

(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, 2019
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

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, 2019 and the consolidated 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, 2019, 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

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.



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Emphasis of matter

Basis of preparation of the consolidated financial statements of the Prudential Conglomerate

Without modifying our opinion, we draw attention to the Note 2, which discloses that the consolidated financial statements of the Prudential Conglomerate were prepared by management to comply with the requirements of Resolution nº 4,280 of the CMN, and supplementary regulations of BACEN.

Consequently, our report on these consolidated financial statements of the Prudential Conglomerate was prepared exclusively for the compliance with these specific requirements and, accordingly, may not be suitable for another purpose.

Other matters

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 and six-month period ended in December 31, 2019, 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 20, 2020, was unmodified.

Other information accompanying the consolidated financial statements of the Prudential Conglomerate and the independent auditor's report

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 consolidated financial statements of the Prudential Conglomerate 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

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



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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.

Auditor's responsibilities for the audit of the consolidated financial statements of the Prudential Conglomerate

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements of the Prudential Conglomerate, prepared in accordance with Resolution 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




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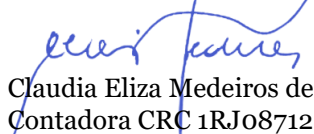
related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as going concerns.

- 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.
- 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 20, 2020


PricewaterhouseCoopers
Auditores Independentes
CRC 2SP000160/O-5


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

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.

Our presence in the local Capital Market has grown with the origin, structuring and distribution of debt instruments (DCM). We aim to present a differentiated funding option to our clients, generating improvements in their debt profiles.

Management Message

The economic perspectives of Brazil passed through many changes in 2019. The approval of a robust Social Security Reform came along with new Reform proposals aiming to address more effectively the historically high obligatory expenditures in the Fiscal Budget. The approval of such measures was postponed to the first half of 2020, as was the Tax Reform, but the country's fiscal and debt perspectives have already materially improved when compared to recent years. This improvement may bring upgrades in the sovereign debt rating throughout this year, although the desired investment grade will still take some more time to be recovered.

Another drive of structural improvement came from monetary policy, with the Selic rate reaching 4.5% in the end of 2019. The improved fiscal perspective mentioned above, the global scenario of low interest rates, higher credibility of the (declining) inflation targets and still high spare capacity opened up space for permanently lower levels of interest rates. We believe the current level, 4.25% p.a. – which the Brazilian Central Bank considers stimulating – will be maintained up to the end of 2020, when the Central Bank will probably start to normalize interest rates towards 6.5% throughout the following year.

The much expected economic recovery seems to be gaining pace, and we expect a GDP growth of 2.1% in 2020, driven by private consumption and investment. We highlight that the current growth cycle is free from any excessive fiscal stimulus, reinforcing the healthier and more durable profile of the cycle. This moderate rate of growth should not pressure inflation over the short and medium term, and we believe that inflation will continue to hover around the inflation target over the next few quarters, consolidating a more predictable and benign scenario for the economy.

Performance of Prudential Conglomerate

The Prudential Conglomerate posted equity of R\$ 653 million and net income of R\$ 89 million on December 31, 2019, which corresponds to annual profitability of 14.11%, calculated based on the average equity for the period.

Total assets at the end of the year amounted to R\$ 8,658 million. The volume raised in the domestic and foreign markets totaled R\$ 6,373 million at the end of the period, an increase of 30% compared to December 31, 2018. The Bank's Basel Capital Adequacy Ratio was 15.10% 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\$ 6,061 million at the end of the year, an increase of 38% when compared to December 31, 2018.

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. Last year, our assets under advisory increased 19%, from R\$ 7,121 million on December 31, 2018 to R\$ 8,459 million on December 31, 2019.

Management's Report

Financial Services

BOCOM BBM offers financial services, including the structuring and distribution of securities, derivative operations and other products. In order to better meet our customers' needs, the continuous increase in the scope of financial services and products is a priority in BOCOM BBM's expansion strategy.

In 2019, the Bank coordinated issuances of R\$ 2,066 million in securities, of which R\$ 1,715 million in Debentures and Promissory Notes and, R\$ 304 million in CRA and R\$ 47 million in CRI. Our coordinated volume of securities has increased to more than 40%, compared to 2018.

People

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

Credit Rating

In the view of Banco BOCOM BBM, the classification of the rating agencies 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 October 17, 2019. On a global scale, "Ba1" rating was assigned to local currency deposits, with a notch above the Brazilian rating ("Ba2"), and "stable perspective". In the national scale, an "Aaa.br" rating was assigned, the best possible credit rating in this category.

In addition, on April 30, 2019, Fitch Ratings assigned the long-term national rating "AAA (bra)", the highest possible rating in this category. On a global scale, long-term issuer default ratings (IDR) "BB" and "BB+" were assigned in foreign currency and local currency, respectively, keeping above the sovereign rating ("BB-"). The perspective for these ratings is stable

Balance sheets

Assets	Note	In R\$ thousand	
		Prudential Conglomerate	
		12/31/2019	12/31/2018
Current assets		4,430,964	3,345,385
Cash and cash equivalents	4	253,443	67,922
Cash		3	3
Free reserves		367	385
Funds in foreign currency		253,073	67,534
Short-term interbank investments	5	1,718,711	1,020,296
Open market investments	4	1,557,483	919,766
Interbank deposits		-	3,466
Investments in foreign currencies	4	161,228	97,064
Marketable securities and derivative financial instruments	6	165,761	188,976
Bank portfolio		18,763	57,378
Subject to repurchase agreements		4,453	1,575
Linked to guarantees given		131,017	108,200
Derivative financial instruments	20	11,528	21,823
Interbank accounts		21,623	1,275
Deposits – Central Bank of Brazil		2,311	1,252
Correspondent banks		19,312	23
Loan transactions	7	1,737,383	1,625,860
Discounted securities and loans		1,035,521	826,588
Financing		515,802	458,727
Rural and agroindustrial financing		206,548	362,837
Allowance for loans		(20,488)	(22,293)
Other receivables		494,874	400,932
Foreign exchange portfolio	8	394,246	333,525
Unearned income		5,404	4,566
Trading and brokerage		2	1,700
Honoured guarantee and surety	7	4,143	-
Sundry	13	59,499	29,755
Tax credits	23	38,877	37,607
Allowance for other receivables	7	(7,297)	(6,221)
Other assets	14	39,169	40,124

