

(A free translation of the original in Portuguese)

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

***Consolidated financial statements  
of the prudential conglomerate  
at December 31, 2018  
and independent auditor's report***





(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 BOCOM BBM S.A.

### **Opinion**

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We have audited the accompanying consolidated financial statements of the prudential conglomerate of Banco BOCOM BBM S.A. (the "Bank"), which comprise the consolidated balance sheet as at December 31, 2018 and the statements of income, changes in equity and cash flows for the year and six-month period then ended, and a summary of significant accounting policies and other explanatory information. These special purpose consolidated financial statements were prepared in accordance with specified procedures as established in Resolution nº 4,280, 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 the consolidated prudential conglomerate of Banco BOCOM BBM S.A. as at December 31, 2018, and the consolidated financial performance and cash flows, for the year and six-month period then ended, in accordance with the provisions for the preparation of consolidated financial statements of the prudential conglomerate established by Resolution 4,280 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**

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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.

### **Emphasis of matter**

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#### **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 nº 4,280 of the CMN, and supplementary regulations of BACEN.



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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**

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### **Financial statements of parent company and consolidated financial statements**

Banco BOCOM BBM S.A. prepared a set of parent company and consolidated financial statements for general purposes referring to year ended in December 31, 2018, 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 February 15, 2019, was unmodified.

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

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The Bank'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 financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement in the Management Report, we are required to report that fact. We have nothing to report in this regard.

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

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Management is responsible for the preparation and fair presentation of the consolidated financial statements of the prudential conglomerate of Banco BOCOM BBM S.A. in accordance with Resolution nº 4,280 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 control as management determines is necessary to enable the preparation of the 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 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 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.



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

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Our objectives are to obtain reasonable assurance about whether the consolidated financial statements of the prudential conglomerate, prepared in accordance with Resolution nº 4,280 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 an audit conducted in accordance with Brazilian and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Brazilian and International Standards on Auditing, 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 of the prudential conglomerate, 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.
- 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 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 financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank 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 these financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



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- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements 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, February 15, 2019

A handwritten signature in blue ink that reads "PricewaterhouseCoopers".

PricewaterhouseCoopers  
Auditores Independentes  
CRC 2SP000160/O-5

A handwritten signature in blue ink that reads "Claudia Eliza Medeiros de Miranda".

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

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## Management's Report

### Who We Are

Recognized for tradition and excellence, Banco BOCOM BBM is controlled by Bank of Communications, one of China's top five commercial banks, which owns 80% of its equity. Brazilian shareholders own the rest.

Our institution is dedicated to offering the best solutions in credit and financial services to corporate clients established in Brazil, as well as wealth management services for individuals and families.

We completed a key stage of our history in 2018, launching our new brand and celebrating other important achievements. Bank of Communications and Banco BOCOM BBM also commemorated 110 and 160 years of activity since their respective foundations.

This was a year, therefore, in which we reinforced foundational values resulting from the integration of two century-old institutions: investing in the future, valuing the past.

### Management Message

Brazil faced several challenges in 2018. Our economy was affected by a truckers' movement in May. Moreover, risk aversion in the global economy led the Real to depreciate more than 15% against the US dollar. Lastly, a divisive election among two candidates with divergent views on economic policy kept uncertainty high for several months. Now that 2018 is over, what should we expect going forward?

Headwinds that restrained economic activity in 2018 are dissipating, supporting a growth pickup in 2019. Political and economic uncertainty is declining, as the makeup of the new government economic team indicates a commitment to a liberal and reformist agenda.

Monetary policy remains accommodative, households and corporates have deleveraged, and banks' leverage allow them to support the recovery. We expect GDP growth to accelerate to 2.6% in 2019 from 1.2% in 2018.

Inflation reached 3.7% in 2018, below the 4.5% target. The inflation outlook remains positive, with the large output gap and anchored inflation expectations keeping inflationary pressure at bay even amid stronger growth. We expect inflation to reach 3.8% in 2019, below the target for the third year running.

The Central Bank of Brazil has kept the SELIC rate stable at 6.5% since March and is set to continue doing so throughout 2019. As noted, the large output gap will allow the economy to accelerate without inflationary pressures.

Some old challenges remain. The fiscal adjustment has just started, and an ambitious pension reform is needed for the government to comply with the spending cap and stabilize public debt in the medium term.

President Bolsonaro's new cabinet has little intersection with the political forces represented in a fragmented Congress, leading some analysts to have doubts about needed political coordination to approve the reform agenda.

The global economy is also not in its best moment. In the US, there is now fear of a significant slowdown in 2019 as the fiscal stimulus loses steam and tighter financial conditions begin to bite. Europe is growing very little, and China is seeking to maintain its expansion amid a complicated environment of trade conflicts.

All in all, Brazil's economic outlook for 2019 is benign: growth should pick up with low inflation and stable interest rates. However, this scenario depends on progress on the reform agenda and growth in the large Chinese, North American and European economies.

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## Management's Report

### Performance of Prudential Conglomerate

The Prudential Conglomerate posted equity of R\$ 601 million and net income of R\$ 64 million at December 31, 2018, which corresponds to annual profitability of 10.83% calculated based on the average equity for the period.

Total assets at the end of the year amounted to R\$ 6,298 million. The volume raised in the domestic and foreign markets totaled R\$ 4,897 million at the period end, an increase of 20% compared to December 31, 2017. The Bank's Basel Capital Adequacy Ratio was 14.45% at the end of the year.

### Credit for companies

The Bank's extended credit portfolio (including advances on foreign exchange contracts and guarantees provided through sureties and collateral) totaled R\$ 4,408 million at the end of the year, an increase of 20% compared to December 31, 2017.

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

### Wealth Management

Banco BOCOM BBM's Wealth Management area uses constantly updated tools for asset management of Brazilian and foreign clients, through diversified financial products in an open platform, meeting the long-term objectives. In the past year our Assets under advisory increased 33% from R\$ 5,371 million in December 31, 2017 to R\$ 7,121 million in December 31, 2018.

### Financial Services

BOCOM BBM offers financial services, including the structuring and distribution of securities, derivative operations and other products. In order to better meet the needs of our customers, the continuous increase in the scope of financial services and products is a priority in BOCOM BBM's expansion strategy. In 2018, the Bank coordinated issuances of R\$ 1,470 million in securities, of which R\$ 1,350 million in Debentures and Promissory Notes and R\$ 120 million in CRA. Our service revenue of structuring and distribution of securities has increased to more than 153%, comparing to 2017.

### People

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

### Credit Rating

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

Moody's Investors Service reaffirmed the ratings of Banco BOCOM BBM on May 3, 2018. On a global scale, "Ba1" rating was assigned to our senior unsecured local currency debts, with a notch above the sovereign rating ("Ba2") and stable perspective. In the national scale Banco BOCOM BBM was rated as "Aaa.br", the best possible credit rating in this category.

In addition, on October 19, 2018, the rating process was completed by Fitch. Nationwide was awarded the long-term rating "AAA (bra)", the highest possible rating in this category. On a global scale, long-term issuer default ratings (IDRs) "BB" and "BB+" were assigned in foreign currency and local currency respectively, being above the sovereign rating ("BB-"). The perspective for these ratings is stable.

## Balance sheets

### Assets

Note	In R\$ thousand	
	Prudential Conglomerate	
	12/31/2018	12/31/2017
<b>Current assets</b>	<b>3,345,385</b>	<b>2,364,487</b>
<b>Cash and cash equivalents</b>	<b>67,922</b>	<b>14,501</b>
Cash	3	-
Free reserves	385	157
Funds in foreign currency	67,534	14,344
<b>Short-term interbank investments</b>	<b>1,020,296</b>	<b>355,776</b>
Open market investments	919,766	200,028
Interbank deposits	3,466	-
Investments in foreign currencies	97,064	155,748
<b>Marketable securities and derivative financial instruments</b>	<b>188,976</b>	<b>111,068</b>
Bank portfolio	57,378	82,425
Subject to repurchase agreements	1,575	3,624
Derivative financial instruments	21,823	8,523
Linked to guarantees given	108,200	16,496
<b>Interbank accounts</b>	<b>1,275</b>	<b>1,606</b>
Deposits – Central Bank of Brazil	1,252	1,387
Correspondent banks	23	219
<b>Loan transactions</b>	<b>1,625,860</b>	<b>1,212,696</b>
Discounted securities and loans	826,588	687,655
Financing	458,727	337,642
Rural and agroindustrial financing	362,837	225,348
Allowance for loans	(22,293)	(37,949)
<b>Other receivables</b>	<b>400,932</b>	<b>630,558</b>
Foreign exchange portfolio	333,525	559,146
Unearned income	4,566	3,411
Trading and brokerage	1,700	-
Honoured guarantee and surety	-	19,954
Sundry	29,755	17,818
Tax credits	37,607	48,999
Allowance for other receivables	(6,221)	(18,770)
<b>Other assets</b>	<b>40,124</b>	<b>38,283</b>

See accompanying notes.



## Balance sheets

Assets	Note	In R\$ thousand	
		Prudential Conglomerate	
		12/31/2018	12/31/2017
<b>Noncurrent assets</b>			
<b>Long-term assets</b>		<b>2,935,282</b>	<b>2,604,579</b>
<b>Short-term interbank investments</b>	<b>5</b>	<b>-</b>	<b>3,258</b>
Interbank deposits		-	3,258
<b>Marketable securities and derivative financial instruments</b>	<b>6</b>	<b>1,251,243</b>	<b>1,323,431</b>
Bank portfolio		426,135	987,668
Linked to repurchase agreements		606,326	100,396
Derivative financial instruments		10,949	1,727
Linked to guarantees given		207,833	233,640
<b>Loan transactions</b>	<b>7</b>	<b>1,594,420</b>	<b>1,197,301</b>
Discounted securities and loans		910,100	711,223
Financing		396,968	217,707
Rural and agroindustrial financing		305,080	291,090
Allowance for loans		(17,728)	(22,719)
<b>Other receivables</b>		<b>89,620</b>	<b>80,589</b>
Unearned income		2,329	1,585
Sundry	<b>14</b>	55,267	51,968
Tax credits	<b>24</b>	32,732	27,037
Allowance for other receivables	<b>7</b>	(708)	-
<b>Permanent assets</b>		<b>16,895</b>	<b>7,122</b>
<b>Investments</b>		<b>172</b>	<b>-</b>
Other investments		2,800	2,628
Provision for losses		(2,628)	(2,628)
<b>Property and equipment in use</b>		<b>5,557</b>	<b>4,101</b>
<b>Intangible assets</b>		<b>11,166</b>	<b>3,021</b>
<b>Total assets</b>		<b>6,297,562</b>	<b>4,976,189</b>

See accompanying notes.

