,684,232	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, 2017.

7. Loan transactions, sureties and guarantees (Continued)

Loans are stated in the Bank's and Operational Consolidated balance sheets as follow:

	In R\$ thousand	
	Prudential Consolidated	
	30/06/2017	30/06/2016
Current assets		
Loan transactions	1,224,498	969,151
Private sector	1,217,027	963,351
Public sector	7,471	5,800
Other receivables	20,546	12,193
Foreign exchange portfolio – receivables (a)	18,447	10,968
Securities and credits receivable (b)	2,099	1,225
Noncurrent assets		
Loan transactions	964,769	268,550
Private sector	907,497	254,005
Public sector	57,272	14,545
Other receivables	78	306
Securities and credits receivable (b)	78	306
Current liabilities		
Other liabilities	513,381	302,100
Foreign exchange portfolio - Advances on exchange contracts (a)	513,381	302,100
Subtotal	<u>2,723,272</u>	<u>1,552,300</u>
Guarantees provided (c)	259,936	131,932
Total	<u>2,983,209</u>	<u>1,684,232</u>

7. Loan transactions, sureties and guarantees (Continued)

- (a) The advances on exchange contracts and the related income receivables are classified as reduction accounts of Other Liabilities – Exchange Portfolio and Other Receivables – Exchange Portfolio, respectively, as shown in Note 8.
- (b) These refer the portfolio of lowered exchange contract advances.
- (c) These refer to guarantees granted through sureties, guarantees and import letters of credit. Guarantees granted are recorded in offsetting accounts, and their respective proceeds are classified in P&L for future years, allocated to P&L for the period in accordance with the contractual terms of guarantees. These also include, in the Bank, guarantees provided for loan transactions of BBM Bank Limited, which are eliminated in the Operating Consolidated.

The allowance for loan losses was calculated according to the criteria established by Resolutions No. 2682 and No. 2697 of the National Monetary Council, based on the risk classification of the transactions and the amounts in arrears.

The classification of loans in the Operational Consolidated financial statements can be shown as follows:

In R\$ thousand													
30/06/2017											30/06/2016		
Risk level	Overdue – days					Falling due - days				Total	Allowance for doubtful accounts	Total	Allowance for doubtful accounts
	Within 14	15 to 60	61 to 90	91 to 180	180 to 360	Within 90	From 91 to 180	From 181 to 360	Over 360 days				
AA						64,509	145,827	325,542	448,262	984,140		308,187	
A	34					294,342	320,856	203,491	372,836	1,191,558	5,958	759,668	3,798
B	216					120,828	164,132	113,279	115,444	513,899	5,139	314,572	3,146
C	3,015	8,583				21,140	36,117	71,592	72,628	213,075	6,392	202,807	6,084
D												48,881	8,469
E												4,179	1,254
F		105				12,784	5,802	430	13,976	33,097	18,768	22,254	13,161
G				9,706		206	217	5,649	26,626	42,404	30,839	7,232	5,785
H		26			3,338	6	11	7	1,646	5,036	5,036	16,452	16,452
	3,265	8,715		9,706	3,338	513,815	672,961	719,991	1,051,418	2,983,209	72,132	1,684,232	58,148

7. Loan transactions, sureties and guarantees (Continued)

The allowance above is presented in the Prudential Consolidated balance sheets as follows:

	In R\$ thousand	
	30/06/2017	30/06/2016
Allowance for loan losses	67,292	53,913
Current assets	28,224	42,718
Noncurrent assets	39,068	11,195
Provision for other credits		
Provision for advances on exchange contracts	4,651	4,017
Current assets	4,623	3,446
Noncurrent assets	28	570
Provision for guarantees provided	189	218
Current assets		218
Noncurrent assets	189	
Total	72,132	58,148

(*) According to Resolution no. 4.512 from July 28, 2016, financial institutions should classify in liabilities the provision for Co-Borrowing and Risks in Secured Guarantees.

Changes in allowances are as follow:

	In R\$ thousand	
	30/06/2017	30/06/2016
Balance at January 1	68,163	45,601
Set up / (reversal)	18,945	20,683
Write-offs to loss	(14,976)	(8,136)
Total	72,132	58,148

In the six months ended June 30, 2017, no loan transactions were renegotiated (2016- R\$ 29,007 thousand).

In the six months ended June 30, 2017, there was a recovery of losses on loan transactions in the amount of R\$ 209 thousand (2016- R\$ 6,219 thousand).

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 years ended June 30, 2017 and 2016 was as follows:

	In R\$ thousand	
	30/06/2017	30/06/2016
Numbers of contracts	19	6
Amount of assignments	22,515	9,115
Net amount	22,045	9,040
Total	470	75

The credit risk concentration in the Prudential Consolidated statements is as follows:

	In R\$ thousand			
	30/06/2017	%	30/06/2016	%
Top debtor	121,073	4.1%	62,468	3.7%
Top 10 debtors	715,138	24.0%	443,197	26.3%
Top 20 debtors	1,093,900	36.7%	656,716	39.0%
Top 50 debtors	1,849,545	62.0%	1,126,305	66.9%
Top 100 debtors	2,569,872	86.1%	1,557,402	92.5%

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

	In R\$ thousand	
	30/06/2017	30/06/2016
Working capital	1,432,035	752,275
Export credit notes	661,085	333,045
Trade Finance	335,461	420,685
Co-obligations	259,935	131,931
Others	294,692	46,296
Total	2,983,209	1,684,232

8. Foreign exchange portfolio

	In R\$ thousand	
	30/06/2017	30/06/2016
Other receivables – Foreign exchange portfolio		
Foreign exchange purchases pending settlement	539,952	268,153
Rights on foreign exchange sales	40	16,496
Income receivable from advances granted (a)	18,447	10,968
Total	558,439	295,617
Other payables – Foreign exchange portfolio		
Foreign exchange sales pending settlement	39	16,207
Exchange purchase obligations	522,189	304,585
Advances on foreign exchange contracts granted (a)	(513,381)	(302,100)
Others		
Total	8,847	18,692

At June 30, 2017, 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\$ 73,110 thousand (2016 – R\$ 64,751 thousand).