The accompanying notes are an integral part of these financial statements

Balance sheets

Assets	Note	In R\$ thousand	
		Prudential Conglomerate	
		12/31/2019	12/31/2018
Noncurrent assets			
Long-term assets		4.197.052	2.935.282
Marketable securities and derivative financial instruments	6	2.029.729	1.251.243
Bank portfolio		542.365	426.135
Linked to repurchase agreements		1.190.562	606.326
Linked to guarantees given		255.193	207.833
Derivative financial instruments	20	41.728	10.949
Provisions for marketable securities		(119)	-
Loan transactions	7	2.069.895	1.594.420
Discounted securities and loans		1.202.559	910.100
Financing		485.905	396.968
Rural and agroindustrial financing		400.071	305.080
Allowance for loans		(18.640)	(17.728)
Other receivables		97.130	89.620
Unearned income		7.472	2.329
Sundry	13	60.243	55.267
Tax credits	23	29.415	32.732
Allowance for other receivables	7	-	(708)
Other assets	14	298	-
Permanent assets		30.383	16.895
Investments		300	172
Other investments		2.928	2.800
Provision for losses		(2.628)	(2.629)
Property and equipment in use		10.937	5.557
Intangible assets		19.146	11.166
Total assets		8.658.400	6.297.562

The accompanying notes are an integral part of these financial statements

Balance sheets

Liabilities	Note	In R\$ thousand	
		Prudential Conglomerate	
		12/31/2019	12/31/2018
Current liabilities		5.600.344	3.503.090
Deposits	9	483.901	404.395
Demand deposits		185.588	115.372
Time deposits	2.1	296.682	286.758
Interbank deposits		1.631	2.265
Repurchase agreements	10	1.696.479	596.084
Bank portfolio		1.196.479	596.084
Third-party portfolio		500.000	-
Funds from acceptance and issue of securities	11	1.345.045	1.697.665
Liabilities from issue of agribusiness credit bills - LCA		659.643	998.810
Liabilities from issue of real estate credit bills - LCI		70.641	57.024
Liabilities from issue of credit bills - LF		614.761	641.831
Interbranch accounts		86.517	79.540
Third-party funds in transit		86.517	79.540
Borrowings	12 and 2.1	1.711.403	609.120
Loans abroad		1.711.403	609.120
Lending Obligations - Official Institutions	12	-	21.040
Other institutions		-	21.040
Derivative financial instruments	6 and 20	39.107	12.266
Derivative financial instruments		39.107	12.266
Other liabilities		237.892	82.980
Collection of similar taxes		457	429
Foreign exchange portfolio	8	81.086	1.750
Social		48.410	-
Statutory		27.507	27.995
Tax and social security		47.569	19.602
Securities trading		11.948	3.694
Allowance for financial guarantees	7 and 25	789	1.030
Sundry		20.126	28.480

The accompanying notes are an integral part of these financial statements

Balance sheets

Liabilities	Note	In R\$ thousand	
		Prudential Conglomerate	
		12/31/2019	12/31/2018
Noncurrent liabilities			
Long-term payables		2.388.962	2.183.103
Deposits	9	376.408	322.530
Time deposits	2.1	376.408	322.435
Interbank deposits		-	95
Funds from acceptance and issue of securities	11	1.367.680	1.240.394
Liabilities from issue of agribusiness credit bills - LCA		454.358	349.176
Liabilities from issue of real estate credit bills - LCI		81.618	38.929
Liabilities from issue of credit bills - LF		626.744	852.289
Liabilities from issue of credit bills subordinated debts		204.960	-
Borrowings	12 and 2.1	542.754	522.103
Loans abroad		542.754	522.103
Derivative financial instruments	6 and 20	52.705	41.001
Derivative financial instruments		52.705	41.001
Other liabilities		49.415	57.075
Social		-	16.802
Statutory		20.645	8.381
Tax and social security		11.532	14.924
Sundry	7 and 25	16.939	16.837
Allowance for financial guarantees		299	131
Deferred income	26 b	15.911	10.122
Equity	15	653.183	601.247
Share Capital		469.300	469.300
Domiciled in Brazil		469.300	469.300
Income reserves		365.072	313.738
Market value adjustment of securities and derivative financial instruments		650	48
Securities held for sale		650	48
Treasury stock		(181.839)	(181.839)
Total liabilities and equity		8.658.400	6.297.562

The accompanying notes are an integral part of these financial statements

Income Statement

		In R\$ thousand		
		Prudential Conglomerate		
	Note	Second half of 2019	12/31/2019	12/31/2018
Financial income		315.394	570.067	583.246
Loan transactions		163.222	321.544	286.497
Income from marketable securities transactions	5 and 6	99.881	185.280	93.455
Result of exchange operations	16	46.525	57.627	148.470
Gain on derivative financial instruments	20	5.766	5.616	54.824
Financial expenses		(178.766)	(324.587)	(372.232)
Market funding operations	16 and 2.1	(124.409)	(241.483)	(251.813)
Loans, assignments and onlending operations	16 and 2.1	(53.207)	(71.024)	(92.056)
Set up of allowance doubtful accounts	7	(1.150)	(11.719)	(28.363)
(Provisions) for marketable securities	6	-	(362)	-
Gross financial income		136.628	245.480	211.014
Other operating income (expenses)		(36.837)	(69.525)	(77.977)
Service revenues	17	44.374	87.859	64.496
Personnel expenses		(38.124)	(75.043)	(70.852)
Other administrative expenses	18	(33.475)	(63.136)	(57.237)
Tax expenses		(11.712)	(22.188)	(15.766)
Other operating income		2.159	3.094	1.678
Other operating expenses		(59)	(111)	(296)
Operating income		99.791	175.955	133.037
Non-operating expenses		(6.110)	(6.422)	(3.860)
Income before income taxes and profit sharing		93.681	169.533	129.177
Income and social contributions taxes	23	(17.003)	(32.651)	(26.323)
Provision for income tax		(5.056)	(16.365)	(10.814)
Provision for social contribution tax		(6.153)	(12.560)	(6.033)
Deferred tax asset/(liabilities)		(5.794)	(3.726)	(9.476)
Profit sharing – management and employees		(26.292)	(48.361)	(39.194)
Net income		50.386	88.521	63.660
Earnings per outstanding share		0,24	0,43	0,31