## Balance sheets

### Liabilities

	Note	In R\$ thousand	
		Prudential Conglomerate	
		12/31/2018	12/31/2017
<b>Current liabilities</b>		<b>3,503,090</b>	<b>2,539,435</b>
<b>Deposits</b>	<b>10</b>	<b>793,656</b>	<b>740,271</b>
Demand deposits		115,372	87,885
Interbank deposits		2,265	18,040
Time deposits		676,019	634,346
<b>Repurchase agreements</b>	<b>11</b>	<b>596,084</b>	<b>103,846</b>
Bank portfolio		596,084	103,846
<b>Funds from acceptance and issue of securities</b>	<b>12</b>	<b>1,697,665</b>	<b>1,179,879</b>
Liabilities from issue of agribusiness credit bills		998,810	855,544
Liabilities from issue of credit bills		641,831	292,284
Liabilities from issue of real estate credit bills		57,024	32,051
<b>Interbranch accounts</b>		<b>79,540</b>	<b>81,625</b>
Third-party funds in transit		79,540	81,625
<b>Borrowings</b>	<b>13</b>	<b>219,859</b>	<b>349,997</b>
Loans abroad		219,859	349,997
<b>Lending Obligations - Official Institutions</b>	<b>13</b>	<b>21,040</b>	<b>3,028</b>
Other institutions		21,040	3,028
<b>Derivative financial instruments</b>	<b>6</b>	<b>12,266</b>	<b>3,369</b>
Derivative financial instruments		12,266	3,369
<b>Other liabilities</b>		<b>82,980</b>	<b>77,419</b>
Collection of similar taxes		429	150
Foreign exchange portfolio	<b>8</b>	1,750	575
Social		-	17,484
Statutory		27,995	16,284
Tax and social security		19,602	24,856
Securities trading		3,694	1,527
Allowance for financial guarantees	<b>7 and 26</b>	1,030	417
Sundry		28,480	16,126

See accompanying notes.

## Balance sheets

Liabilities	Note	In R\$ thousand	
		Prudential Conglomerate	
		12/31/2018	12/31/2017
<b>Noncurrent liabilities</b>			
<b>Long-term payables</b>		<b>2,183,103</b>	<b>1,852,803</b>
<b>Deposits</b>	<b>10</b>	<b>449,144</b>	<b>216,839</b>
Interbank deposits		95	837
Time deposits		449,049	216,002
<b>Funds from acceptance and issue of securities</b>	<b>12</b>	<b>1,240,394</b>	<b>1,254,497</b>
Liabilities from issue of agribusiness credit bills		349,176	353,253
Liabilities from issue of credit bills		852,289	882,583
Liabilities from issue of real estate credit bills		38,929	18,661
<b>Borrowings</b>	<b>13</b>	<b>395,489</b>	<b>340,350</b>
Loans abroad		395,489	340,350
<b>Derivative financial instruments</b>	<b>6</b>	<b>41,001</b>	<b>3,818</b>
Derivative financial instruments		41,001	3,818
<b>Other liabilities</b>		<b>57,075</b>	<b>37,299</b>
Social		16,802	-
Statutory		8,381	7,532
Tax and social security		14,924	11,705
Sundry	<b>7 and 26</b>	16,837	17,941
Allowance for financial guarantees		131	121
<b>Deferred income</b>	<b>27 b</b>	<b>10,122</b>	<b>9,037</b>
<b>Equity</b>	<b>16</b>	<b>601,247</b>	<b>574,913</b>
<b>Capital</b>		<b>469,300</b>	<b>469,300</b>
Domiciled in Brazil		469,300	469,300
<b>Market value adjustment of securities and derivatives</b>		<b>48</b>	<b>(1,356)</b>
Securities held for sale		48	(1,356)
<b>Income reserves</b>		<b>313,738</b>	<b>288,808</b>
<b>Treasury stock</b>		<b>(181,839)</b>	<b>(181,839)</b>
<b>Total liabilities and equity</b>		<b>6,297,562</b>	<b>4,976,189</b>

See accompanying notes.

## Income Statement

		In R\$ thousand		
		Prudential Conglomerate		
	Note	Second half of 2018	12/31/2018	12/31/2017
<b>Financial income</b>		<b>247,500</b>	<b>583,246</b>	<b>525,261</b>
Loan transactions		142,101	286,497	268,602
Income from marketable securities transactions	5 and 6	43,370	93,455	194,465
Result of exchange operations	17	30,164	148,470	58,252
Gain on derivative financial instruments	21	31,865	54,824	3,942
<b>Financial expenses</b>		<b>(149,495)</b>	<b>(372,232)</b>	<b>(364,006)</b>
Market funding operations	17	(123,177)	(262,491)	(279,719)
Loans, assignments and onlending operations	17	(19,030)	(81,378)	(52,502)
Set up of allowance doubtful accounts	7	(7,288)	(28,363)	(31,785)
<b>Gross financial income</b>		<b>98,005</b>	<b>211,014</b>	<b>161,255</b>
<b>Other operating income (expenses)</b>		<b>(42,238)</b>	<b>(77,977)</b>	<b>(75,491)</b>
Service revenues	18	32,748	64,496	43,090
Personnel expenses		(38,044)	(70,852)	(66,162)
Other administrative expenses	19	(29,290)	(57,237)	(46,140)
Tax expenses		(8,134)	(15,766)	(18,911)
Income from interest in subsidiaries	9	-	-	10,842
Other operating income		665	1,678	9,881
Other operating expenses		(183)	(296)	(8,091)
<b>Operating income</b>		<b>55,767</b>	<b>133,037</b>	<b>85,764</b>
<b>Non-operating expenses</b>		<b>(952)</b>	<b>(3,860)</b>	<b>(2,680)</b>
<b>Income before income taxes and profit sharing</b>		<b>54,815</b>	<b>129,177</b>	<b>83,084</b>
<b>Income and social contributions taxes</b>	24	<b>(10,434)</b>	<b>(26,323)</b>	<b>(10,799)</b>
Provision for income tax		(4,282)	(10,814)	(10,812)
Provision for social contribution tax		(1,985)	(6,033)	(7,007)
Deferred tax asset		(4,167)	(9,476)	7,020
<b>Profit sharing – management and employees</b>		<b>(19,563)</b>	<b>(39,194)</b>	<b>(28,930)</b>
<b>Net income</b>		<b>24,818</b>	<b>63,660</b>	<b>43,355</b>
<b>Earnings per share</b>		<b>0.12</b>	<b>0.31</b>	<b>0.21</b>

See accompanying notes.

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

	In R\$ thousand							
	Income reserves		Market value adjustment of securities and derivatives	Treasury shares	Retained earnings	Total controllers	Noncontrolling interest	Total
	Capital	Legal	Statutory	Bank				
<b>Year Ended December 31, 2017</b>								
<b>Balances at January 1, 2017</b>	<b>469,300</b>	<b>26,321</b>	<b>259,860</b>	<b>(2,954)</b>	<b>(184,469)</b>	<b>568,058</b>	<b>5,519</b>	<b>573,577</b>
Market value adjustments - marketable securities				1,598		1,598		1,598
Investment sale (Note 2c)							(5,519)	(5,519)
Earn out reversal					2,630	2,630		2,630
Net income for the year						43,355		43,355
Allocations:								
- Reserves		2,168	459		(2,627)			
- Interest on equity (R\$ 0.14 per share)					(40,728)	(40,728)		(40,728)
<b>Balances at December 31, 2017</b>	<b>469,300</b>	<b>28,489</b>	<b>260,319</b>	<b>(1,356)</b>	<b>(181,839)</b>	<b>574,913</b>	<b>-</b>	<b>574,913</b>
<b>Changes in the period</b>	<b>-</b>	<b>2,168</b>	<b>459</b>	<b>1,598</b>	<b>2,630</b>	<b>6,855</b>	<b>(5,519)</b>	<b>1,336</b>
<b>Year Ended December 31, 2018</b>								
<b>Balances at January 1, 2018</b>	<b>469,300</b>	<b>28,489</b>	<b>260,319</b>	<b>(1,356)</b>	<b>(181,839)</b>	<b>-</b>	<b>-</b>	<b>574,913</b>
Market value adjustments - marketable securities				1,404		1,404		1,404
Net income for the year					63,660	63,660		63,660
Allocations:								
- Reserves		3,183	21,747		(24,930)			
- Interest on equity (R\$ 0.19 per share)					(38,730)	(38,730)		(38,730)
<b>Balances at December 31, 2018</b>	<b>469,300</b>	<b>31,672</b>	<b>282,066</b>	<b>48</b>	<b>(181,839)</b>	<b>601,247</b>	<b>-</b>	<b>601,247</b>
<b>Changes in the period</b>	<b>-</b>	<b>3,183</b>	<b>21,747</b>	<b>1,404</b>	<b>(0)</b>	<b>26,334</b>	<b>-</b>	<b>26,334</b>
<b>Balances at July 1, 2018</b>	<b>469,300</b>	<b>30,431</b>	<b>278,255</b>	<b>(1,492)</b>	<b>(181,839)</b>	<b>-</b>	<b>-</b>	<b>594,655</b>
Market value adjustments - marketable securities				1,540		1,540		1,540
Net income for the semester					24,818	24,818		24,818
Allocations:								
- Reserves		1,241	3,811		(5,052)			
- Interest on equity (R\$ 0.10 per share)					(19,766)	(19,766)		(19,766)
<b>Balances at December 31, 2018</b>	<b>469,300</b>	<b>31,672</b>	<b>282,066</b>	<b>48</b>	<b>(181,839)</b>	<b>601,247</b>	<b>-</b>	<b>601,247</b>
<b>Changes in the period</b>	<b>-</b>	<b>1,241</b>	<b>3,811</b>	<b>1,540</b>	<b>(0)</b>	<b>6,592</b>	<b>-</b>	<b>6,592</b>

See accompanying notes.

**Statement of Cash Flow**

	In R\$ thousand		
	Prudential Conglomerate		
	Second half of 2018	12/31/2018	12/31/2017
<b>Cash flow statements</b>			
<b>Net income</b>	<b>24,818</b>	<b>63,660</b>	<b>43,355</b>
<b>Adjustments to net income:</b>	<b>23,696</b>	<b>48,447</b>	<b>17,136</b>
Allowance for doubtful accounts	7,379	28,363	31,785
Depreciation and amortization	2,178	3,242	1,729
Expenses from civil, labor and tax allowances	686	1,972	2,715
Income from interest in subsidiaries	-	-	(10,989)
Deferred income and social contribution taxes	4,167	9,476	(7,020)
Unrealized gains/losses on marketable securities and derivatives	7,746	3,990	(2,829)
Market value adjustments - marketable securities	1,540	1,404	1,598
Equity adjustments	-	-	147
<b>Adjusted net income</b>	<b>48,514</b>	<b>112,107</b>	<b>60,491</b>
Decrease/(Increase) in short-term interbank investments	(105)	(208)	(295)
Decrease in marketable securities and derivative financial instruments	52,127	36,370	306,499
Increase/(Decrease) in interbank and interbranch accounts	(15,455)	(1,753)	45,535
(Increase) in loan and lease transactions	(431,667)	(838,646)	(1,116,713)
Increase/(Decrease) in deposits	142,478	285,690	(123,443)
Increase/(Decrease) in open market funding	526,876	492,238	(240,115)
Increase/(Decrease) in securities issue resources	(454)	503,683	1,239,042
Increase/(Decrease) in borrowings and onlending	98,830	(56,986)	4,963
Increase/(Decrease) in deferred income	(971)	1,085	6,910
Decrease/(Increase) in other assets	360,283	209,276	(201,143)
Increase/(Decrease) in other liabilities	(89,152)	18,238	11,141
<b>Net cash flow from (used in) operating activities</b>	<b>642,790</b>	<b>648,987</b>	<b>(67,619)</b>
<b>Cash flow from investing activities:</b>			
(Increase)/Decrease in investments	(172)	(172)	48,402
Investment aquisition	-	-	(5,519)
Property and equipment for use and leased acquisition	(9,212)	(12,843)	(3,878)
<b>Net cash provided by (used in) investing activities</b>	<b>(9,384)</b>	<b>(13,015)</b>	<b>39,005</b>
<b>Cash flow from financing activities:</b>			
Dividends and interest on equity paid	(16,119)	(33,604)	(20,654)
Purchases of treasury shares	0	0	2,630
<b>Net cash used in financing activities</b>	<b>(16,119)</b>	<b>(33,604)</b>	<b>(18,024)</b>
<b>Net increase in cash and cash equivalents</b>	<b>665,801</b>	<b>714,475</b>	<b>13,853</b>
At beginning of period	418,951	370,277	356,424
At end of period	1,084,752	1,084,752	370,277
<b>Net increase in cash and cash equivalents</b>	<b>665,801</b>	<b>714,475</b>	<b>13,853</b>
<b>Non-monetary transaction</b>			
Interest on equity	19,766	38,730	40,728

See accompanying notes.