9. Investments – Interests in subsidiaries

	In R\$ thousand			
	Investment book value		Income from interests in subsidiaries	
	30/06/2017	30/06/2016	30/06/2017	30/06/2016
The Southern Atlantic Investments Ltd, (a)	-	91,196	11,060	12,796
Others (b)	-	-	(147)	(4,369)
Total	-	91,196	10,913	8,427

- (a) The indirect equity interest of 100% of Banco BBM S.A. in BBM Bank Ltd was eliminated in the Operational consolidated figures, in the line item "Interests in subsidiaries – The Southern Atlantic Investments Ltd.". In the six month period ended June 30, 2017, this elimination had the following effects on Prudential a reduction in the permanent investment by R\$ 198,426 thousand (June 30, 2016 - R\$ 183,832 thousand), and reduction in equity in R\$ 5,060 thousand (June 30, 2016 - R\$ 930 thousand).
- (b) The account "Others", in the operational consolidated figures mainly includes the equity variations of subsidiaries, which are not eliminated, such as foreign exchange variations on equity interests abroad, the restatement of securities and adjustments in prior years, where applicable.

10. Deposits

Maturity	In R\$ thousand			
	Time deposits	Interbank deposits	Total 30/06/2017	Total 30/06/2016
Within 1 month	210,641	839	211,480	4,596
From 1 to 3 months	120,888	1,881	122,769	78,274
From 3 to 6 months	142,135	948	143,083	210,835
From 6 to 12 months	81,798	13,568	95,366	234,714
More than 12 months	304,843	1,571	306,414	105,612
Subtotal	860,305	18,807	879,112	634,031
Cash deposits and other deposits			140,124	93,214
Total			1,019,236	727,245

The average terms of interbank and time deposits, for transactions outstanding at June 30, 2017 were 550 days and 514 days (2016 - 408 and 133 days), respectively.

10. Deposits (Continued)

Maturities upon issue	In R\$ thousand			
	Time deposits	Interbank deposits	Total 30/06/2017	Total 30/06/2016
Within 1 month	167,021	-	167,021	391
From 1 to 3 months	2,480	-	2,480	336,476
From 3 to 6 months	513	-	513	28,409
From 6 to 12 months	59,537	10,284	69,821	71,985
More than 12 months	630,754	8,523	639,277	196,770
Subtotal	860,305	18,807	879,112	634,031
Cash deposits and other deposits			140,124	93,214
Total			1,019,236	727,245

The composition per consolidated operational segment is presented as follows:

	In R\$ thousand									
	Demand deposits		Time deposits		Interbank deposits		Total			
	30/06/2017	30/06/2016	30/06/2017	30/06/2016	30/06/2017	30/06/2016	30/06/2017	30/06/2016		
Legal entities	123,434	28,608	225,925	170,106	-	-	349,359	34.28%	198,714	27.32%
Institutional customers	4	5	328,362	336,166	1,312	-	329,678	32.35%	336,171	46.23%
Group	394	57,922	136,448	58,798	4,238	-	141,080	13.84%	116,720	16.05%
Financial institutions	3,397	56	166,176	23,305	13,257	43,204	182,830	17.94%	66,565	9.15%
Individuals	12,895	6,623	3,394	2,452	-	-	16,289	1.60%	9,075	1.25%
Total	140,124	93,214	860,305	590,827	18,807	43,204	1,019,236	100%	727,245	100%

	In R\$ thousand			
	30/06/2017		30/06/2016	
Top depositor	165,393	16.23%	60,838	8.37%
Top 10 depositors	626,853	61.50%	344,493	47.37%
Top 20 depositors	752,804	73.86%	453,922	62.42%
Top 50 depositors	911,861	89.47%	610,899	84.00%
Top 100 depositors	1,001,485	98.26%	690,517	94.95%

11. Repurchase agreements

The liabilities from operations in the Bank and Consolidated Operating segment are composed as follows:

	In R\$ thousand	
	Prudential Consolidated	
	30/06/2017	30/06/2016
Own Portfolio	73,736	679,046
Financial Treasury Bills	11,987	84,984
National Treasury Notes – B series	-	544,993
Debentures	61,749	49,069
Third-party Portfolio	669,980	-
Financial Treasury Bills	669,980	-
	743,716	679,046

12. Funds from acceptance and issue of securities and real estate bills

Banco BBM issued Eurobonds in the amount of R\$ 166,537 thousand in June 2017 (June 2016 - R\$ 267,207 thousand), acquired by The Southern Atlantic Investments Ltd, company and not included in the Operational consolidated figures. On January 31, 2014, there was a Eurobonds issue of US\$ 50,000 thousand, maturing on January 31, 2018, and on December 28, 2015 there was issue of US\$ 30,000 thousand, maturing on January 31, 2019 and on June 30, 2017 there was issue of US\$ 4,000 thousand, maturing on February 2, 2019.