The accompanying notes are an integral part of these financial statements

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

In R\$ thousand						
Capital	Income reserves		Market value adjustment of securities and derivative instruments	Treasury shares	Retained earnings	Total
	Legal Reserve	Statutory Reserve	Bank			

The accompanying notes are an integral part of these financial statements

Statement of Cash Flow

	Prudential Conglomerate		
	Second half of 2019	12/31/2019	12/31/2018
Cash Flow from Operating Activities		See note 2.1	See note 2.1
Net income	50,386	88,521	63,660
Adjustments to net income:	6,301	26,772	48,447
Allowance for doubtful accounts	1,150	11,719	28,363
Depreciation and amortization	3,110	5,723	3,242
Expenses from civil, labor and tax allowances	196	508	1,972
Deferred income and social contribution taxes	5,794	3,726	9,476
Unrealized gains/losses on marketable securities and derivatives	(4,541)	4,494	3,990
Market value adjustments - marketable securities	592	602	1,404
Adjusted net income	56,687	115,293	112,107
(Increase)/Decrease in short-term interbank investments	3,574	3,466	(208)
(Increase)/Decrease in marketable securities and derivative financial instruments	(404,755)	(721,220)	36,370
(Increase) in interbank and interbranch accounts	(1,064)	(13,371)	(1,753)
(Increase) in loan and lease transactions	(137,164)	(598,716)	(838,646)
(Decrease) in deposits	(870,921)	(1,507,893)	(230,185)
(Increase) in open market funding	1,319,846	1,100,395	492,238
(Increase)/Decrease in securities issue resources	(427,775)	(225,333)	503,683
Increase in borrowings and onlending	1,567,533	2,743,171	458,889
Increase in deferred income	2,861	5,788	1,085
Increase/(Decrease) in other assets	82,615	(104,524)	209,276
Increase in other liabilities	73,563	109,555	18,238
Net cash flow from operating activities	1,208,313	791,318	648,987
Cash flow from investing activities:			
(Increase) in investments	(74)	(128)	(172)
Property and equipment for use and leased acquisition	(9,114)	(19,082)	(12,843)
Net cash used in investing activities	(9,188)	(19,210)	(13,015)
Cash flow from financing activities:			
Dividends and interest on equity paid	-	-	(33,604)
Net cash used in financing activities	-	-	(33,604)
Net increase in cash and cash equivalents	1,255,812	887,401	714,475
At beginning of year/semester	716,340	1,084,752	370,277
At end of the year/semester	1,972,154	1,972,154	1,084,752
Net increase in cash and cash equivalents	1,255,814	887,402	714,475
Non-monetary transaction			
Unpaid Interest on equity	17,956	37,187	38,730

The accompanying notes are an integral part of these financial statements

Notes to the financial statements as at December 31, 2019 and 2018

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 Federal Government's Official Journal by the Central Bank of Brazil.

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

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, of the Brazilian National Monetary Board (CMN) and Circular Letter No. 3,701/2015 of the Central Bank of Brazil (BACEN), which are elaborated based on 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.

2.1 Reclassification of compared balances

In the year ended 2019, the Bank identified some obligations with foreign loan characteristics that were classified at Banco BOCOM BBM S.A. Nassau Branch as time deposits. Thus, for purposes of better presentation and to maintain comparability between the years presented, the Bank reclassified:

* In December 31, 2018 the amount of R\$ 389,261 thousand from the "Time Deposits" account to the "Loans abroad" account, both in current liabilities, and R\$ 126,614 thousand from the "Time Deposits" account under non-current liabilities to the "loans abroad" account also under non-current liabilities. The total amount of R\$ 515,875 affected the respective lines of "Deposits" and "Borrowings and onlendings" in the statements of cash flow from operating activities on December 31, 2018. Additionally, in the statements of income for the year 2018, the amount of R\$ 10,678 thousand was reclassified from the "Market funding operations" account to "Loan, Assignments and Onlendings operations" account.

* In June 30, 2019, the amount of R \$ 1,000,226 thousand from the "Time Deposits" account to the "Loans Abroad" account, both in current liabilities, and R\$ 125,176 thousand from the "Time deposits" account under non-current liabilities to the "loans abroad" account also non-current liabilities. The total amount of R \$ 1,125,402 affected the respective lines of "Deposits" and "Borrowings and onlendings" in the statements of cash flow of operating activities on June 30, 2019. Additionally, in the statements of income for the semester ended June 30, 2019, the amount of R \$ 10,768 thousand was reclassified from the "Market funding operations" account to "Loan, Assignments and Onlendings operations" account.

Notes to the financial statements as at December 31, 2019 and 2018

2.1 Reclassification of compared balances (Continued)

The reclassifications mentioned above refer to contracts signed during 2018 and, therefore, do not affect the opening balances of 2018, which is why the balance sheet with the opening balances has not been resubmitted. The reclassifications have no impact on the Bank's net income and equity, they are not significant compared to the total of its assets and liabilities, as well as they do not affect its main financial indexes and Basel.

2.2 Consolidation

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, 2019 and 2018 of the following institutions:

Banco BOCOM BBM S.A. and Nassau branch

BBM Bank Ltd. (a)

2. Presentation of the Financial Statements and Consolidation Criteria

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)

Tai Yang Fund (a)

- (a) The indirect participation of 100% of Banco BOCOM BBM in the social capital of BBM Bank Ltd., Bahia Fund, Haitan Fund and Tai Yang Fund were eliminated from the Prudential Conglomerate.
- (b) Banco BOCOM BBM directly holds 100% of the capital of these entities. The consolidation of Jiang FIM CPIE 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 Trade Board of the State of São Paulo ("JUCESP - Junta Comercial do Estado de São Paulo").

Notes to the financial statements as at December 31, 2019 and 2018**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.