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**Notes to the financial statements as at December 31, 2018 and 2017****1. Operations**

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

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

Prudential Conglomerate 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 BOCOM 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 the Bank of Communications Co. Ltd. and on November 2016, it was approved by the Central Bank of Brazil.

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

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

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

## Notes to the financial statements as at December 31, 2018 and 2017

### 2. Presentation of the Financial Statements and Consolidation Criteria

The financial statements of the Prudential Conglomerate were prepared in accordance with the Resolution No. 4,280/2013, from the Brazilian National Monetary Board (CMN) and Circular Letter N. 3,701/2015 of the Central Bank of Brazil (BACEN), which are elaborated from the accounting guidelines arising from the Laws No. 4,595/64 (National Financial System Law) and No. 6,404/76 (Corporation Law), including the amendments introduced by the Laws No.11,638/07 and No. 11,941/09, in compliance with the standards and instructions from CMN, BACEN, Federal Accounting Council(CFC) and the accounting practices adopted in Brazil applicable to financial institutions regulated by the BACEN.

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

The prudential conglomerate financial statements were prepared in accordance with the consolidation criteria stated by Resolution No. 4,280/2013 from BACEN, which includes financial institutions and other institutions authorized to operate by the Central Bank of Brazil.

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

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

The Prudential Conglomerate financial statements comprise the financial statements at December 31, 2018 and 2017 of the following institutions:

Banco BOCOM BBM S.A. and Nassau branch

BBM Bank Ltd. (a)

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

Bahia Fund (a)

The Southern Atlantic Investments (b)

Jiang Fundo de Investimento Multimercado Credito Privado Investimento no Exterior (b)

Haitan Fund (a)

- (a)** The indirect participation of 100% of Banco BOCOM BBM in the social capital of BBM Bank Ltd. were eliminated from the Prudential Conglomerate.
- (b)** Banco BOCOM BBM directly holds 100% of the capital of these entities. The consolidation of The Southern Atlantic Investments Ltd occurred as from August 2017 and the consolidation of Jiang FIM CPIC occurred as from March 2018.
- (c)** On February 22, 2018, the change of the corporate name of Bacor Corretora de Câmbio e Valores Mobiliários S.A to BOCOM BBM Corretora de Câmbio e Valores Mobiliários S.A was approved by the JUCESP ("Junta Comercial do Estado de São Paulo").



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**Notes to the financial statements as at December 31, 2018 and 2017****3. Significant Accounting Practices****(a) Results of Operations**

Calculated on an accrual basis.

**(b) Marketable Securities and Derivative Financial Instruments**

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

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

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

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

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

**(c) Current and non-current assets**

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

**(d) Permanent assets**

These are stated at cost, plus the following aspects:

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

In accordance with CMN Resolution No. 4,534/16, financial institutions and institutions authorized to operate by BACEN cannot record Deferred Assets. Balances recorded as deferred assets at the date this resolution became effective, except for lease losses to amortize, must be:

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

**(e) Current Liabilities and Long-term Liabilities**

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

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**Notes to the financial statements as at December 31, 2018 and 2017****3. Significant Accounting Practices (Continued)****(f) Income Tax and Social Contribution**

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

The deferred tax assets and liabilities arising from temporary differences were recognized in accordance with CMN Resolution No. 3,059 issued on December 20, 2002, and CMN Resolution No. 3.355, issued on March 31, 2006, and take into account the history of profitability and the expected generation of future taxable income supported by technical feasibility studies. The deferred taxes were constituted based on the expected income tax and social contribution rates of 25% and 20% respectively, since used while the rate is effective.

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

**(g) Swaps, futures, forwards and options**

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

**(h) Earnings per share**

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

**(i) Impairment of assets**

In accordance with CPC 1, as approved by CMN Resolution 3,566/08 of May 29, 2008, and based on management's analysis, if the book value of the assets of the Bank and others Prudential Conglomerate institutions exceed their recoverable value, an impairment loss is recognized in the result.

**(j) Contingent assets and liabilities and legal obligations**

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

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

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

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

**(k) Short-term Interbank Investments**

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

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**Notes to the financial statements as at December 31, 2018 and 2017****3. Significant Accounting Practices (Continued)****(l) Loan Transactions**

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

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

**(m) Cash and cash equivalents**

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

**(n) Other values and assets**

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

**(o) Hedge Accounting**

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

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

## Notes to the financial statements as at December 31, 2018 and 2017

### 3. Significant Accounting Practices (Continued)

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

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

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

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

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

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

### 4. Cash and cash equivalents

	In R\$ thousand	
	Prudential Conglomerate	
	12/31/2018	12/31/2017
Interbank investments (a)	919,766	200,028
Investments in foreign currencies	97,064	155,748
Funds in foreign currency	67,534	14,344
Free reserves in cash with the Central Bank	385	157
Cash	3	-
<b>Total</b>	<b>1,084,752</b>	<b>370,277</b>

- (a) Committed transactions maturing within 90 days, on the date of application.

## Notes to the financial statements as at December 31, 2018 and 2017

### 5. Short-term Interbank Investments

Short-term interbank investments are as follows:

	In R\$ thousand	
	Prudential Conglomerate	
	12/31/2018	12/31/2017
<b>Open market investments</b>	<b>919,766</b>	<b>200,028</b>
<b>Self-funded position</b>	<b>919,766</b>	<b>200,028</b>
National Treasury Bills	419,618	-
National Treasury Notes – B series	500,148	200,028
<b>Interbank deposits</b>	<b>3,466</b>	<b>3,258</b>
<b>Investments in foreign currencies (*)</b>	<b>97,064</b>	<b>155,748</b>
	<b>1,020,296</b>	<b>359,034</b>
Current assets	1,020,296	355,776
Long-term receivables	-	3,258
<b>Total</b>	<b>1,020,296</b>	<b>359,034</b>

(\*) The investments in foreign currencies in the Prudential Conglomerate in December 2018 and 2017 basically refer to Overnight operations with first-tier banks.

At December 31, 2018 and 2017, the collateral received through repurchase agreements amounted to R\$ 949,518 thousand and R\$ 206,627 thousand respectively, in the Prudential Conglomerate. The collateral provided amounted to R\$ 525,935 thousand and R\$ 10,526 thousand during the same periods.

The results of short-term interbank investments in the Prudential Conglomerate are as follows:

	In R\$ thousand		
	Prudential Conglomerate		
	Second half of 2018	12/31/2018	12/31/2017
Open market investments	10,500	15,394	41,055
Investments in foreign currencies	3,300	5,246	1,708
Interbank deposits	106	208	295
<b>Income from marketable securities transactions</b>	<b>13,906</b>	<b>20,848</b>	<b>43,058</b>

**Notes to the financial statements as at December 31, 2018 and 2017**
**6. Marketable Securities and Derivative Financial Instruments**

In R\$ thousand				
Prudential Conglomerate				
	Cost	Market	Cost	Market
	12/31/2018		12/31/2017	
<b>I - Marketable securities</b>	<b>1,407,320</b>	<b>1,407,447</b>	<b>1,423,839</b>	<b>1,424,249</b>
<b>Securities for trading (*)</b>	<b>115,086</b>	<b>115,112</b>	<b>52,130</b>	<b>52,283</b>
<b>Own Portfolio</b>	<b>36,755</b>	<b>36,781</b>	<b>33,945</b>	<b>34,098</b>
<b>Fixed income securities</b>	<b>36,755</b>	<b>36,781</b>	<b>33,945</b>	<b>34,098</b>
Financial Treasury Bills	2,352	2,352	9	9
National Treasury Notes – B series	34,403	34,429	33,936	34,088
<b>Linked to guarantees givens</b>	<b>78,331</b>	<b>78,331</b>	<b>18,185</b>	<b>18,185</b>
Financial Treasury Bills	60,261	60,261		
Fund quotas given as guarantee	18,070	18,070	18,185	18,185
<b>Securities held for sale (*)</b>	<b>689,750</b>	<b>689,851</b>	<b>778,292</b>	<b>778,549</b>
<b>Bank portfolio</b>	<b>335,060</b>	<b>335,102</b>	<b>505,944</b>	<b>506,002</b>
<b>Fixed-income securities</b>	<b>335,060</b>	<b>335,102</b>	<b>505,944</b>	<b>506,002</b>
Financial Treasury Bills	164,609	164,645	319,130	319,269
National Treasury Notes – B series	6,357	6,357	9,826	9,733
Promissory note			51,477	51,477
Debentures	164,094	164,100	125,512	125,523
<b>Subject to repurchase agreements</b>	<b>181,456</b>	<b>181,511</b>	<b>103,796</b>	<b>104,020</b>
Financial Treasury Bills	85,138	85,166	10,521	10,526
Debentures	96,318	96,345	93,276	93,494
<b>Linked to guarantees given</b>	<b>173,234</b>	<b>173,238</b>	<b>168,551</b>	<b>168,527</b>
Financial Treasury Bills	173,234	173,238	168,551	168,527
<b>Securities held up to maturity</b>	<b>602,484</b>	<b>602,484</b>	<b>593,417</b>	<b>593,417</b>
<b>Bank portfolio</b>	<b>111,630</b>	<b>111,630</b>	<b>529,993</b>	<b>529,993</b>
<b>Fixed-income securities</b>	<b>111,630</b>	<b>111,630</b>	<b>529,993</b>	<b>529,993</b>
National Treasury Notes – F series	111,630	111,630	529,993	529,993
<b>Subject to repurchase agreements</b>	<b>426,390</b>	<b>426,390</b>		
National Treasury Notes – F series	426,390	426,390		
<b>Linked to guarantees given</b>	<b>64,464</b>	<b>64,464</b>	<b>63,424</b>	<b>63,424</b>
National Treasury Notes – F series	64,464	64,464	63,424	63,424
<b>II - Derivative financial instruments</b>	<b>27,303</b>	<b>32,772</b>	<b>7,623</b>	<b>10,250</b>
Swap operations	16,196	20,475	7,362	9,447
Term	3,283	4,473	261	803
Futures	7,824	7,824		
<b>Total marketable securities and derivative financial instruments</b>	<b>1,434,623</b>	<b>1,440,219</b>	<b>1,431,462</b>	<b>1,434,499</b>
<b>Segregation of portfolio by maturity range</b>				
<b>Up to 3 months</b>	162,660	162,977	53,518	53,952
<b>From 3 to 12 months</b>	25,070	25,999	56,207	57,116
<b>Over 12 months</b>	1,246,893	1,251,243	1,321,737	1,323,431
<b>Total</b>	<b>1,434,623</b>	<b>1,440,219</b>	<b>1,431,462</b>	<b>1,434,499</b>