At June 30, 2017, fundraising through Agribusiness Credit Bills (LCA), Housing Credit Bills (LCI), Financial Bills (LF), and Structured Operation Certificates (COE) was segregated by maturity range as follows:

Maturity	In R\$ thousand							
	Bank and Operational consolidated							
	LCA (a)		LCI (b)		LF (c)		COE (d)	
	30/06/2017	30/06/2016	30/06/2017	30/06/2016	30/06/2017	30/06/2016	30/06/2017	30/06/2016
Within 1 month	15,195	33,305	-	4,348	-	387,779	-	-
From 1 to 3 months	85,681	52,590	21	3,963	1,348	18,920	-	-
From 3 to 6 months	364,012	113,308	20,217	17,183	8,825	29,380	-	465
From 6 to 12 months	267,538	217,527	3,167	8,430	125,463	144,475	-	-
More than 12 months	301,804	119,595	22,065	4,988	624,045	128,728	-	-
Total	1,034,230	536,326	45,471	38,912	759,681	709,282	-	465

- Agribusiness Credit Bills (LCA) were issued by the Bank and registered with the Brazil's OTC Clearing House (CETIP) or on the Securities, Commodities and Futures Exchange (BM&FBOVESPA S.A.), under Law No. 11076/2004 and Law No. 11311/2006 and subsequent amendments.
- Housing Credit Bills (LCI) are nominative securities created by MP 2223 on September 4, 2011, which resulted in Law No. 10931 of August 2, 2004.
- Financial Bills (LF) issued by the Bank were registered with CETIP, under Law No. 12249/10 (Section II, articles 37 to 43) and regulated by the National Monetary Council - CMN (Law No. 3836).
- Structured Operation Certificates (COE) are exclusively issued by banks and saving banks, as set forth by Law No. 12429/10, unsecured upon recording in the authorized system.

13. Borrowing and onlending

a) Borrowing abroad

The Bank's and Operational Consolidated borrowing abroad are comprised as follows:

	In R\$ thousand	
	Prudential Consolidated	
	30/06/2017	30/06/2016
Obligations related to overseas borrowing (a)	605,685	439,414
Export credit facility	159,243	200,183
Credit line for coverage of Holding Account	31,959	-
	796,887	639,597
Current liabilities	544,614	321,628
Long-term payables	252,273	317,969
	796,887	639,597

(a) The amount of R\$ 605,685 thousand in June 30, 2017, classified in noncurrent assets, refers to a US Dollar fundraising transaction from the "International Finance Corporation" (IFC), from the World Bank and with Bank of Communications, maturing in December 2019 and in November 2017 respectively.

14. Other receivables/Sundry

	In R\$ thousand	
	Prudential Consolidated	
	30/06/2017	30/06/2016
Sundry		
Debtors Deposits on warranty	46,563	46,314
Taxes and contributions to offset	6,706	7,218
Securities and credits receivable	2,875	2,085
Receivables from related parties	2,422	1,531
Advances – Salaries and construction	1,140	729
Sundry debtors – foreign	1,222	33,382
	60,928	91,259
Current	13,507	43,138
Long-term payables	47,421	48,121
	60,928	91,259

15. Other values and assets

	In R\$ thousand	
	Prudential Consolidated	
	30/06/2017	30/06/2016
Other Values and Goods	26,456	78,944
Properties	24,285	75,739
Others	2,171	3,206
	26,456	78,944
Current	25,710	1,962
Long-term payables	746	76,982
	26,456	78,944

In the first semester of 2017, the Bank executed a guarantee of a realty, registered at the BNDU for R \$ 11,809 thousand, according to independent appraisal report. The write-off of this BNDU, including reversal of the PDD constituted in the first semester, generated a gain of R \$ 5,680 thousand

16. Equity

(a) **Capital – Banco 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 does not have 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**

The Extraordinary General Meeting held on October 1, 2015 considered and approved the cancellation of 738,799 common shares and 366,512 preferred shares in treasury. As a result, the balances of treasury shares and statutory reserves were reduced by R\$ 797 thousand.

On June 30, 2016, a supplementation of the price of repurchased shares held in treasury was recognized in the amount of R\$ 543 thousand. This amount refers to the price complement of the shares bought on March 28, 2011. The contract specified that the buyer (Banco BBM S.A.) will inherit the future obligation to pay an amount based on the income from a credit operation then determined.

At June 30, 2017, Banco BBM had 76,296,769 treasury shares in the amount of R\$ 184,469 thousand.

(e) **Interest on equity (IOE)**

According to article 9 of Law No. 9249/95 and its subsequent amendments, Banco BBM S.A., in first six months ended 2017, declared interest on equity of R\$ 20,158 thousand (2016 – R\$ 20,583 thousand), with the retention of withholding income tax of R\$ 3,024 thousand (2016 - R\$ 3,087 thousand), calculated at the rate of 15%. This amount was determined based on the legal limits in force and classified in the official records as "Other operating expenses".

For the purposes of the publication of the income statement, as established by BACEN Circular No. 2739, 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 months of 2017 reduced tax burden by R\$ 9,071 thousand (2016 – R\$ 9,262 thousand).

(f) **Other comprehensive income**

In the six-month period ended June 30, 2017, the other comprehensive income adjustments consist of the variation of the market value of available-for-sale securities in the amount of R\$ 152 thousand (2016 - (R \$ 332 thousand)), of cash flow hedge in the amount of R\$ 150 thousand (2016 - R\$ 632 thousand) and by the adjustment of foreign exchange variation on investment abroad in the amount of R\$ 472 thousand, net of tax effects".