(f) Income Tax and Social Contribution

The provision for income tax is set up based on the taxable profit, at a 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%.

Notes to the financial statements as at December 31, 2019 and 2018**3. Significant Accounting Practices (Continued)****Income Tax and Social Contribution (Continued)**

The deferred tax assets and liabilities arising from temporary differences were recognized in accordance with CMN Resolutions No. 3,059 issued on December 20, 2002, and 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 of 25% and social contribution rates of 15% and 20%, 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. For 2019, the current rate for CSLL was 15%, however, the deferred active and passive taxes have already been recognized considering the definitive increase in this rate to 20%, after the publication of the Proposal for Amendment to Constitution No. 6, June 2019, which later became the Amendment to Constitution No. 103. It should also be noted that according to EC No. 103, 2019, this increase is definitive and exclusive for banks.

(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 No. 3.566/08 of May 29, 2008, and based on management analysis, if the book value of the assets of the Bank and of others institutions of the Prudential Conglomerate exceed their recoverable value, an impairment is recognized in the income statement.

(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, even if the suits are classified as possible, they may be provided for.

(k) Short-term Interbank Investments

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

Notes to the financial statements as at December 31, 2019 and 2018

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 an offsetting account. The result of the assignment is fully recognized when it is realized. As of January 2012, as determined by CMN Resolutions No. 3,533/2008 and No. 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, limited to the value of the debt.

(o) Hedge Accounting

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

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

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

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

The objectives of the risk management 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 20.

Notes to the financial statements as at December 31, 2019 and 2018

3. Significant Accounting Practices (Continued)

(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	
	12/31/2019	12/31/2018
Interbank investments (a)	1,557,483	919,766
Funds in foreign currency	253,073	67,534
Investments in foreign currencies	161,228	97,064
Free reserves	367	385
Cash	3	3
Total	1,972,154	1,084,752

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

Notes to the financial statements as at December 31, 2019 and 2018

5. Short-term Interbank Investments

Short-term interbank investments are as follows:

	In R\$ thousand	
	Prudential Conglomerate	
	12/31/2019	12/31/2018
Open market investments	1,557,483	919,766
Self-funded position	1,057,483	919,766
National Treasury Bills	723,079	419,618
National Treasury Notes – B series	316,921	500,148
Financial Treasury Bills	17,483	-
Funded Position	500,000	-
National Treasury Bills	440,001	-
National Treasury Notes – B series	59,999	-
Interbank deposits	-	3,466
Investments in foreign currencies (*)	161,228	97,064
	<u>1,718,711</u>	<u>1,020,296</u>
Current assets	1,718,711	1,020,296
Total	<u>1,718,711</u>	<u>1,020,296</u>

(*) The investments in foreign currencies in the Prudential Conglomerate in December 2019 and 2018 basically refer to Overnight operations with first-tier banks.

At December 31, 2019 and 2018, the collateral received through repurchase agreements amounted R\$ 1,571,177 thousand and R\$ 949,518 thousand respectively, in the Prudential Conglomerate. The collateral provided amounted R\$ 1,164,526 thousand and R\$ 525,935 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 2019	12/31/2019	12/31/2018
Open market investments	12,672	23,361	15,394
Investments in foreign currencies	2,935	5,161	5,246
Interbank deposits	94	200	208
Income from marketable securities transactions	<u>15,701</u>	<u>28,722</u>	<u>20,848</u>

Notes to the financial statements as at December 31, 2019 and 2018
6. Marketable Securities and Derivative Financial Instruments

In R\$ thousand				
Prudential Conglomerate				
	Cost	Market	Cost	Market
	31/12/2019		31/12/2018	
I - Marketable securities	2.141.343	2.142.234	1.407.320	1.407.447
Securities for trading (*)	88.013	88.090	115.086	115.112
Own Portfolio	4.227	4.303	36.755	36.781
Fixed income securities	4.227	4.303	36.755	36.781
Financial Treasury Bills	1.853	1.853	2.352	2.352
National Treasury Notes – B series	2.374	2.450	34.403	34.429
Subject to repurchase agreements	94	94		
Financial Treasury Bills	94	94		
Linked to guarantees given	83.692	83.693	78.331	78.331
Financial Treasury Bills	63.860	63.861	60.261	60.261
Fund quotas given as guarantee	19.832	19.832	18.070	18.070
Securities held for sale (*)	1.347.596	1.348.410	689.750	689.851
Bank portfolio	406.385	406.566	335.060	335.102
Fixed-income securities	385.776	385.955	335.060	335.102
Financial Treasury Bills	36.147	36.149	164.609	164.645
National Treasury Bills	934	927		
National Treasury Notes – B series	1.851	1.908	6.357	6.357
Promissory note	101.662	101.686		
Debentures	129.026	129.127	164.094	164.100
CRA	15.441	15.442		
Rural product note	100.715	100.716		
Marketable securities abroad	20.609	20.611		
Other marketable securities abroad	20.609	20.611		
Subject to repurchase agreements	696.432	697.043	181.456	181.511
Financial Treasury Bills	150.022	150.045	85.138	85.166
Debentures	546.410	546.998	96.318	96.345
Linked to guarantees given	244.779	244.801	173.234	173.238
Financial Treasury Bills	244.779	244.801	173.234	173.238
Securities held up to maturity	705.734	705.734	602.484	602.484
Bank portfolio	150.260	150.260	111.630	111.630
Fixed-income securities	68.596	68.596	111.630	111.630
National Treasury Notes – F series	68.596	68.596	111.630	111.630
Marketable securities abroad	81.664	81.664		
Other marketable securities abroad	81.664	81.664		
Subject to repurchase agreements	497.878	497.878	426.390	426.390
National Treasury Notes – F series	497.878	497.878	426.390	426.390
Linked to guarantees given	57.715	57.715	64.464	64.464
National Treasury Notes – F series	57.715	57.715	64.464	64.464
Provision for marketable securities	(119)	(119)		
Other marketable securities abroad	(119)	(119)		
II - Derivative financial instruments	34.804	53.256	27.303	32.772
Swap operations	23.707	41.585	16.196	20.475
Term	9.778	10.352	3.283	4.473
Futures	1.319	1.319	7.824	7.824
Total marketable securities and derivative financial instruments	2.176.147	2.195.490	1.434.623	1.440.219
Segregation of portfolio by maturity range:				
No maturity				
Up to 3 months	138.889	139.722	162.660	162.977
From 3 to 12 months	25.187	26.039	25.070	25.999
Over 12 months	2.012.073	2.029.729	1.246.893	1.251.243
Total	2.176.149	2.195.490	1.434.623	1.440.219