**Notes to the financial statements as at December 31, 2018 and 2017**
**6. Marketable Securities and Derivative Financial Instruments (Continued)**

In R\$ thousand				
Prudential Conglomerate				
	Cost	Market	Cost	Market
	12/31/2018		12/31/2017	
<b>III-Derivative financial instruments</b>				
Swap Operations	42,059	49,323	5,093	6,345
Term	3,396	3,405	1,088	842
Futures	539	539		
<b>Purchased position</b>	<b>45,994</b>	<b>53,267</b>	<b>6,181</b>	<b>7,187</b>
<b>Segregation by maturity range:</b>				
<b>Up to 3 months</b>	6,053	6,005	2,053	1,770
<b>From 3 to 12 months</b>	5,439	6,261	1,698	1,599
<b>Over 12 months</b>	34,502	41,001	2,430	3,818
<b>Total</b>	<b>45,994</b>	<b>53,267</b>	<b>6,181</b>	<b>7,187</b>

The results of Marketable Securities in the Prudential Conglomerate are as follows:

In R\$ thousand			
Prudential Conglomerate			
	Second half of 2018	12/31/2018	12/31/2017
Investment funds quotas	459	915	4,365
Government bonds	19,385	52,657	119,903
Private securities	9,620	19,035	27,139
<b>Income from marketable securities</b>	<b>29,464</b>	<b>72,607</b>	<b>151,407</b>

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

(\*) Securities classified as "Securities for trading" maturing in more than 12 months and which, at December 31, 2018, amount to R\$ 64,872 thousand in the Prudential Conglomerate (December 31, 2017 - R\$ 34,098 thousand), are stated in current assets, according to BACEN Circular Letter No. 3,068/01. Securities classified as "Held for sale", maturing in more than 12 months, in the amount of R\$ 637,810 thousand on December 31, 2018 (December 31, 2017 - R\$ 710,286 thousand), in the Prudential Conglomerate, are stated as Long-term receivable assets, according to BACEN Circular Letter No. 3.068/01, regardless its liquidity level. The effect of this classification in net current capital is shown in Note 22 - Liquidity risk.

**Notes to the financial statements as at December 31, 2018 and 2017**
**7. Loan Transactions, Sureties and Guarantees**

At December 31, 2018 and 2017, loans and guarantees provided through sureties or guarantee agreements in the Prudential Conglomerate, classified according to the clients' economic activities, are as follows:

	In R\$ thousand			
	Prudential Conglomerate			
	12/31/2018		12/31/2017	
Sugar and Ethanol	670,063	16.16%	699,814	20.60%
Agriculture	428,289	10.33%	438,089	12.89%
Building and Real Estate	307,580	7.42%	221,363	6.52%
Foods - Sundry	247,571	5.97%	168,616	4.96%
Retail market	243,640	5.87%	184,721	5.44%
Specialized Services	208,005	5.02%	115,510	3.40%
Utilities (energy)	197,149	4.75%	188,187	5.54%
Capital Goods	152,127	3.67%	136,744	4.02%
Transportation and Logistics	144,437	3.48%	62,814	1.85%
Textile and Leathers	124,401	3.00%	85,495	2.52%
Pharmaceutics	106,495	2.57%	89,873	2.65%
Chemical and Petrochemical	98,508	2.38%	82,122	2.42%
Construction Material	95,035	2.29%	75,854	2.23%
Civil Aviation	85,423	2.06%	60,194	1.77%
Mining	83,949	2.02%	50,140	1.48%
Diversified Holdings	78,769	1.90%	13,178	0.39%
Meat Industry	56,595	1.36%	27,638	0.81%
Pulp and Paper	50,936	1.23%	69,703	2.05%
Others (*)	223,563	5.39%	182,115	5.33%
<b>Private Sector</b>	<b>3,602,535</b>	<b>86.87%</b>	<b>2,952,171</b>	<b>86.87%</b>
Public	216,097	5.21%	91,356	2.69%
Oil & Gas	135,808	3.27%	131,678	3.88%
Utilities (energy)	109,483	2.64%	181,950	5.36%
Water and Sewage Concessions	50,201	1.21%	11,044	0.33%
Others (*)	32,973	0.80%	29,171	0.86%
<b>Public Sector</b>	<b>544,562</b>	<b>13.13%</b>	<b>445,199</b>	<b>13.13%</b>
<b>Total</b>	<b>4,147,097</b>	<b>100%</b>	<b>3,397,370</b>	<b>100%</b>

(\*) 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 December 31, 2018.



**Notes to the financial statements as at December 31, 2018 and 2017**
**7. Loan Transactions, Sureties and Guarantees (Continued)**

Loans transactions are stated in the Prudential Conglomerate balance sheet as follows:

	In R\$ thousand	
	Prudential Conglomerate	
	12/31/2018	12/31/2017
<b>Current assets</b>		
<b>Loan transactions</b>	<b>1,648,152</b>	<b>1,250,645</b>
Private sector	1,500,947	1,189,055
Public sector	147,205	61,590
<b>Other receivables</b>	<b>14,602</b>	<b>36,476</b>
Foreign exchange portfolio – receivables (a)	9,537	15,563
Securities and credits receivable	5,065	20,913
<b>Noncurrent assets</b>		
<b>Loan transactions</b>	<b>1,612,148</b>	<b>1,220,020</b>
Private sector	1,387,046	991,678
Setor Público	225,102	228,342
<b>Other receivables</b>	<b>2,361</b>	<b>6</b>
Securities and credits receivable	2,361	6
<b>Current liabilities</b>		
<b>Other liabilities</b>	<b>307,009</b>	<b>524,498</b>
Foreign exchange portfolio - Advances on exchange contracts (a)	307,009	524,498
<b>Subtotal</b>	<b>3,584,272</b>	<b>3,031,645</b>
Co-obligations and risks in guarantees provided (b)	562,825	365,725
<b>Total</b>	<b>4,147,097</b>	<b>3,397,370</b>

## Notes to the financial statements as at December 31, 2018 and 2017

### 7. Loan Transactions, Sureties and Guarantees (Continued)

- (a) The Advances on Exchange Contracts are classified as reduction accounts of Other Liabilities – Exchange Portfolio and as Other Receivables – Exchange Portfolio, respectively, as shown in Note 8.
- (b) These refer to guarantees granted through sureties and guarantees. The granted guarantees are recorded in offsetting accounts and the respective earnings are classified as Results for Future Years and appropriated to the result according to the guarantees' contractual terms.

The provision for loan transactions was calculated according to the criteria established by the CMN Resolutions No. 2,682 and 2,697, based on the risk classification of the transactions and on their level of arrears.

The classification of the loan transactions in the Prudential Conglomerate is as follows:

In R\$ thousand													
12/31/2018										12/31/2017			
Risk level	Overdue – days					Falling due – days							
	Within 14	15 to 60	61 to 90	91 to 180	181 to 360	Within 90	From 91 to 180	From 181 to 360	Over 360 days	Total	PDD	Total	PDD
AA						360,437	174,254	500,132	685,503	1,720,326		1,116,030	
A	79					188,282	239,148	406,974	713,411	1,547,894	7,739	1,422,844	7,114
B	1,839	9,920				95,310	151,222	252,694	200,455	711,440	7,114	594,250	5,943
C	794					13,391	40,769	38,782	35,849	129,585	3,888	176,981	5,309
D													
E								2,361	2,361	4,722	1,417	11,700	3,510
F												20,888	11,628
G	115	116	115	185		1,656	2,069	2,004	14,554	20,814	15,637	31,776	23,571
H		1,703			5,132		1,532	3,949		12,316	12,316	22,901	22,901
<b>Total</b>	<b>2,827</b>	<b>11,739</b>	<b>115</b>	<b>185</b>	<b>5,132</b>	<b>659,076</b>	<b>608,994</b>	<b>1,206,896</b>	<b>1,652,133</b>	<b>4,147,097</b>	<b>48,111</b>	<b>3,397,370</b>	<b>79,976</b>

## Notes to the financial statements as at December 31, 2018 and 2017

### 7. Loan Transactions, Sureties and Guarantees (Continued)

The allowance below is presented in the Prudential Conglomerate balance sheets as follows:

	In R\$ thousand	
	12/31/2018	12/31/2017
<b>Allowance for loan losses</b>	<b>40,021</b>	<b>60,668</b>
Current assets	22,293	37,949
Noncurrent assets	17,728	22,719
<b>Provision for other credits</b>	<b>6,929</b>	<b>18,770</b>
<b>Securities and credits receivable</b>	<b>4,113</b>	<b>14,003</b>
Current assets	3,405	14,003
Noncurrent assets	708	
<b>Provision for advances on exchange contracts</b>	<b>2,816</b>	<b>4,767</b>
Current assets	2,816	4,767
<b>Provision for co-obligations and risks in guarantees provided (*)</b>	<b>1,161</b>	<b>538</b>
Current Liability	1,030	417
Noncurrent Liability	131	121
<b>Total</b>	<b>48,111</b>	<b>79,976</b>

Changes in allowances are as follows:

	In R\$ thousand	
	12/31/2018	12/31/2017
<b>Balance at January 1</b>	<b>79,976</b>	<b>68,163</b>
Set up / (reversal)	28,363	31,797
Write-offs to loss	(60,228)	(19,984)
<b>Total</b>	<b>48,111</b>	<b>79,976</b>

For the year ended December 31, 2018, loan transactions were renegotiated in the Prudential Conglomerate in the amount of R\$ 13,691 thousand (for the year ended December 31, 2017, no loan transaction was renegotiated).

For the year ended December 31, 2018, there was a recovery of losses on loan transactions in the amount of R\$ 10,952 thousand (for the year ended December 31, 2017 - R\$ 753 thousand).