16. Equity (Continued)

(g) **Split-off**

The Extraordinary General Meeting held on October 1, 2015 deliberated, and on March 10, 2016 the Central Bank of Brazil approved the split of Banco BBM S.A. in favour of Abaeté Administração de Bens Próprios S.A. Due to this, the Assets and Equity of Banco BBM were reduced by R\$ 1,773 thousand, evaluated based in their respective book values.

(h) **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	
	Prudential Consolidated	
	30/06/2017	30/06/2016
Net income - Banco BBM S.A.	23,134	20,578
(-) Statutory Reserve	(1,157)	-
Dividend calculation basis	21,977	20,578
Mandatory dividend (a)	25%	25%
	5,494	5,145
Interest on capital provided for	20,158	20,583
Total	20,158	20,583

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

17. Financial intermediation expenses and foreign exchange gains (losses)

	In R\$ thousand	
	Prudential Consolidated	
	30/06/2017	30/06/2016
Open market funding		
Time deposits	(43,065)	(26,290)
Agriculture credit bills – expenses	(42,455)	(30,423)
Financial bills – expenses	(34,607)	(52,833)
Expenses with repurchase agreement	(21,142)	(9,979)
Securities abroad – expenses	(6,962)	(235)
Time deposits	(3,919)	(2,334)
Real estate credit bills– expenses	(2,017)	(3,322)
Credit Guarantee Fund	(1,263)	(558)
Deposits Previous Notice	(34)	(2)
Obligations for operations with assigned credits - expenses	-	(34)
Structured operations certificates – expenses	-	(113)
Foreign exchange variation (a)	6,143	57,794
	(149,321)	(68,329)
Loans, assignments and onlending operations		
Loan expenses abroad	(11,824)	(4,665)
Foreign exchange variation (a)	(5,507)	114,036
	(17,331)	109,371
Foreign exchange transactions		
Revenue from Advances on Exchange Contracts (ACC)	20,055	11,798
Foreign exchange variations and interest differences	17,324	(66,289)
Other expenses	(117)	(142)
	37,262	(54,633)

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

18. Service revenue

	In R\$ thousand	
	Prudential Consolidated	
	30/06/2017	30/06/2016
Management and performance fees of investment funds	4,404	3,217
Guarantees fees	3,584	1,847
Structuring Commission	2,287	607
Other services	6,937	2,021
Total	17,212	7,692

19. Other administrative expenses

	In R\$ thousand	
	Prudential Consolidated	
	30/06/2017	30/06/2016
Rent	(3,182)	(2,136)
Financial system services (a)	(2,543)	(1,444)
Other administrative expenses	(2,102)	(1,978)
Specialized technical services	(1,970)	(3,127)
Registry	(1,865)	(822)
Travel	(1,736)	(991)
Data processing	(1,323)	(1,213)
Third-party services	(1,216)	(2,353)
Communications	(1,139)	(994)
Amortization and depreciation	(1,003)	(708)
Property maintenance and upkeep	(761)	(694)
Condominium	(709)	(618)
Promotion/ Advertising/ Publications	(701)	(373)
Water, Energy, Gas	(420)	(516)
Transportation	(210)	(133)
Material	(60)	(251)
Insurance expenses	(43)	(7)
Surveillance and security services	(11)	(11)
Fine expenses	(6)	(9)
	(20,999)	(18,379)

(a) This includes brokerage expenses, charges and commission related to guarantee transactions and derivative financial instruments in the Bank and the Operational Consolidated, amounting to R\$ 1,297 thousand in the first semester of 2017 (2016 – R\$ 376 thousand).

20. Significant transactions with related parties

	In R\$ thousand	
	Prudential Consolidated	
	30/06/2017	30/06/2016
Assets		
Derivative financial instruments	2.344	
The Southern Atlantic Investments Ltd	2.344	
Sundry	541	
The Southern Atlantic Investments Ltd	541	
Liabilities		
Demand deposits	6.020	58.727
Évora S.A.	181	10
Ravenala Participações S.A.	1	
The Southern Atlantic Investments Ltd	674	56.129
Bocom Brazil Holding Company Ltda.	4.693	
BBM Administração de Recursos DTVM S.A.	14	
Other related individuals/legal entities	458	2.588
Interbank deposits	5.550	
BBM Administração de Recursos DTVM S.A.	5.550	
Time deposits	168.403	60.999
Ravenala S.A.		4.541
Évora S.A.	3.010	54.256
Bank of Communications Co. Ltd.	165.393	
Other related individuals/legal entities		2.202
Debentures	6.735	6.167
Other related individuals/legal entities	6.735	6.167
Financial Bills		43.593
Other related individuals/legal entities		43.593
Agribusiness credit bills	305.269	278.038
Other related individuals/legal entities	305.269	278.038
Real estate credit notes	22.893	29.409
Other related individuals/legal entities	22.893	29.409
Obligations related to overseas borrowing	158	217
The Southern Atlantic Investments Ltd	158	217
Derivative financial instruments		3.176
The Southern Atlantic Investments Ltd		3.176
Foreign securities payable	269.332	
Bank of Communications Co. Ltd.	269.332	
Dividends and bonuses payable		8.732
Interest on Equity (IOE) credited to shareholders		8.732
Social and statutory	8.257	6.490
Bonuses payable to managers	8.257	6.490
Sundry	112	32.634
The Southern Atlantic Investments Ltd	112	32.634