Notes to the financial statements as at December 31, 2019 and 2018
6. Marketable Securities and Derivative Financial Instruments (Continued)

	In R\$ thousand			
	Prudential Conglomerate			
	Cost	Market	Cost	Market
	12/31/2019		12/31/2018	
III-Derivative financial instruments				
Swap Operations	47,955	81,764	42,059	49,323
Term	9,752	532	3,396	3,405
Options	120	334		
Futures	9,182	9,182	539	539
Purchased position	67,009	91,812	45,994	53,267
Segregation by maturity range:				
Up to 3 months	20,365	30,645	6,053	6,005
From 3 to 12 months	7,194	8,462	5,439	6,261
Over 12 months	39,450	52,705	34,502	41,001
Total	67,009	91,812	45,994	53,267

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

	In R\$ thousand		
	Prudential Conglomerate		
	Second half of 2019	12/31/2019	12/31/2018
Investment funds quotas	(395)	168	915
Government bonds	54,168	107,290	52,657
Private securities	30,407	49,100	19,035
Income from marketable securities	84,180	156,558	72,607
	In R\$ thousand		
	Prudential Conglomerate		
	Second half of 2019	12/31/2019	12/31/2018
Provision for marketable securities		(362)	-
Result of provision for marketable securities		(362)	-

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, on December 31, 2019, amount to R\$ 65,484 thousand in the Prudential Conglomerate (December 31, 2018 - R\$ 64,872 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\$ 1,198,619 thousand on December 31, 2019 (December 31, 2018 - R\$ 637,810 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 21 - Liquidity risk.

There was no transfers between securities categories on December 31, 2019.

Notes to the financial statements as at December 31, 2019 and 2018
7. Loan Transactions, Sureties and honored 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				
	31/12/2019		31/12/2018	
Sugar and Ethanol	900,887	17.38%	670,063	16.16%
Agriculture	522,318	10.08%	428,289	10.33%
Building and Real State	444,732	8.58%	307,580	7.42%
Banks and Insurers	304,096	5.87%	-	-
Specialized Services	249,701	4.82%	208,005	5.02%
Civil aviation	248,655	4.80%	85,423	2.06%
Retail Market	203,305	3.92%	243,640	5.87%
Utilities Energy	162,198	3.13%	197,149	4.75%
Foods - Sundry	153,641	2.96%	247,571	5.97%
Pharmaceutics	142,395	2.75%	106,495	2.57%
Vehicles and parts	136,199	2.63%	-	-
Heavy Construction	125,454	2.42%	-	-
Diversified Holdings	121,531	2.35%	78,769	1.90%
Meat Industry	121,169	2.34%	56,595	1.36%
Transportation and Logistics	120,726	2.33%	144,437	3.48%
Construction Material	103,425	2.00%	95,035	2.29%
Capital Goods	102,571	1.98%	152,127	3.67%
Chemical and Petrochemical	77,595	1.50%	98,508	2.38%
Textile and Leathers	67,504	1.30%	124,401	3.00%
Others (*)	289,326	5.58%	358,448	8.64%
Private sector	4,597,428	89%	3,602,535	87%
Utilities Energy	279,122	5.39%	109,483	2.64%
Oil & Gas	158,247	3.05%	135,808	3.27%
Banks and Insurers	75,050	1.45%	-	0.00%
Public	72,506	1.40%	216,097	5.21%
Water and Sanitation Concessions	-	-	50,201	1.21%
Others (*)	-	-	32,973	0.80%
Public Sector	584,925	11%	544,562	13%
Total	5,182,353	100%	4,147,097	100%

(*) 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, 2019 and 2018.

Notes to the financial statements as at December 31, 2019 and 2018
7. Loan Transactions, Sureties and honored Guarantees (Continued)

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

	In R\$ thousand	
	Prudential Conglomerate	
	12/31/2019	12/31/2018
Current assets		
Loan transactions	1,757,871	1,648,152
Private sector	1,642,630	1,500,947
Public sector	115,241	147,205
Other receivables	16,398	14,602
Foreign exchange portfolio – receivables (a)	9,254	9,537
Securities and credits receivable (b)	7,144	5,065
Noncurrent assets		
Loan transactions	2,088,535	1,612,148
Private sector	2,011,404	1,387,046
Public sector	77,131	225,102
Other receivables	-	2,361
Securities and credits receivable (b)	-	2,361
Current liabilities		
Other liabilities	303,671	307,009
Foreign exchange portfolio - Advances on exchange contracts (a)	303,671	307,009
Subtotal	4,166,475	3,584,272
Co-obligations and risks in guarantees provided (c)	1,015,878	562,825
Total	5,182,353	4,147,097

- (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) Refers to the honorable guarantee portfolio. Registered in “Other credits” accounts.
- (c) These refer to guarantees granted through sureties and guarantees. The granted guarantees are recorded in offsetting accounts and the respective earnings are classified as Results for Future Years and appropriated to the result according to the guarantees’ contractual terms. The Bank also includes guarantees provided for BBM Bank Limited's credit operations, which are eliminated in the Prudential Conglomerate

Notes to the financial statements as at December 31, 2019 and 2018

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

The provision for loan transactions was calculated according to the criteria established by the CMN Resolutions No. 2,682 and No. 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													
12/31/2019										12/31/2018			
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	Allowance	Total	Allowance
AA	11,910	-	-	-	-	570,833	459,659	584,890	1,052,285	2,679,577	-	1,720,326	-
A	3,621	-	-	-	-	202,232	169,188	399,473	815,191	1,589,705	7,949	1,547,894	7,739
B	319	-	-	-	-	86,105	182,121	177,195	282,721	728,461	7,285	711,440	7,114
C	1,193	1,156	-	-	-	17,459	15,389	44,322	55,354	134,873	4,046	129,585	3,888
D	-	-	-	-	-	-	-	-	-	-	-	-	-
E	-	9,789	-	-	-	-	-	3,105	16,111	29,005	8,701	4,722	1,417
F	-	-	-	-	-	-	-	-	-	-	-	-	-
G	-	4,144	-	-	-	98	-	-	6,520	10,762	9,562	20,814	15,637
H	-	-	-	-	9,970	-	-	-	-	9,970	9,970	12,316	12,316
Total	17,043	15,089	-	-	9,970	876,727	826,357	1,208,985	2,228,182	5,182,353	47,513	4,147,097	48,111