## Notes to the financial statements as at December 31, 2018 and 2017

### 7. Loan Transactions, Sureties and Guarantees (Continued)

The breakdown of sales or transfers of assets without the substantial retention of risks and rewards in the periods ended December 31, 2018 and 2017 was as follows:

	In R\$ thousand	
	12/31/2018	12/31/2017
Number of contracts	5	22
Assignment amount	3,556	25,637
Provision net book value	4,333	25,038
<b>Revenue from assignments</b>	<b>(777)</b>	<b>599</b>

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

	In R\$ thousand			
	12/31/2018	%	12/31/2017	%
Top debtor	135,808	3.3%	131,678	3.9%
Top 10 debtors	1,039,004	25.1%	816,634	24.0%
Top 20 debtors	1,604,590	38.7%	1,287,098	37.9%
Top 50 debtors	2,618,125	63.1%	2,133,335	62.8%
Top 100 debtors	3,478,539	83.9%	2,914,920	85.8%

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

	In R\$ thousand	
	12/31/2018	12/31/2017
Working capital	1,718,898	1,562,365
Trade Finance	379,239	586,293
Export credit notes	740,750	457,299
Co-obligations and risks in guarantees provided	562,825	365,725
Others	745,385	425,688
<b>Total</b>	<b>4,147,097</b>	<b>3,397,370</b>

## Notes to the financial statements as at December 31, 2018 and 2017

### 8. Foreign Exchange Portfolio

	In R\$ thousand	
	12/31/2018	12/31/2017
<b>Other receivables – Foreign exchange portfolio</b>		
Foreign exchange purchases pending settlement	322,914	543,006
Rights on foreign exchange sales	1,074	577
Income receivable from advances granted <b>(a)</b>	9,537	15,563
<b>Total</b>	<b>333,525</b>	<b>559,146</b>
<b>Other payables – Foreign exchange portfolio</b>		
Foreign exchange sales pending settlement	1,070	575
Exchange purchase obligations	307,689	524,498
Advances on foreign exchange contracts granted <b>(a)</b>	(307,009)	(524,498)
<b>Total</b>	<b>1,750</b>	<b>575</b>

**(a)** See Note 7.

On December 31, 2018, the Company made deposits of federal government securities securing foreign exchange transactions with B3 in the amount of R\$ 66,525 thousand (December 31, 2017 – R\$ 66,651 thousand).

### 9. Investments – Interest in Subsidiaries

	In R\$ thousand		
	Income from interests in subsidiaries		
	Second half of 2018	12/31/2018	12/31/2017
<b>The Southern Atlantic Investments Ltd. (a)</b>	-	-	11,060
<b>Others (b)</b>	-	-	(218)
<b>Total</b>	<b>-</b>	<b>-</b>	<b>10,842</b>

**(a)** On February 23, 2017, Banco BOCOM BBM requested authorization from the Central Bank of Brazil to consolidate The Southern Atlantic Investments Ltd. (SAI), its non-financial subsidiary abroad in the elaboration of the financial statements of the Prudential Conglomerate, CADOC (4060). In August 2017, the Central Bank of Brazil, based on the assumption provided by the article 8 of the Resolution No. 4,280/2013, accepted the request, determining the inclusion of the company in the Prudential Conglomerate.

**(b)** In the "Other" income, in the Prudential Conglomerate, the subsidiaries' equity variations are presented, which are not eliminated, such as foreign exchange variation of foreign investments.

**Notes to the financial statements as at December 31, 2018 and 2017**
**10. Deposits**

Maturity range	in R\$ thousand			
	Time deposits	Interbank deposits	Total 12/31/2018	Total 12/31/2017
Within 1 month	48,540	0	48,540	201,556
From 1 to 3 months	328,690	253	328,943	245,605
From 3 to 6 months	228,435	131	228,566	120,815
From 6 to 12 months	70,354	1,881	72,235	84,410
More than 12 months	449,049	95	449,144	216,839
<b>Subtotal</b>	<b>1,125,068</b>	<b>2,360</b>	<b>1,127,428</b>	<b>869,225</b>
<b>Cash deposits</b>			115,372	87,885
<b>Total</b>			<b>1,242,800</b>	<b>957,110</b>

The average term of interbank and time deposits, for outstanding transactions at December 31, 2018 is 802 days and 514 days (December 31, 2017 - 525 and 374 days), respectively.

Maturities upon issuance	In R\$ thousand			
	Time deposits	Interbank deposits	Total 12/31/2018	Total 12/31/2017
Within 1 month	2,543	-	2,543	1,196
From 1 to 3 months	200,219	-	200,219	169,756
From 3 to 6 months	313,748	-	313,748	213,310
From 6 to 12 months	75,418	-	75,418	166,911
More than 12 months	533,140	2,360	535,500	318,052
<b>Subtotal</b>	<b>1,125,068</b>	<b>2,360</b>	<b>1,127,428</b>	<b>869,225</b>
<b>Cash deposits</b>			115,372	87,885
<b>Total</b>			<b>1,242,800</b>	<b>957,110</b>

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

	In R\$ thousand									
	Demand deposits		Time deposits		Interbank deposits		Total			
	12/31/2018	12/31/2017	12/31/2018	12/31/2017	12/31/2018	12/31/2017	12/31/2018		12/31/2017	
Legal entities	97,085	71,359	255,201	208,336	-	-	352,286	28.35%	279,695	29.22%
Institutional customers	4	4	-	32,876	1,619	-	1,623	0.13%	32,880	3.44%
Group	397	76	717,337	567,278	-	5,694	717,734	57.75%	573,048	59.87%
Financial institutions	-	1	151,599	33,739	741	13,183	152,341	12.26%	46,923	4.90%
Individuals	17,886	16,445	931	8,119	-	-	18,816	1.51%	24,564	2.57%
<b>Total</b>	<b>115,372</b>	<b>87,885</b>	<b>1,125,068</b>	<b>850,348</b>	<b>2,360</b>	<b>18,877</b>	<b>1,242,800</b>	<b>100%</b>	<b>957,110</b>	<b>100%</b>

## Notes to the financial statements as at December 31, 2018 and 2017

### 10. Deposits (Continued)

In R\$ thousand				
	12/31/2018		12/31/2017	
Top depositor	515,875	41.51%	177,238	16.40%
Top 10 depositors	1,013,703	81.57%	579,128	53.60%
Top 20 depositors	1,087,473	87.50%	740,043	68.49%
Top 50 depositors	1,189,888	95.74%	926,632	85.76%
Top 100 depositors	1,236,301	99.48%	1,031,347	95.45%

### 11. Repurchase Agreements

The obligations from repurchase agreements in the Prudential Conglomerate are as follows:

In R\$ thousand		
Prudential Conglomerate		
	12/31/2018	12/31/2017
<b>Own Portfolio</b>	<b>596,084</b>	<b>103,846</b>
Financial Treasury Bills	85,021	10,500
National Treasury Notes – F series	415,093	-
Debentures	95,970	93,346
	<b>596,084</b>	<b>103,846</b>

**Notes to the financial statements as at December 31, 2018 and 2017**
**12. Funds from Acceptance and Issue of Securities and Real Estate Bills**

On December 31, 2018 and 2017, fundraising through Agribusiness Credit Bills (LCA), Housing Credit Bills (LCI), Financial Bills (LF) were segregated by maturity range as follows:

In R\$ thousand						
Prudential Conglomerate						
	LCA (a)		LCI (b)		LF (c)	
Maturity	12/31/2018	12/31/2017	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Within 1 month	130,051	74,324	7,423	970	87,430	3,239
From 1 to 3 months	181,844	68,557	30,810	10,462	138,085	5,704
From 3 to 6 months	299,185	247,890	5,135	242	77,601	123,371
From 6 to 12 months	387,730	464,773	13,656	20,376	338,715	159,970
More than 12 months	349,176	353,253	38,929	18,661	852,289	882,583
<b>Total</b>	<b>1,347,986</b>	<b>1,208,797</b>	<b>95,953</b>	<b>50,712</b>	<b>1,494,120</b>	<b>1,174,866</b>

- (a) Agribusiness Credit Bills (LCA) are issued by the Bank and registered with the B3, according to the Law No. 11,076/2004 and Law No. 11,311/2006 and subsequent amendments.
- (b) Housing Credit Bills (LCI) are nominative securities created by Provisional Measure No. 2,223 on September 4, 2011, which resulted in Law No. 10,931 of August 2, 2004.
- (c) Financial Bills (LCA) are issued by the Bank and registered with the B3 - according to the Law No. 12,249/10 (Section II, articles 37 to 43), and ruled by CMN (Law No. 3,836).

**13. Borrowings and onlendings**
**a) Borrowings abroad**

Borrowings abroad in the Prudential Conglomerate are as follows:

In R\$ thousand		
Prudential Conglomerate		
	12/31/2018	12/31/2017
Obligations with borrowings abroad (*)	395,489	593,971
Export credit facility	203,217	92,346
Import credit facility	16,642	4,030
	<b>615,348</b>	<b>690,347</b>
Current liabilities	219,859	349,997
Long-term payables	395,489	340,350
	<b>615,348</b>	<b>690,347</b>



## Notes to the financial statements as at December 31, 2018 and 2017

### 13. Borrowings and onlendings (Continued)

(\*) The amount of R\$ 395,489 thousand on December 31, 2018, classified as Borrowings Abroad, refers to the fundraising in U.S. dollars with Bank of Communications with final maturity in September 2022 (on December 31, 2017, the amount of R\$ 593,971 thousand refers to fundraising operations in U.S. dollars with the International Finance Corporation (IFC) and Bank of Communications).

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

In spite of the early settlement of the loan with the International Finance Corporation (IFC), the Bank has pre-export credit lines with that institution on which financial covenants are required. The amount used for these credit lines totals R\$ 46,805 thousand as of December 31, 2018 and the restrictive rates are fully complied with.

#### b) Onlendings in the Country

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

	In R\$ thousand						
	12/31/2018						12/31/2017
	Within 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 12 months	Total	Total
Funcafé - FAC	-	-	756	756	-	1,512	2,010
Funcafé - Working capital	-	-	9,764	9,764	-	19,528	1,018
<b>Total</b>	<b>-</b>	<b>-</b>	<b>10,520</b>	<b>10,520</b>	<b>-</b>	<b>21,040</b>	<b>3,028</b>

**Notes to the financial statements as at December 31, 2018 and 2017**
**14. Other Receivables/ Sundry**

	In R\$ thousand	
	Prudential Conglomerate	
	12/31/2018	12/31/2017
<b>Sundry</b>		
Debtors Deposits on warranty	51,904	47,011
Taxes and contributions to offset	18,341	13,830
Securities and credits receivable (*)	7,426	964
Sundry debtors – domestic	4,626	6,494
Sundry debtors – foreign	2,433	1,091
Advances – Salaries and constructions	292	396
	<b>85,022</b>	<b>69,786</b>
Current Asset	29,755	17,818
Long-term Asset	55,267	51,968
	<b>85,022</b>	<b>69,786</b>

(\*) Refers to Advances on Foreign Exchange Contracts written off in the period.

**15. Other Values and Assets**

	In R\$ thousand	
	Prudential Conglomerate	
	12/31/2018	12/31/2017
<b>Other Values and Goods</b>		
Properties	40,020	37,334
Others	104	949
	<b>40,124</b>	<b>38,283</b>
Current asset (a)	40,124	38,283
	<b>40,124</b>	<b>38,283</b>

(a) In December 2018, the amount of R\$ 40,020 thousand, classified as current assets, refers mainly to the execution of guarantee of properties, recorded as properties not for own use (BNDU), according to independent appraisal report.

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**Notes to the financial statements as at December 31, 2018 and 2017****16. Equity****(a) Capital - Banco BOCOM BBM S.A.**

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

**(b) Legal reserve**

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

**(c) Statutory reserve**

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

**(d) Treasury stock**

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

On December 31, 2018, Banco BOCOM BBM has 76,296,769 shares to hold in treasury in the amount of R\$ 181,839 thousand.

**(e) Interest on Equity**

According to article 9 of Law No. 9,249/95 and its subsequent amendments, Banco BOCOM BBM S.A., at the end of the year 2018, declared interest on equity of R\$ 38,730 thousand (December 31, 2017 - R\$ 40,728 thousand), with the retention of withholding income tax of R\$ 5,810 thousand (December 31, 2017 - R\$ 6,109 thousand), calculated at the rate of 15%. This amount was determined based on the legal limits in force and classified in the group's official records as "Other Operating Expenses".