20. Significant transactions with related parties (Continued)

	In R\$ thousand	
	Prudential Consolidated	
	30/06/2017	30/06/2016
Net income		
Revenue from foreign investments	-	(16)
Loss from derivative financial instruments	(4,927)	(68,505)
The Southern Atlantic Investments Ltd	(4,927)	(68,505)
Market funding operations	(13,490)	62,560
Revenue from overseas securities	(997)	90,137
The Southern Atlantic Investments Ltd	(819)	57,559
BBM Nassau Branch	(178)	32,578
Expenses committed to debentures	(217)	(313)
Other related individuals/legal entities	(217)	(313)
Expenses from interbank transactions	(284)	-
BBM Administração de Recursos DTVM S.A.	(284)	-
Expense from Demand Deposits	(238)	(3,717)
Ravenala S.A.	-	(354)
Évora S.A.	(158)	(3,189)
Bank of Communications Co. Ltd.	(80)	-
Other related individuals/legal entities	-	(174)
Expenses from National Treasury bills	(82)	(4,365)
Other related individuals/legal entities	(82)	(4,365)
Expenses from Agriculture credit bills	(10,702)	(16,573)
Others individual/legal person	(10,702)	(16,573)
Expenses from Real Estate credit bills	(1,186)	(2,610)
Others individual/legal person	(1,186)	(2,610)
Loan expenses abroad	(3,049)	-
Bank of Communications Co. Ltd.	(3,049)	-
Fees attributed to management members	(4,406)	(2,392)
Total	(22,823)	(8,353)

Transactions between related parties were carried out at the average rates practiced by the market.

21. Derivative financial instruments

The Bank and the other Operational Consolidated institutions 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 3082, derivative financial instruments designated to compensate, in whole or in part, exposure to risks from assets, liabilities, commitments or projected future transactions (hedged items) are classified as hedge instruments if they are considered effective in reducing the risk associated with the exposure to the hedged item, 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 figures, 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, 2017 the guarantees for the transactions involving derivative financial instruments are represented mainly by government securities in the total amount of R\$ 164,927 thousand (R\$ 225,800 thousand at June 30, 2016).

a.) Recorded in offsetting and equity accounts

	In R\$ thousand					
	Prudential Consolidated					
	Within 3 months	From 3 to 6 months	30/06/2017		Total	30/06/2016
From 6 to 12 months			Over 1 year	Total		
Future market						
Long position						
Foreign exchange rate	116,389	147,634	119,313	246,748	630,084	6,766
Interest rate	-	9,771	51,835	612,723	674,329	174
Foreign currency	464,921				464,921	1,878
Short position						
Foreign exchange rate		146,315	50,369	96,711	293,396	594
Interest rate	433,334	3,909		122,815	126,723	16
Foreign currency	161,556				161,556	86
NDF						
Asset position						
Currency	2,343	894	94		3,332	4,984
Liability position						
Currency	1,766	30	15	0	1,812	4,253
Swaps						
Asset position						
Currency						-
Interest rate	90,705	51,779	93,491	67,582	303,557	187,921
Others						
Liability position						
Currency						-
Interest rate	87,749	51,145	95,426	69,213	303,534	162,460
Others						
Option market						
Asset position						
Stock						1
Currency	0	1	-		1	182
Liability position						
Currency						8

b.) At market cost value

	In R\$ thousand						Total
	Prudential Consolidated						
	Cost	Market	30/06/2017				
Within 3 months			From 3 to 6 months	From 6 to 12 months	Over 1 year		
Future market							
Long position		1,769,335	581,310	157,405	171,148	859,471	8,818
Short position		1,015,009	594,890	150,224	50,369	219,526	696
Swaps							
Asset position	296,662	303,557	90,705	51,779	93,491	67,582	205,451
Liability position	295,614	303,534	87,749	51,145	95,426	69,213	179,843
NDF							
Asset position	3,345	3,332	2,343	894	94	-	4,984
Liability position	1,853	1,812	1,766	30	15	0	4,253
Option market							
Asset position	245	1	0	1	-	-	183
Liability position	-	-	-	-	-	-	8

c.) Notional value per counterparty

	In R\$ thousand					
	Prudential Consolidated					
	30/06/2017					
Financial institutions	Related parties	Legal entities	Stock Market	Individuals	Total	30/06/2016
Future market						
Long position			1,769,335		1,769,335	8,818
Short position			1,015,009		1,015,009	696
Swaps						
Asset position	19,646		283,911		303,557	205,451
Liability position	19,620		283,914		303,534	179,843
NDF						
Asset position	2,343		75	914	3,332	4,984
Liability position	1,716		14	32	1,812	4,253
Option market						
Asset position				1	1	183
Liability position				-		8

21 Derivative financial instruments (Continued)

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\$ 630,084 thousand (June 30, 2016 – purchased foreign exchange coupon contracts (DDI) of R\$ 6,748 thousand);
- Sold foreign exchange coupon contracts (DDI) in the amount of R\$ 293,396 thousand (June 30, 2016 – sold foreign exchange coupon contracts (DDI) of R\$ 416 thousand
- Purchased interest contracts (DI1) in the amount of R\$ 658,704 thousand (June 30, 2016 - Purchased interest contracts (DI1) of R\$ 173 thousand)
- Sold interest contracts (DI1) in the amount of R\$ 558,227 thousand – (June 30, 2016 – sold interest contracts (DI1) of R\$ 16 thousand);
- Purchased currency contracts (DOL) in the amount of R\$ 464,921 thousand – (June 30, 2016 – Purchased currency contracts (DOL) of R\$ 1,877 thousand)
- Sold currency contracts (DOL) in the amount of R\$ 161,556 thousand (June 30, 2016 – sold currency contracts (DOL) of R\$ 86 thousand);
- Purchased currency contracts (DAP) in the amount of R\$ 15,625 thousand (no position on June 30, 2016);
- Sold currency contracts (DAP) in the amount of R\$ 1,830 thousand (no position on June 30, 2016);