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

In R\$ thousand		
	12/31/2019	12/31/2018
Allowance for loan losses	39,128	40,021
Current assets	20,488	22,293
Noncurrent assets	18,640	17,728
Provision for other credits	7,297	6,929
Securities and credits receivable	5,096	4,113
Current assets	5,096	3,405
Noncurrent assets	-	708
Provision for advances on exchange contracts	2,201	2,816
Current assets	2,201	2,816
Provision for co-obligations and risks in guarantees provided (*)	1,088	1,161
Current Liability	789	1,030
Noncurrent Liability	299	131
Total	47,513	48,111

Notes to the financial statements as at December 31, 2019 and 2018

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

Changes in allowances are as follows:

	In R\$ thousand	
	12/31/2019	12/31/2018
Balance at January 1	48,111	79,976
Set up / (reversal)	11,719	28,363
Write-offs to loss	(12,317)	(60,228)
Total	47,513	48,111

For the year ended December 31, 2019, loan transactions were renegotiated in the Prudential Conglomerate in the amount of R\$ 27,684 thousand. (In the year ended December 31, 2018 – R\$ 13.691)

For the year ended December 31, 2019, there was a recovery of losses on loan transactions in the amount of R\$ 295 thousand (for the year ended December 31, 2018 - R\$ 10,952 thousand).

The breakdown of sales or transfers of assets without the substantial retention of risks and rewards in the periods ended December 31, 2019 and 2018 was as follows:

	In R\$ thousand	
	12/31/2019	12/31/2018
Number of contracts	-	5
Assignment amount	-	3,556
Provision net book value	-	4,333
Revenue from assignments	-	(777)

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

	In R\$ thousand			
	12/31/2019	%	12/31/2018	%
Top debtor	279,122	5.4%	135,808	3.3%
Top 10 debtors	1,191,935	23.0%	1,039,004	25.1%
Top 20 debtors	1,850,254	35.7%	1,604,590	38.7%
Top 50 debtors	3,018,569	58.2%	2,618,125	63.1%
Top 100 debtors	4,186,467	80.8%	3,478,539	83.9%

Notes to the financial statements as at December 31, 2019 and 2018

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

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

	In R\$ thousand	
	12/31/2019	12/31/2018
Working capital	2,565,758	1,718,898
Co-obligations and risks in guarantees provided	1,015,878	562,825
Export credit notes	778,891	740,750
Trade Finance	724,838	379,239
Others	96,988	745,385
Total	5,182,353	4,147,097

8. Foreign Exchange Portfolio

	In R\$ thousand	
	12/31/2019	12/31/2018
Other receivables – Foreign exchange portfolio		
Foreign exchange purchases pending settlement	384,562	322,914
Income receivable from advances granted (a)	9,254	9,537
Rights on foreign exchange sales	627	1,074
(-) Advances in National Currency Received	(197)	-
Total	394,246	333,525
Other payables – Foreign exchange portfolio		
Exchange purchase obligations	384,136	307,689
Foreign exchange sales pending settlement	620	1,070
Advances on foreign exchange contracts granted (a)	(303,671)	(307,009)
Total	81,085	1,750

(a) See Note 7.

On December 31, 2019, there were federal government securities deposited securing foreign exchange transactions with B3 in the amount of R\$ 51,703 thousand (December 31, 2018 – R\$ 66,525 thousand).

Notes to the financial statements as at December 31, 2019 and 2018
9. Deposits

Maturity range	In R\$ thousand			
	Time deposits	Interbank deposits	Total 12/31/2019	Total 12/31/2018
				See note 2.1
Within 1 month	5,304		5,304	48,540
From 1 to 3 months	55,733	103	55,836	134,608
From 3 to 6 months	107,340		107,340	33,640
From 6 to 12 months	128,305	1,528	129,833	72,235
More than 12 month	376,408		376,408	322,530
Subtotal	673,090	1,631	674,721	611,553
Demand deposits			185,588	115,372
Total			860,309	726,925

The average term of interbank and time deposits, for outstanding transactions at December 31, 2019 is 458 days and 839 days (December 31, 2018 - 802 and 504 days), respectively.

Maturities upon issuance	In R\$ thousand			
	Time deposits	Interbank deposits	Total 12/31/2019	Total 12/31/2018
				See note 2.1
Within 1 month	5,294		5,294	2,543
From 1 to 3 months	9		9	5,884
From 3 to 6 months	144,290		144,290	118,821
From 6 to 12 months	63,433		63,433	75,418
More than 12 months	460,064	1,631	461,695	408,886
Subtotal	673,090	1,631	674,721	611,553
Demand deposits			185,588	115,372
Total			860,309	726,925

Notes to the financial statements as at December 31, 2019 and 2018
9. Deposits (Continued)

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

In R\$ thousand										
Demand deposits			Time deposits		Interbank deposits		Total			
12/31/2019	12/31/2018		12/31/2019	12/31/2018	12/31/2019	12/31/2018	12/31/2019		12/31/2018	
				See note 2.1						See note 2.1
Legal entities	164,741	97,085	421,297	255,201	-	-	586,038	68.12%	352,286	48.46%
Institutional customers	8	4	-	-	1,528	1,619	1,536	0.18%	1,623	0.22%
Group	1,392	397	169,060	201,462	-	-	170,452	19.81%	201,859	27.77%
Financial institutions	-	-	80,877	151,599	103	741	80,980	9.41%	152,341	20.96%
Individuals	19,447	17,886	1,856	931	-	-	21,303	2.48%	18,816	2.59%
Total	185,588	115,372	673,090	609,193	1,631	2,360	860,309	100%	726,925	100%