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

Interest on equity proposed at the end of the year 2018 reduced tax burden by R\$ 17,429 thousand (December 31, 2017 - R\$ 18,328 thousand).

**(f) Carrying value adjustments**

For the year ended December 31, 2018, the carrying value adjustments are comprised by the market adjustment variation of the securities held for sale in the amount of (R\$ 87 thousand) (December 31, 2017 - R\$ 142 thousand), by the variation of the cash flow hedges in the amount of R\$ 0 thousand (December 31, 2017 - (R\$ 1,491 thousand)), by the variation of foreign investments hedging instruments in the amount of (R\$ 5,884 thousand) (December 31, 2017 - (R\$ 471 thousand)), by the foreign exchange variation in investment abroad in the amount of R\$ 5,884 thousand (December 31, 2017 - R\$ 465 thousand), net of tax effects.

## Notes to the financial statements as at December 31, 2018 and 2017

### 16. Equity (Continued)

#### (g) Dividends

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

	In R\$ thousand	
	Prudential Conglomerate	
	12/31/2018	12/31/2017
Net income - Banco BBM S.A.	63,660	43,355
(-) Legal reserve	(3,183)	(2,168)
Calculation basis	<b>60,477</b>	<b>41,187</b>
Minimum mandatory dividends (a)	25%	25%
	<b>15,119</b>	<b>10,297</b>
Interest on own capital (b)	38,730	40,728
Total	<b>38,730</b>	<b>40,728</b>

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

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

**Notes to the financial statements as at December 31, 2018 and 2017**
**17. Financial Intermediation Expenses and Foreign Exchange Gains (Losses)**

In R\$ thousand			
Prudential Conglomerate			
	Second Half of 2018	12/31/2018	12/31/2017
<b>Open market funding</b>			
Financial Bills	(55,413)	(105,263)	(78,347)
Agriculture Credit Bills	(38,252)	(77,031)	(82,241)
Expenses with securities abroad	(13,651)	(41,068)	(6,962)
Time deposits	(20,277)	(36,513)	(67,567)
Repurchase agreements	(3,660)	(6,880)	(38,985)
Real Estate Credit Bills	(2,856)	(4,931)	(3,911)
Credit Guarantee Fund	(1,162)	(2,437)	(2,591)
Interbank deposits	(124)	(504)	(4,711)
Deposits Previous Notice	(87)	(169)	(34)
Foreign exchange variation (a)	12,305	12,305	5,630
	<b>(123,177)</b>	<b>(262,491)</b>	<b>(279,719)</b>
<b>Loans, assignments and onlending operations</b>			
Loan expenses abroad	(18,511)	(12,182)	(31,462)
Foreign exchange variation (a)	(208)	(68,817)	(21,011)
Other expenses	(311)	(379)	(29)
	<b>(19,030)</b>	<b>(81,378)</b>	<b>(52,502)</b>
<b>Foreign exchange transactions</b>			
Foreign exchange variations and interest differences	17,230	39,578	40,778
Revenue from Advances on Exchange Contracts (AC	13,252	109,493	17,878
Other expenses	(318)	(601)	(404)
	<b>30,164</b>	<b>148,470</b>	<b>58,252</b>

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

**Notes to the financial statements as at December 31, 2018 and 2017**
**18. Service Revenue**

	In R\$ thousand		
	Prudential Conglomerate		
	Second Half of 2018	12/31/2018	12/31/2017
<b>Service Revenue</b>			
Structuring Commission	10,147	21,222	10,116
Management and performance fees of investment funds	7,600	14,824	11,289
Guarantees commission and letter of credit	7,316	14,447	9,866
Other services (*)	7,685	14,003	11,819
<b>Total</b>	<b>32,748</b>	<b>64,496</b>	<b>43,090</b>

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

**19. Other Administrative Expenses**

	In R\$ thousand		
	Prudential Conglomerate		
	Second Half of 2018	12/31/2018	12/31/2017
Data processing	(3,669)	(6,763)	(3,601)
Rentals	(3,488)	(6,761)	(6,315)
Third-party services	(2,099)	(4,858)	(4,306)
Travel	(2,689)	(4,838)	(4,009)
Financial system services (a)	(2,535)	(4,574)	(6,920)
Specialized technical services	(2,997)	(4,241)	(2,899)
Fines (b)	(305)	(4,008)	(130)
Other administrative expenses	(1,921)	(3,428)	(4,346)
Amortization and depreciation	(2,178)	(3,242)	(1,729)
Registry	(738)	(3,146)	(3,549)
Communications	(1,648)	(3,134)	(2,434)
Property maintenance and upkeep	(1,921)	(2,788)	(1,551)
Promotion/ Advertising/ Publications	(1,122)	(1,881)	(1,393)
Condominium	(1,042)	(1,824)	(1,485)
Water, energy and gas	(503)	(972)	(845)
Transportation	(316)	(574)	(435)
Material	(90)	(158)	(126)
Surveillance and security services	(13)	(27)	(24)
Insurance	(16)	(20)	(43)
	<b>(29,290)</b>	<b>(57,237)</b>	<b>(46,140)</b>

**(a)** For the year ended December 31, 2018, this includes brokerage expenses, charges and commission related to guarantee transactions and derivative financial instruments of R\$ 1,775 thousand. (December 31, 2017 - R\$ 5,110 thousand).

**(b)** For the year ended December 31, 2018, the amount of R \$ 3,651 thousand, refers to expenses with pre-settlement of the contract with IFC.

**Notes to the financial statements as at December 31, 2018 and 2017**
**20. Related-parties Significant Transactions**

- a) The transactions between related-parties were carried out using the average rates practiced by the market, effective on the operations dates, as follows:

	In R\$ thousand	
	Prudential Conglomerate	
	12/31/2018	12/31/2017
<b>Asset</b>		
<b>Cash and cash equivalents</b>	<b>30</b>	
Bank of Communications Co., Ltd	30	
<b>Liabilities</b>		
<b>Demand deposits</b>	<b>764</b>	<b>4,397</b>
Évora S.A.	64	13
Bahia AM Renda Fixa Ltda	5	
Bahia AM Renda Variável Ltda	5	
Bocom Brazil Holding Company Ltda	301	4,014
Bahia Holding S.A.	6	
Other related individuals/legal entities	383	370
<b>Interbank deposits</b>		<b>5,694</b>
BBM Administração de Recursos DTVM S.A.		5,694
<b>Time deposits</b>	<b>201,462</b>	<b>567,279</b>
Bahia Holding S.A.	69,850	
Évora S.A.	3,219	3,130
Bank of Communications Co., Ltd		431,857
Bahia Fund		132,292
Bocom Brazil Holding Company Ltda	38,516	
Other related individuals/legal entities	89,877	
<b>Repurchase agreements - Debentures</b>	<b>37,256</b>	<b>32,122</b>
Other related individuals/legal entities	37,256	32,122
<b>Agriculture Credit Bills</b>	<b>275,647</b>	<b>294,651</b>
Other related individuals/legal entities	275,647	294,651
<b>Real Estate Credit Bills</b>	<b>67,020</b>	<b>30,417</b>
Other related individuals/legal entities	67,020	30,417
<b>Liabilities on Loans abroad</b>	<b>391,451</b>	<b>340,350</b>
Bank of Communications Co., Ltd	391,451	340,350
<b>Dividends and bonuses payable</b>	<b>16,802</b>	<b>17,484</b>
Interest on capital credited to shareholders	16,802	17,484

**Notes to the financial statements as at December 31, 2018 and 2017**
**20. Related-parties Significant Transactions (Continued)**

	In R\$ thousand		
	Prudential Conglomerate		
	Second Half of 2018	12/31/2018	12/31/2017
<b>Result</b>			
<b>Open market funding</b>	<b>(21,311)</b>	<b>(37,155)</b>	<b>(35,665)</b>
<b>Repurchase agreements - Debentures expenses</b>	<b>(555)</b>	<b>(788)</b>	<b>(738)</b>
Bocom Brazil Holding Company Ltda	(5)	(5)	-
Other related individuals/legal entities	(550)	(783)	(738)
<b>Interbank deposits expenses</b>	<b>-</b>	<b>-</b>	<b>(418)</b>
BBM Administração de Recursos DTVM S.A.	-	-	(418)
<b>Time deposits expenses</b>	<b>(10,772)</b>	<b>(18,787)</b>	<b>(7,420)</b>
Évora S.A.	(94)	(10)	(278)
Bank of Communications Co., Ltd.	(6,108)	(10,677)	(2,009)
Bahia Fund	-	-	(5,133)
Bocom Brazil Holding Company Ltda	(775)	(976)	-
Bahia Holding S.A.	(2,218)	(5,547)	-
Other related individuals/legal entities	(1,577)	(1,577)	-
<b>Financial Bills</b>	<b>-</b>	<b>-</b>	<b>(82)</b>
Other related individuals/legal entities	-	-	(82)
<b>Agriculture credit bills expenses</b>	<b>(8,106)</b>	<b>(14,657)</b>	<b>(22,823)</b>
Other related individuals/legal entities	(8,106)	(14,657)	(22,823)
<b>Real estate credit bills expenses</b>	<b>(1,877)</b>	<b>(2,923)</b>	<b>(2,463)</b>
Other related individuals/legal entities	(1,877)	(2,923)	(2,463)
<b>Loans expenses abroad</b>	<b>(15,780)</b>	<b>(76,259)</b>	<b>(27,963)</b>
Bank of Communications Co., Ltd.	(15,780)	(76,259)	(27,963)
<b>Expenses with banks abroad</b>	<b>(2,238)</b>	<b>(2,238)</b>	<b>(1,252)</b>
BBM Bank Limited	(2,574)	(3,531)	(1,175)
BBM Nassau Branch	336	336	(77)
<b>Expenses with dividends and bonuses</b>	<b>(19,766)</b>	<b>(38,730)</b>	<b>(40,728)</b>
Interest on capital credited to shareholders	(19,766)	(38,730)	(40,728)
<b>Total</b>	<b>(59,095)</b>	<b>(154,382)</b>	<b>(105,608)</b>

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



**Notes to the financial statements as at December 31, 2018 and 2017**
**20. Related-parties Significant Transactions (Continued)**

## b) Key Management Compensation

The total compensation will be calculated as follows:

## I) Fixed and variable compensation

The total compensation of the Participants will be comprised of fixed and variable part. The variable compensation of the Participants will be paid as follows:

- (a) The amount equivalent to, at most, 50% (fifty percent) of the variable compensation will be paid in cash, immediately available for the Participant ("Short-term compensation"); and
- (b) The amount equivalent to, at least, 50% (fifty percent) of the variable compensation will be deferred for payment within 3 (three) years, considering the provisions below ("Deferred Compensation" together with "Short-term Compensation" and "Variable Compensation");

The minimum and maximum amounts of the Variable Compensation of the Participants will be fixed by the Administrative Council of Banco Bocom BBM.

## II) Deferred compensation

The payment of the deferred Compensation will be carried out on a scaled basis, every six months, in shares proportional to the deferral period ("Deferred Compensation Shares"), and all the deferred shares should be updated by the ROE of the Banco Bocom BBM.

ROE, is the profit for the period before tax divided by the Equity at the beginning of the period.