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

	In R\$ Thousand	
	Prudential Consolidated	
	30/06/2017	30/06/2016
Futures contracts	(19.295)	(155)
Option contracts	(460)	(1)
Swap and term agreements	3.058	31
Total	(16.697)	(126)

21. Derivative financial instruments (Continued)

d.) Hedge Accounting

Fair value 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 BBM to have a drawdown option until March 2016 and, based on the transaction structure, the first drawdown, in the amount of US\$ 10,000 thousand, took place on December 30, 2014 and the second, in the amount of US\$ 90,000 thousand, occurred on August 18, 2015. Up to this date, Banco 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.

Because the transaction which is the hedge object is matched to the hedge derivative results, the ratio of this transaction remained close to 107.67% (2016 - 99.96%).

Fair value Hedge (II)

During the first semester of 2016, Banco BBM signed loan contracts in US Dollars with the Bank of Communications Shanghai Branch, for the purpose of providing funding. On June 8, 2016, the value of US\$ 14,000 thousand, with the payment of pre-fixed interest of 1.68% annually. On September 23, 2016, the value of US\$ 20,000 thousand with the payment of pre-fixed interest of 1.35% annually. On October 21, 2016, the value of US\$ 24,400 thousand with the payment of pre-fixed interest of 1.35% annually. On September 26, 2016, the value of US\$ 2,400 thousand with the payment of pre-fixed interest of 1.35% annually. On April 20, 2016, the value of US\$ 1,200 thousand with the payment of pre-fixed interest of 1.35% annually.

In order to peg this cash flow to the CDI, a series of foreign exchange coupon transactions were performed with BMF, according to the maturities and exposures of the FRC agreements available and the maturities of operations. The cash outlays were in US Dollars and, upon cash receipt, a market risk hedge was taken out, designating derivative financial instruments, constituted by DDI and DOL contracts, for total hedge purposes, considering the foreign exchange exposure risk as well as the interest rates. With a view to equalizing the effects from mark-to-market of derivative financial instruments designated as hedges, the amount of hedge principal, plus interest due, is stated at fair value and also marked to market.

In the first semester of 2017, based on a decision of the Board of directors, this hedge was discontinued.

21. Derivative financial instruments (Continued)

Fair value Hedge (III)

On January 20, 2016, Banco BBM contracted swaps in which the assumed credit position bears interest at the IPCA + spread and liability position at the CDI +0% annually, with the objective of indexing to the CDI part of its funding portfolio indexed to the IPCA.

It was designated as a derivative financial instruments portfolio, constituted by the referred swaps and by the futures contracts of DI1, with the object of fulfilling the risk hedging of interest rates. With a view towards equalizing the effects of the marking-to-market of derivative financial instruments designated as hedges, the value of the funding portfolio indexed to the IPCA is shown at its fair value and also marked to market.

In the first semester of 2017, based on a decision by the board of directors, this hedge was discontinued.

Foreign Investment Hedge

In September 2016, the CMN issued Resolution No. 4,524, establishing the criteria for recording operations with financial instruments contracted for the purpose of mitigating the risks associated with the foreign exchange exposure on investments abroad.

In January 2017, Banco BBM designated a portfolio of derivative financial instruments consisting of DI1 and DOL contracts, with the purpose of hedging the foreign currency risk of its investment in the amount of U\$ 5,000 thousand, which is consolidated in Prudential Consolidated.

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

22. Risk management

Market risk

Banco 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 annually; b) the Board of Directors, which approves the risk policies and limits at least annually; c) the Market Risk area, subordinated to the Risk Officer, is responsible for reporting to the Bank's Chief Internal Control, Capital and Risk Officer 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.

BBM'S 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 stipulated VaR limit may be allocated by the Chief Treasury Officer among the various risk factors. The VaR calculation model is submitted to periodical back testing. Additionally, scenarios are analysed daily, and these scenarios are defined monthly by the Risk Committee, independently of the management departments. A full description of the Bank's market risk management structure is available on Banco BBM's website (www.bancobbm.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 BBM's liquidity target is to ensure that at any given time the Bank has sufficient cash to meet its liabilities and all the other commitments, without this needing to carry out any debt rollover or additional fundraising operations.

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) adventitious additional cash for compulsory deposits, (c) derivative adjustments; and (d) other existing obligations. The general principle is that of ensuring that the Bank's commitments are aligned with its equity and the current policies for fundraising, credit and treasury.

Banco BBM has a liquidity risk management structure based on the 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 disclose reports to support decision making on liquidity risk. A full description of the Bank's liquidity risk management structure is available on Banco BBM's website (www.bancobbm.com.br).