In R\$ thousand					
31/12/2019			31/12/2018		
Top depositor	82,491	9.59%	97,754	13.45%	
Top 10 depositors	451,594	52.49%	508,386	69.94%	
Top 20 depositors	612,489	71.19%	576,252	79.27%	
Top 50 depositors	769,152	89.40%	676,050	93.00%	
Top 100 depositors	832,462	96.76%	720,655	99.14%	

10. Repurchase Agreements

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

In R\$ thousand		
Prudential Conglomerate		
	12/31/2019	12/31/2018
Own Portfolio	1,196,479	596,084
Debentures	546,434	95,970
National Treasury Notes – F series	500,050	415,093
Financial Treasury Bills	149,995	85,021
Third-party Portfolio	500,000	-
National Treasury Bills	440,076	-
(-) Expenses to be allocated - LTN	(75)	-
National Treasury Notes – B series	60,009	-
(-) Expenses to be allocated - NTN-B	(10)	-
	1,696,479	596,084

Notes to the financial statements as at December 31, 2019 and 2018

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

On December 31, 2019 and 2018, fundraising through Agribusiness Credit Bills (LCA), Housing Credit Bills (LCI), Financial Bills (LF) and Financial Bills – Subordinated Debt were segregated by maturity range as follows:

In R\$ thousand								
Prudential Conglomerate								
	LCA (a)		LCI (b)		LF (c)		LF - Subordinated debt (d)	
Maturity	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Within 1 month	76,735	130,051	-	7,423	69,947	87,430	-	-
From 1 to 3 months	121,343	181,844	161	30,810	179,937	138,085	-	-
From 2 to 6 months	242,093	299,185	10,256	5,135	225,166	77,601	-	-
From 6 to 12 months	219,472	387,730	60,224	13,656	139,711	338,715	-	-
More than 12 month:	454,358	349,176	81,618	38,929	626,744	852,289	204,960	-
Total	1,114,001	1,347,986	152,259	95,953	1,241,505	1,494,120	204,960	-

- (a) Agribusiness Credit Bills (LCA) are issued by the Bank and registered with the B3, according to Laws No. 11,076/2004 and 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 (LF) 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).
- (d) Financial Bill (LF) - Subordinated Debt has a perpetual term and a repurchase option starting within 5 with semiannual windows. The Bank uses the amount raised as complementary capital in order to compose the institution's Level I capital. The issue was private and carried out with the Bank's shareholder base.

12. Borrowings and onlendings

a) Borrowings abroad

Borrowings abroad in the Prudential Conglomerate are as follows:

In R\$ thousand		
Prudential Conglomerate		
	12/31/2019	12/31/2018
	See note 2.1	
Obligations with borrowings abroad (*)	1,972,882	911,364
Export credit facility	280,635	203,217
Import credit facility	640	16,642
	2,254,157	1,131,223
Current liabilities	1,711,403	609,120
Long-term payables	542,754	522,103
	2,254,157	1,131,223

(*) The amount of R\$ 1.972.882 thousand on December 31, 2019, (December 31,2018 – R\$911.364 thousand) classified as Borrowings Abroad, refers to the fundraising in U.S. dollars with Bank of Communications with final maturity until September 2022.

Notes to the financial statements as at December 31, 2019 and 2018

12. Borrowings and onlendings (Continued)

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						
	12/31/2019						12/31/2018
	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	-	-	-	-	-	-	1,512
Funcafé - Working capital	-	-	-	-	-	-	19,528
Total	-	-	-	-	-	-	21,040

13. Other Receivables/ Sundry

	In R\$ thousand	
	Prudential Conglomerate	
	12/31/2019	12/31/2018
Sundry		
Debtors Deposits on warranty	52,583	51,904
Taxes and contributions to offset	35,081	18,341
Sundry debtors – foreign	23,946	2,433
Sundry debtors – domestic	4,382	4,626
Securities and credits receivable (*)	3,000	7,426
Advances – Salaries and constructions	750	292
	119,742	85,022
Current Asset	59,499	29,755
Long-term Asset	60,243	55,267
	119,742	85,022

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

Notes to the financial statements as at December 31, 2019 and 2018
14. Other Values and Assets

In R\$ thousand		
Prudential Conglomerate		
	12/31/2019	12/31/2018
Other Values and Goods		
Properties	37.743	40.020
Others	1.725	104
	39.468	40.124
Current asset (a)	39.169	40.124
Long-term Assets	298	-
	39.468	40.124

(a) In December 31, 2019 the amount of R\$ 37,743 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, limited to the value of debt.

15. 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

As of December 31, 2019, the Bank BOCOM BBM has 76,296,769 shares to be held in treasury in the amount of R\$ 181,839 thousand.

(e) Interest on Capital

According to article 9 of Law No. 9,249/95 and its subsequent amendments, Banco BOCOM BBM S.A., at the end of 2019, declared interest on capital of R\$ 37,187 thousand (December 31, 2018 - R\$ 38,730 thousand), with withholding income tax of R\$ 5,578 thousand (December 31, 2018 - R\$ 5,810 thousand), calculated at the rate of 15%. This amount was determined based on the legal limits in force.

For the purposes of preparing the statement of income, as established by BACEN Resolution No. 4,706 of 12/19/2018, Banco BOCOM BBM SA recognized as other obligations, in counterpart for the appropriate retained earnings account, the declared capital remuneration set by the obligation at the balance sheet date. Interest on equity proposed at the end of the year 2019 reduced tax charge by R\$ 14,875 thousand (December 31, 2018 - R\$ 17,429 thousand).

Notes to the financial statements as at December 31, 2019 and 2018

15. Equity (Continued)

(f) Carrying value adjustments

For the year ended December 31, 2019, the carrying value adjustments are comprised by the market adjustment variation of the securities held for sale in the amount of R\$ 602 thousand (December 31, 2018 - R\$ 87 thousand), by the variation of foreign investments hedge instruments in the amount of R\$ 2,275 thousand (December 31, 2018 -R\$ 5,884 thousand), by the foreign exchange variation in investment abroad in the amount of R\$ 2,282 thousand (December 31, 2018 - R\$ 5,884 thousand), net of tax effects.