	In R\$ thousand	
	Prudential Conglomerate	
	12/31/2018	12/31/2017
<b>Liabilities</b>		
<b>Statutory</b>	<b>14,329</b>	<b>10,175</b>
Management Variable Compensation - Short Term	5,103	3,878
Deferred Management Variable Compensation - Long Term	9,226	6,297

	In R\$ thousand		
	Prudential Conglomerate		
	Second Half of 2018	12/31/2018	12/31/2017
<b>Result</b>			
<b>Total</b>	<b>(11,287)</b>	<b>(22,911)</b>	<b>(18,489)</b>
Fixed compensation	(5,201)	(10,031)	(8,812)
Variable compensation	(6,086)	(12,880)	(9,677)

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**Notes to the financial statements as at December 31, 2018 and 2017****21. Derivative Financial Instruments**

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

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

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

These transactions are traded, recorded or held on B3. In the Prudential Conglomerate, 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 B3 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 December 31, 2018, the guarantees for the transactions involving derivative financial instruments are represented mainly by government securities in the total amount of R\$ 170,976 thousand (December 31, 2017 - R\$ 166,400 thousand and fund quotas in the total amount of R\$ 9,033 thousand (December 31, 2017 - R\$ 9,000 thousand).

**Notes to the financial statements as at December 31, 2018 and 2017**
**a.) Recorded in offsetting and equity accounts**

The commitments arising from these financial instruments, recorded in offsetting accounts, on December 31, 2018, within maturity up to January 2023 (December 31, 2017 - up to January 2023) are as follows:

	In R\$ thousand					
	Prudential Conglomerate					
	12/31/2018					12/31/2017
	Up to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total	Total
<b>Future market</b>						
Purchased position						
Foreign exchange coupon	1,329,379	5,743	65,994	649,490	2,050,607	1,090,560
Interest rate	27,486	985	16,285	355,682	400,438	258,905
Foreign currency	678,752	-	-	-	678,752	306,701
IPCA	-	-	-	18,673	18,673	16,880
Commodities	-	-	-	-	-	-
Sold position						
Foreign exchange coupon	1,923	1,918	167,761	686,113	857,716	466,809
Interest rate	74,970	51,626	47,657	123,053	297,305	120,557
Foreign currency	445,700	-	-	-	445,700	240,792
IPCA	-	208,695	-	38,929	247,624	398,035
Commodities	-	-	-	-	-	-
<b>Non-deliverable forward - NDF</b>						
Asset position						
Currency	616,482	17,348	17,492	-	651,323	8,245
Liability position						
Currency	475,886	-	50,405	-	526,291	1,506
<b>Swaps</b>						
Asset position						
Interest rate	-	-	187,692	480,826	668,518	5,222
Liability position						
Interest rate	40,518	21,900	424,110	294,224	780,752	8,897

**Notes to the financial statements as at December 31, 2018 and 2017**
**b.) At cost and market value**

	In R\$ thousand						
	Prudential Conglomerate						
	12/31/2018						12/31/2017
	Cost	Market	Up to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total
<b>Future market</b>							
Purchased position	7,824	7,824	7,824	-	-	-	1,673,046
Sold position	539	539	539	-	-	-	1,226,194
<b>Swaps</b>							
Asset position	16,196	20,475	4,668	-	4,857	10,949	5,222
Liability position	42,060	49,324	3,345	657	4,321	41,001	8,897
<b>Non-deliverable forward - NDF</b>							
Asset position	3,283	4,474	2,836	285	1,352	-	8,245
Liability position	3,396	3,405	2,121	-	1,284	-	1,506

**Notes to the financial statements as at December 31, 2018 and 2017**
**c.) Notional value per counterparty**

In R\$ thousand							
Prudential Conglomerate							
12/31/2018							12/31/2017
Financial Institutions	Related-parties	Legal entities	Stock exchanges	Institutional customers	Individuals	Total	Total
<b>Future market</b>							
Purchased position			3,148,470			3,148,470	1,673,046
Sold position			1,848,345			1,848,345	1,226,194
<b>Swaps</b>							
Asset position	-	668,518				668,518	5,222
Liability position	-	780,752				780,752	8,897
<b>Non-deliverable forward - NDF</b>							
Asset position	589,397	57,269			4,658	651,323	8,245
Liability position	396,768	129,272			251	526,291	1,506

## Notes to the financial statements as at December 31, 2018 and 2017

### 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\$ 2,050,607 thousand (December 31, 2017 – purchased foreign exchange coupon (DDI) in the amount of R\$ 180,356 thousand);
- Sold foreign exchange coupon contracts (DDI) in the amount of R\$ 857,716 thousand (December 31, 2017 – sold foreign exchange coupon (DDI) in the amount of R\$ 0 thousand);
- Purchased interest contracts (DI1) in the amount of R\$ 394,038 thousand; (December 31, 2017 – R\$ 4,498 thousand);
- Sold interest contracts (DI1) in the amount of R\$ 297,305 thousand; (December 31, 2017 – R\$ 39,979 thousand);
- Purchased currency contracts (DOL) in the amount of R\$ 678,752 thousand; (December 31, 2017 – Purchased currency contracts (DOL) in the amount of R\$ 1,654 thousand);
- Sold currency contracts (DOL) in the amount of R\$ 445,700 thousand (December 31, 2017 – Sold currency contracts (DOL) in the amount of R\$ 182,767 thousand);
- Purchased currency contracts (DAP) in the amount of R\$ 18,673 thousand; (December 31, 2017 – R\$ 0 thousand);
- Sold currency contracts (DAP) in the amount of R\$ 247,624 thousand (December 31, 2017 – R\$ 0 thousand);

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

	R\$ thousand		
	Prudential Conglomerate		
	Second half of 2018	12/31/2018	12/31/2017
Futures contracts	17,994	48,622	1,836,939
Options contracts	(133)	(31)	(1,852,996)
Swap and term contracts	14,004	6,233	19,999
<b>Total</b>	<b>31,865</b>	<b>54,824</b>	<b>3,942</b>

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**Notes to the financial statements as at December 31, 2018 and 2017****21. Derivative Financial Instruments (Continued)****d.) Hedge Accounting****Fundraising hedge (I)**

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

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

Due to the fact that the hedge object flows, and hedge derivatives results are gathered, the effectiveness of the transaction remained close to 101.07% on December 2017. In 2018, management decided to discontinue this hedge.

**Fundraising Hedge (II)**

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

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

Due to the fact that the hedge object flows, and hedge derivatives results are gathered, the effectiveness of the transaction remained close to 106.10%.

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**Notes to the financial statements as at December 31, 2018 and 2017****21. Derivative Financial Instruments (Continued)****Fundraising Hedge (III)**

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

Due to the fact that the hedge object flows, and hedge derivatives results re gathered, the effectiveness of the transaction remained close to 109.53%.

**Loan Transactions Hedge**

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

Due to the fact that the hedge object flows and hedge derivatives results are gathered, the effectiveness of the transaction remained close to 103.81%.

In November 2018, Banco BOCOM BBM designated a derivative financial instruments portfolio constituted by future contracts in U.S. Dollar and Euro in order to hedge the U.S. Dollar short term interest rate variations. In order to equalize the effects of the marking to market of the derivative financial instruments assigned as hedge, the amount of USD 32,500 thousand from the loan transaction released in August 2017 by Banco BOCOM BBM Nassau Branch, with interest rate fixed in 5.00% p.a., is stated at fair value and also marked to market.

Due to the fact that the hedge object flows and hedge derivatives results are gathered, the effectiveness of the transaction remained close to 89.71%.

**Investment Hedge Abroad**

In September 2016, CMN edited the Resolution No. 4,524, establishing the criteria to record the transactions with financial instruments contracted in order to mitigate the risks associated to the foreign exchange exposure of the investments abroad.

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

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



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**Notes to the financial statements as at December 31, 2018 and 2017****22. Risks Management****Market Risk**

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

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

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

**Liquidity Risk**

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

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

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

## Notes to the financial statements as at December 31, 2018 and 2017

### 22. Risks Management (Continued)

	In R\$ thousand	
	Prudential Conglomerate	
	12/31/2018	12/31/2017
Current assets	3,345,385	2,364,487
Current liabilities	(3,503,090)	(2,539,435)
<b>Working capital, net</b>	<b>(157,705)</b>	<b>(174,948)</b>
Short term securities available for sale presented in long-term receivables	637,810	710,286
	<b>480,105</b>	<b>535,338</b>

#### Credit Risk

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

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**Notes to the financial statements as at December 31, 2018 and 2017****22. Risks Management (Continued)****Operational Risk**

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

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

**Capital Management**

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

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

## Notes to the financial statements as at December 31, 2018 and 2017

### 23. Operating Limits

In October 2013, the new rules related to capital measurement became effective. The financial institutions and similar entities have to maintain minimum equity of 8.625% of their assets, weighted by grades of risk to expositions in gold, foreign exchange and operations subject to the operating risk and to the variations in: foreign exchange, interest rate, price of commodities and price of shares classified as held in portfolio for trade, according to BACEN's rules and instructions. The Prudential Conglomerate of Banco BOCOM BBM is within this operational limit on December 31, 2018.

	In R\$ thousand	
	Prudential Conglomerate	
	12/31/2018	12/31/2017
<b>Reference Equity Level I</b>	<b>576.753</b>	<b>559.804</b>
Ajusted Equity (*)	601.253	576.411
Decrease in intangible / deferred assets according to CMN Resolution No. 4,192	24.500	16.606
<b>Reference Equity (PR)</b>	<b>576.753</b>	<b>559.804</b>
<b>Risk-Weighted Assets (RWA)</b>	<b>344.288</b>	<b>322.429</b>
Portion referring to:		
Credit risk (RWACPAD)	304.769	283.835
Foreign exchange risk (PCAM)	7.563	968
Interest rate risk (RWAMPAD)	1.378	14.055
Operating Risk (RWAOPAD)	30.578	23.571
<b>Margin or Insufficiency Value (PR - RWA)</b>	<b>232.465</b>	<b>237.375</b>
<b>Risk Factor – 8.625% of PR</b>	<b>49.745</b>	<b>51.782</b>
<b>Basel Rate (Risk Factor / RWA)</b>	<b>14,45%</b>	<b>16,06%</b>
RBAN	80.255	72.470
ACP Required	74.845	87.143
<b>Reference Equity Margin + RBAN</b>	<b>77.365</b>	<b>77.762</b>

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

## Notes to the financial statements as at December 31, 2018 and 2017

### 24. Income Tax and Social Contribution

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

	In R\$ thousand	
	Prudential Conglomerate	
	12/31/2018	12/31/2017
<b>Asset credit tax:</b>		
<b>Balance at January 1</b>	<b>76,036</b>	<b>78,076</b>
Constitution (Reversal)		
- With effects in the result	(9,476)	7,020
- With effects in equity		
(Securities held for sale)	3,554	(1,014)
- Credit assignment/ Write-off of tax debits	226	(8,046)
<b>Balance at December 31</b>	<b>70,340</b>	<b>76,036</b>
<b>Provision for deferred taxes: (*)</b>		
<b>Balance at January 1</b>	<b>12,371</b>	<b>11,456</b>
Constitution (Reversal)		
- With effects in the result	8,666	1,002
- With effects in equity		
(Securities held for sale)	(111)	(87)
<b>Balance at December 31</b>	<b>20,926</b>	<b>12,371</b>

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

## Notes to the financial statements as at December 31, 2018 and 2017

### 24. Income Tax and Social Contribution (Continuing)

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

In R\$ thousand		
Prudential Conglomerate		
	12/31/2018	12/31/2017
<b>Asset Tax Credit:</b>		
<b>Temporary differences (a)</b>		
- Provision for loan transactions	37,171	42,550
- Market value adjustment - marketable securities and derivatives	8,623	7,442
- Provisions for Contingencies (Note 25a)	3,595	3,334
- PIS / COFINS (Note 25b)	-	127
- Others	7,617	4,846
<b>Social Contribution Negative Basis</b>	3,958	6,013
<b>Tax loss</b>	9,376	11,724
<b>Total</b>	<b>70,340</b>	<b>76,036</b>
<b>Provision for deferred taxes:</b>		
<b>Temporary differences (a)</b>		
- Market adjustment of securities and derivatives	60	116
- Others	20,866	12,255
<b>Total</b>	<b>20,926</b>	<b>12,371</b>

(a) It is expected that these tax credits will be realized up to the end of 2023 for income tax and social contribution, with a present value of R\$ 27 million and R\$ 16 million, respectively. The social contribution on the tax credits was calculated considering the new effective rate (15%).