22. Risk management (Continued)

	In R\$ thousand	
	Prudential Consolidated	
	30/06/2017	30/06/2016
Current assets	3,228,838	2,582,918
Current liabilities	(3,034,201)	(2,819,833)
Available for sale securities presented as non current asset/liability	874,548	726,885
	<u>1,069,185</u>	<u>489,970</u>

Credit Risk

Banco 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 resolving cases of 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 Control Director, is responsible for centralizing and evaluating information related to the credit risk management, 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 evaluate new operational genre 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 in the Credit processes of the Group; f) Legal Department, responsible for analysing the contracts entered into by BBM and its clients, as well as coordinating measures to recover credits or protect BBM'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 BBM and clients. A full description of the credit risk management structure is available on Banco BBM's website (www.bancobbm.com.br).

Operational risk

Banco BBM has implemented an operational risk management structure based on market best practice and in compliance with the regulatory requirements in force. The structure is documented in the internal manual "Policy on Operational Risk Management" which describes 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 compliance. A full description of the operational risk management structure is available on Banco BBM's website (www.bancobbm.com.br).

22. Risk management (Continued)

Capital management

Banco 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 incumbent upon the planning of equity instrument issues, 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 Banco BBM's website (www.bancobbm.com.br).

23. Operating limits

In October 2013, the new rules related to capital measurement became effective. Financial institutions and similar entities are required to maintain minimum equity of 9.25% of their assets weighted based on their levels of risk of exposure to gold, foreign currencies and operations subject to operating risk and changes in: foreign exchange and interest rates, prices of commodities and of shares classified as "held for trading", according to the BACEN rules and instructions. Prudential Consolidated of Banco BBM was in compliance with this operational limit at June 30, 2017.

	In R\$ thousand	
	Prudential Consolidated	
	30/06/2017	30/06/2016
Reference Capital - Tier I	550,340	545,752
Equity (*)	573,922	566,799
Decrease in intangible / deferred assets according to CMN Resolution No. 4192	23,582	21,047
Reference Capital (PR)	550,340	545,752
Risk-Weighted Assets (RWA)	284,255	255,137
Portion referring to:		
Credit risk (RWACPAD)	240,288	203,944
Foreign exchange risk (PCAM)	1,936	2,074
Interest rate risk (RWAMPAD)	20,492	30,812
Operating Risk (RWAOPAD)	21,540	18,307
Margin or Insufficiency Value (PR - RWA)	266,085	290,615
Risk Factor – 9.25% of PR	50,906	53,893
Basel Ratio (Risk Factor / RWA)	17.91%	21.12%
RBAN	3,293	20,625
Reference equity margin + RBAN	262,792	269,990

(*) Do not consider losses from other comprehensive income from cash flow hedge.

24. Income and social contribution taxes

Changes in tax credits and provision for deferred taxes is as follows:

	In R\$ thousand	
	Prudential Consolidated	
	30/06/2017	30/06/2016
Asset tax credit:		
Temporary differences (a)		
- Allowance for loan losses	39,576	30,178
- Market value adjustment - marketable securities and derivatives	5,752	4,136
- Provision for contingencies (Note 25a)	2,754	2,517
- PIS / COFINS (Note 25b)	1,284	1,349
- Others	3,022	1,733
Social contribution tax losses	15,081	16,376
Tax loss	12,894	14,911
Total	80,362	71,199
Provision for deferred taxes:		
Temporary differences (a)		
- Market value adjustment - marketable securities and derivatives	663	87
- Others	12,708	13,290
Total	13,372	13,378

24. Income and social contribution taxes (Continued)

The breakdown of tax credits and in the provision for deferred taxes on temporary differences can be summarized as follows:

	In R\$ thousand	
	Prudential Consolidated	
	30/06/2017	30/06/2016
Tax asset credit:		
Balance at January 1	78,075	69,900
Set up (reversal)		
- With impacts on P&L	2,072	2,551
- With impacts on equity (Securities available for sale)	215	(1,252)
Balance at June 30	80,362	71,199
Provision for deferred taxes:		
Balance at January 1	11,456	10,164
Set up (reversal)		
- With impacts on P&L	1,456	4,222
- With impacts on equity (Securities available for sale)	462	(1,007)
Balance at June 30	13,372	13,378

(a) It is expected that these tax credits, will be used until 2018 for income tax and social contribution, with a present value of R\$ 28 million and R\$ 25 million, respectively. The social contribution is valued at its updated statutory rate.

24. Income and social contribution taxes (Continued)

The reconciliation of a tax expense calculated at the statutory rates and the income and social contribution tax expense recorded are as follows:

	In R\$ thousand			
	30/06/2017		30/06/2016	
	IRPJ	CSLL	IRPJ	CSLL
Income before income and social contribution taxes	8,442	8,442	3,087	3,087
Bank's net income	23,134	23,134	20,979	20,979
(-) Interest on equity	(20,158)	(20,158)	(20,583)	(20,583)
(-/+) Income and social contribution taxes	(5,465)	(5,465)	(2,691)	(2,691)
Tax rate	25%	20%	25%	20%
Income and social contribution taxes				
At statutory rate	(2,110)	(1,688)	(772)	(617)
Permanent additions	26,632	22,226	16,143	13,735
Non-deductible expenses	4,709	303	2,486	78
Equity Method				
Addition to income abroad	21,923	21,923	13,657	13,657
Permanent exclusions	21,645	21,645	9,455	9,455
Tax-free income	7	7	8	8
Equity Method	21,638	21,638	9,447	9,447
Temporary additions/exclusions	8,537	9,589	(1,039)	(1,013)
Tax base	21,965	18,612	8,736	6,354
Income and social contribution tax losses	(6,590)	(5,584)	(2,621)	(1,906)
Tax base - loss	15,376	13,028	6,115	4,448
Income and social contribution taxes (a)	(3,832)	(2,606)	(1,517)	(890)
Use of tax incentives and taxes from subsidiaries abroad	193		693	
Income and social contribution taxes on P&L for the period	(3,638)	(2,606)	(824)	(890)
Adjustment DIPJ	-	-	661	-
Deferred tax liabilities	(892)	(535)	(2,346)	(1,876)
Income and social contribution taxes on P&L for the semester/period				
- Banco BBM	(4,530)	(3,141)	(2,509)	(2,766)
Income and social contribution taxes other institutions of operational consolidated	(197)	(164)	(182)	(161)
Income and social contribution taxes in P&L for the semester/period				
- Operational consolidated	(4,727)	(3,304)	(2,691)	(2,928)

(a) In May 2015, Provisional Measure No. 675 was amended, changing the Social Contribution on Net Income (CSLL) from Financial Institutions from 15% to 20%. This rate increase came into effect, according to the Provisional Measure, as of September 2015 and will remain in force until December 2018.

25. Provisions and liabilities for legal obligation

The Bank and the Banco BBM Financial Group are parties to judicial and administrative proceedings, arising from the normal course of operations, involving tax, labor, civil and other issues.

a) Breakdown of provisions

Based on the information from the legal advisors, an analysis of the pending legal proceedings, and previous experience regarding the amounts claimed in labor claims, management recorded provisions for amounts considered sufficient to cover possible losses on the ongoing claims, as follow:

	In R\$ thousand	
	Prudential Consolidated	
	30/06/2017	30/06/2016
Labor	5,638	4,327
Civil	451	
Total - Provisions for contingencies	6,089	4,327

Provisions are registered as "Other Liabilities - Sundry" under noncurrent liabilities. In the course of the period ended June 30, 2017, an escrow conversion was made at the amount of R\$ 1,372 thousand, and an allowance for contingency of R\$ 1,094 thousand was made.

25. Provisions and liabilities for legal obligation (Continued)

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 BBM S.A. and BACOR Corretora de 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 noncurrent liabilities, as follows:

	In R\$ thousand	
	Prudential Consolidated	
	30/06/2017	30/06/2016
PIS and COFINS	3,211	2.766
Total - Liabilities for legal obligations	3,211	2.766

(*) In December 2013, the Bank recorded zero balances of PIS and COFINS liabilities, based on discussions regarding the expansion of the calculation basis mentioned above as a result of joining the debt payment/instalment program with the Brazilian IRS, National Treasury General Attorney's Office (PGFN) and Brazilian National Social Security Institute (INSS) under Law No. 11941/2009, amendments made by Law No. 12865/2014 ("REFIS"). This discussion is ongoing for the company BACOR Corretora de Valores Mobiliários S.A., a part of the operational consolidated.

c) BM&F and Bovespa demutualization

In December 2013, Banco BBM and BACOR Corretora de Câmbio e Valores Mobiliários S.A. adhered to the program for payment/instalment of debts with the Brazilian IRS, the National Treasury General Attorney's Office (PGFN) and the Brazilian National Social Security Institute (INSS), as defined by Law No. 11941/2009, as amended by Law No. 12865/2015 ("REFIS"), in order to settle debts in administrative proceedings and tax notices, with the benefit of a decrease in fines and interest, as well as in notices issued by the Brazilian IRS in December 2011, referring to: (i) IRPJ and CSLL of the restatement reserve of securities at BM&F & Bovespa, due to the demutualization of these entities; and (ii) PIS and COFINS taxation of capital gains on the sale of these securities. It is worth emphasizing that only Banco BBM adhered to the program for PIS and COFINS taxation purposes, with the outstanding net amount of tax effects of R\$ 6,615 for the company BACOR Corretora de Câmbio e Valores Mobiliários S.A. In the opinion of our legal advisors, the chances of loss in this cause are possible.

d) Other

On December 5, 2016, Banco BBM S.A. was named through 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 counsel, is in the process of making defense arguments.

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 4,512 / 2016.

Guarantee	In R\$ thousand	
	Prudential Consolidated	
	30/06/2017	30/06/2016
Linked to international transactions	3,822	
Linked to government	120,160	
Linked to legal claims	121,073	
Other	10,489	122,085
Total	255,604	122,085

Changes in allowance for financial guarantee	In R\$ thousand	
	Prudential Consolidated	
	30/06/2017	30/06/2016
Beginning Balance	14,611	1,041
Addition	1,155	5,350
Reversal(*)	(15,576)	(5,623)
Ending Balance	189	768

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

27. Other information

(a) Compensation agreement and settlement of obligations

Banco BBM has an agreement for the clearance and settlement obligations under the National Financial System, in accordance with CMN Resolution No. 3263/05, resulting in an increased liquidation guarantee of its transactions with financial institutions with which they have this type of agreement. The total assets mitigated under compensation agreement at June 30, 2017 amounted to R\$ 317,583 thousand (In 2016 was R\$ 131,818 million).

(b) Covenants

Banco BBM SA is a long-term borrower with international financial institutions, whose contracts require the maintenance of financial covenants. The financial ratios are calculated based on the accounting information, prepared in compliance with Brazilian legislation and BACEN standards. On June 30, 2017, Banco BBM SA complies with all financial ratios.

27. Other information (Continued)

(c) Deferred income

Deferred income refers mostly to move from guarantees granted (Note 7 (c)) and its increase in the six-month period ended June 30, 2017 is in line with the variation of the guarantees.

* * *

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