In December 2017, Banco BOCOM BBM, Assignor, entered into a credit assignment agreement with the Assignee, BOCOM BBM Corretora de Câmbio e Valores Mobiliários S.A., arising from tax losses and negative basis regularly constituted due to tax assessment of 2013, mainly considering the accounting impact of the adhesion, by the Assignor, to the payment in installments ruled by the Law No. 12,865 of October 9, 2013 and by the PGNF/RFB Joint Ordinance No. 8 of October 18, 2013. With the Provisional Measure No. 783 of May 31, 2017 and the RFB Normative Instruction No. 1,711 of June 16, 2017, which established the Tax Regularization Special Program, to which the Assignee adhered in order to settle the tax debits through the Social Contribution negative basis.

**Notes to the financial statements as at December 31, 2018 and 2017**
**24. Income Tax and Social Contribution (Continuing)**

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

	In R\$ thousand			
	12/31/2018		12/31/2017	
	IRPJ	CSLL	IRPJ	CSLL
<b>Income before taxes</b>	<b>42,686</b>	<b>42,686</b>	<b>12,831</b>	<b>12,831</b>
Bank's net income	63,660	63,660	43,355	43,355
(-) Interest on Bank's Capital	(38,730)	(38,730)	(40,728)	(40,728)
(-/+) Income tax and social contribution	(17,756)	(17,756)	10,204	10,204
<b>Tax rate</b>	<b>25%</b>	<b>20%</b>	<b>25%</b>	<b>20%</b>
<b>Income tax and social contribution</b>				
At tax rate	(10,671)	(8,537)	(3,208)	(2,566)
<b>Permanent additions</b>	<b>53,744</b>	<b>40,865</b>	<b>53,617</b>	<b>43,940</b>
Non-deductible expenses	15,394	2,515	10,391	714
Addition on profit abroad	38,350	38,350	43,227	43,227
<b>Permanent exclusions</b>	<b>44,725</b>	<b>44,725</b>	<b>38,544</b>	<b>38,544</b>
Tax-free revenues	10,648	10,648	32	32
Equity in the result of subsidiaries	34,077	34,077	38,511	38,511
<b>Temporary additions / exclusions</b>	<b>(26,230)</b>	<b>(23,301)</b>	<b>30,880</b>	<b>33,326</b>
<b>Tax basis</b>	<b>25,475</b>	<b>15,524</b>	<b>58,785</b>	<b>51,554</b>
<b>Utilization of tax loss and negative basis</b>	<b>(7,642)</b>	<b>(4,657)</b>	<b>(17,635)</b>	<b>(15,466)</b>
<b>Tax basis with usage of tax loss and negative basis</b>	<b>17,832</b>	<b>10,867</b>	<b>41,149</b>	<b>36,088</b>
<b>Income tax and social contribution (a)</b>	<b>(4,434)</b>	<b>(2,173)</b>	<b>(10,263)</b>	<b>(7,218)</b>
<b>Utilisation of tax incentives and taxes of subsidiaries abroad</b>	<b>219</b>		<b>663</b>	
<b>Income tax and social contribution in the result for the year</b>	<b>(4,215)</b>	<b>(2,173)</b>	<b>(9,600)</b>	<b>(7,218)</b>
DIPJ adjustment	7	10	-	-
Liability deferred taxes	(5,598)	(3,046)	(1,192)	223
<b>Income tax and social contribution in the result for the year - Banco BOCOM BBM</b>	<b>(9,806)</b>	<b>(5,210)</b>	<b>(10,792)</b>	<b>(6,995)</b>
Income tax and social contribution of other institutions of the Prudential Conglomerate	(1,008)	(823)	(20)	(12)
<b>Income tax and social contribution in the result for the year - Prudential Conglomerate</b>	<b>(10,814)</b>	<b>(6,033)</b>	<b>(10,812)</b>	<b>(7,007)</b>

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

## Notes to the financial statements as at December 31, 2018 and 2017

### 25. Provisions and liabilities for legal obligation

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

#### a) Breakdown of provisions

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

		In R\$ thousand	
		Prudential Conglomerate	
		12/31/2018	12/31/2017
Labor		8,325	7,109
Civil		633	464
<b>Total - Provisions for contingencies</b>		<b>8,958</b>	<b>7,573</b>

These provisions are recorded as "Other liabilities - sundry" under Long-term liabilities. During the period ended December 31, 2018, the amount of R\$ 587 thousand was translated and the amount of R\$ 1,972 thousand of the provisions for contingencies was constituted in the Prudential Conglomerate.

#### b) Liabilities for legal obligations

Based on a preliminary injunction issued on April, 2018, Bank BOCOM BBM and BOCOM BBM Corretora de Valores Mobiliários S.A. have ensured the exclusion of ISS (a municipal tax levied on services) from the taxable basis of Social Integration Program Contribution (PIS/Pasep) and Contribution for Social Security Financing as well as the reimbursement of the values already paid along with future compensations whenever applicable. Consequently, Bank BOCOM BBM and BOCOM BBM Corretora de Valores Mobiliários S.A. adjusted the calculation method of aforesaid Social Contribution disregarding the municipal tax from its respective taxable basis and have acknowledged a current liability up to December, 2018, comprehending in "Other Sundry Obligations" under Long-term liabilities, as follows":

		In R\$ thousand	
		Prudential Conglomerate	
		12/31/2018	12/31/2017
Social Integration Program (PIS) and Social Contribution on Revenues (COFINS)		29	-
<b>Total - Liabilities for legal obligations</b>		<b>29</b>	<b>-</b>



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**Notes to the financial statements as at December 31, 2018 and 2017****25. Provisions and liabilities for legal obligation (Continued)****C) BM&F and Bovespa Demutualization**

In December 2013, Banco BOCOM BBM and BOCOM BBM Corretora de Câmbio e Valores Mobiliários S.A. adhered to the program of payment/payment in installments of debts before Federal Revenue Secretariat (SRF), the National Treasury General Attorney's Office (PGFN) and the Brazilian National Social Security Institute (INSS), established by the Law No. 11,941/2009, amended by Law No. 12,865/2013 ("REFIS"), in order to settle the debts discussed in administrative procedures and tax enforcements, enjoying the benefits of decrease of fine and interest related to tax assessment notices issued by the Brazilian Federal Revenue in December 2011, with the purpose of: (i) income tax and social contribution taxation on the reserve of equity securities of BM&F and Bovespa, due to demutualization of the mentioned entities and (ii) PIS and COFINS taxation on the capital gain in the sale of the mentioned securities. It is worth mentioning that only Banco BOCOM BBM adhered to the program for the purpose of PIS and COFINS taxation, remaining the discussion for the company BOCOM BBM Corretora de Câmbio e Valores Mobiliários S.A.

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

**d) Others**

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

**Notes to the financial statements as at December 31, 2018 and 2017**
**26. Allowance for Financial Guarantees**

The Allowance for doubtful in account related with financial guarantees are based on the analysis of operations according to the type of obligation provided, past experience, future expectations and management's risk assessment policy. They are reviewed periodically, as established by CMN Resolution No. 4,512/2016.

	In R\$ thousand	
	Prudential Conglomerate	
	12/31/2018	12/31/2017
<b>Guarantee</b>		
Linked to international trade	3,053	301
Linked to bids, auctions, service render or construction	180,939	146,885
Surety or guarantee in lawsuits and administrative procedures	256,526	165,267
Other sureties	122,068	53,272
<b>Total</b>	<b>562,586</b>	<b>365,725</b>
<b>Changes in allowance for financial guarantees</b>		
<b>Beginning balance</b>	<b>538</b>	<b>14,611</b>
Constitution	15,381	3,700
Reversal (*)	(14,758)	(17,773)
<b>Ending balance</b>	<b>1,161</b>	<b>538</b>

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

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**Notes to the financial statements as at December 31, 2018 and 2017****27. Other information****(a) Compensatory and settlement of obligations arrangement**

Banco BOCOM BBM has a compensatory and settlement of obligations arrangement within the scope of the National Financial System, according to CMN Resolution No. 3,263/05, resulting in more guarantee to settle its debits with financial institutions with which it has this kind of arrangement. On December 31, 2018, the total assets mitigated by compensatory arrangement was of R\$ 810,442 thousand (December 31, 2017 - R\$ 518,613 thousand).

**(b) Result for future years**

Result for future years refers mainly to the earnings of guarantees granted (Note 7(b)) and its increase in the period ended December 31, 2018 is aligned with the variation of the guarantees.

**(c) Marketable Securities Portfolio**

On February 26, 2018, based on the Resolution No. 3,181 of the Central Bank of Brazil, considering the positive incline of the government bonds nominal rates, mainly that the nominal rate of the NTN-F 01/2023 was around 80 basis points higher than NTN-F 01/2021, that the nominal rate of the NTN-F 01/2023 was around 9.16% and that for our budget and business plan for the next years, it is important to be able to foresee and to avoid decrease in the revenues, the Executive Board of Banco BOCOM BBM unanimously approved to begin the process to increase the nominal securities portfolio held to maturity, selling R\$ 316,003,385.10 in NTN-F 01/2021 and purchasing R\$ 316,040,126.10 in NTN-F 01/2023, which had an effect of R\$ 10,580 thousand in the result, registered in "Income from marketable securities transactions".

At the end of the period, Banco BOCOM BBM had R\$ 602,484 thousand in marketable securities classified as "held to maturity", according to Circular Letter No. 3,068 of Central Bank of Brazil. Banco BOCOM BBM has financial capacity and intention to hold them to maturity.

**28. Subsequent events**

On January 30, 2019, Banco BOCOM BBM raised R\$ 200,000 thousand through the issuance of perpetual and subordinated financial letters, with repurchase option from 5 years on (semiannual windows, upon authorization from the Central Bank of Brazil). On the issuance date, the Bank filled a request with Central Bank, applying to use the issued amount as complementary capital, in order to compose Tier I capital of the institution (request under analysis). It was a private placement within the Bank's shareholders.

\* \* \*

Aline Gomes – Controller  
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