(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	
	12/31/2019	12/31/2018
Net income - Banco BBM S.A.	88,521	63,660
(-) Legal reserve	(4,426)	(3,183)
Calculation basis	84,095	60,477
Minimum mandatory dividends (a)	25%	25%
	21,024	15,119
Interest on own capital (b)	37,187	38,730
Total	37,187	38,730

(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, 2019 and 2018
16. Financial intermediation expenses, result of foreign exchange operations, loans, assignments and transfers

In R\$ thousand		
Prudential Conglomerate		
Second Half of 2019	12/31/2019	12/31/2018
		See note 2.1

Open market funding

Financial Bills	(52.577)	(115.000)	(105.263)
Agriculture Credit Bills	(36.327)	(76.590)	(77.031)
Time deposits	(12.273)	(27.068)	(25.835)
Expenses with securities abroad	(21.292)	(21.292)	(41.068)
Repurchase agreements	(8.558)	(12.116)	(6.880)
Real Estate Credit Bills	(2.158)	(4.490)	(4.931)
Credit Guarantee Fund	(1.447)	(2.463)	(2.437)
Interbank deposits	(41)	(113)	(504)
Deposits Previous Notice	(23)	(52)	(169)
Foreign exchange variation (a)	10.287	17.701	12.305
	(124.409)	(241.483)	(251.813)

Loans, assignments and onlending operations

Loan expenses abroad	(27.665)	(54.563)	(22.860)
Foreign exchange variation (a)	(25.415)	(15.997)	(68.817)
Other expenses	(127)	(464)	(379)
	(53.207)	(71.024)	(92.056)

Foreign exchange transactions

Foreign exchange variations and interest differences	30.992	27.995	109.493
Revenue from Advances on Exchange Contracts (ACC)	15.787	30.061	39.578
Other expenses	(254)	(429)	(601)
	46.525	57.627	148.470

(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, 2019 and 2018
17. Service Revenue

	In R\$ thousand		
	Prudential Conglomerate		
	Second Half of 2019	12/31/2019	12/31/2018
Service Revenue			
Management and performance fees of investment funds	15,265	27,004	14,824
Bank fee income	10,342	20,033	10,663
Structuring Commission	8,588	21,514	21,222
Guarantees commission and letter of credit	8,391	15,639	14,447
Other services	1,788	3,669	3,340
Total	44,374	87,859	64,496

18. Other Administrative Expenses

	In R\$ thousand		
	Prudential Conglomerate		
	Second Half of 2019	12/31/2019	12/31/2018
Data processing	(5,520)	(9,871)	(6,763)
Specialized technical services	(4,119)	(7,347)	(4,241)
Rentals	(3,266)	(6,717)	(6,761)
Amortization and depreciation	(3,110)	(5,723)	(3,242)
Travel	(2,692)	(5,151)	(4,838)
Financial system services (a)	(2,280)	(4,928)	(4,574)
Third-party services	(2,611)	(4,371)	(4,858)
Communications	(1,853)	(3,550)	(3,134)
Property maintenance and upkeep	(1,041)	(2,451)	(2,788)
Registry	(655)	(2,049)	(3,146)
Condominium	(1,003)	(2,012)	(1,824)
Promotion/ Advertising/ Publications	(980)	(1,492)	(1,881)
Water, energy and gas	(513)	(1,023)	(972)
Transportation	(395)	(740)	(574)
Surveillance and security services	(283)	(291)	(27)
Material	(110)	(217)	(158)
Fines (b)	(132)	(150)	(4,008)
Insurance	(9)	(30)	(20)
Other administrative expenses	(2,903)	(5,023)	(3,428)
	(33,475)	(63,136)	(57,237)

(a) For the year ended December 31, 2019, this includes brokerage expenses, charges and commission related to guarantee transactions and derivative financial instruments of R\$ 1,449 thousand. (December 31, 2018 - R\$ 1,775 thousand).

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

Notes to the financial statements as at December 31, 2019 and 2018

19. 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	
	12/31/2019	12/31/2018
		See note 2.1
Asset		
Cash and cash equivalents	29	30
Bank of Communications Co., Ltd	29	30
Derivative financial instruments	25,785	-
Bocom Brazil Holding Company Ltda	25,785	-
Liabilities		
Demand deposits	1,393	764
Évora S.A.	38	64
Bahia AM Renda Fixa Ltda	5	5
Bahia AM Renda Variável Ltda	5	5
Bocom Brazil Holding Company Ltda	290	301
Bahia Holding S.A.	1	6
Other related individuals/legal entities	1,054	383
Time deposits	169,060	201,462
Bahia Holding S.A.	55,042	69,850
Évora S.A.	3,406	3,219
Bocom Brazil Holding Company Ltda	28,122	38,516
Other related individuals/legal entities	82,490	89,877
Repurchase agreements - Debentures	50,896	37,256
Other related individuals/legal entities	50,896	37,256
Agriculture Credit Bills	260,869	275,647
Other related individuals/legal entities	260,869	275,647
Real Estate Credit Bills	99,298	67,020
Other related individuals/legal entities	99,298	67,020
Obligations for Securities Abroad		
Derivative Financial Instruments	10,075	-
Bocom Brazil Holding Company Ltda	10,075	-
Subordinated debt	204,960	-
Bocom Brazil Holding Company Ltda	164,609	-
Other related individuals/legal entities	40,351	-
Liabilities on Loans abroad	1,972,882	907,326
Bank of Communications Co., Ltd	574,645	907,326
Bocom Macau	11,746	-
Bank of Communications - GMC	1,386,491	-
Dividends and Bonuses payable	48,410	16,802
Interest on capital credited to shareholders	48,410	16,802

Notes to the financial statements as at December 31, 2019 and 2018
19. Related-parties Significant Transactions (Continued)

	In R\$ thousand		
	Prudential Conglomerate		
	Second Half of 2019	12/31/2019	12/31/2018
			See note 2.1
Result			
Income from investments abroad			
Expenses with banks abroad			
Result with derivative financial instruments	(4,517)	(5,802)	-
Bocom Brazil Holding Company Ltda	(4,517)	(5,808)	-
Other relates individual/legal entities	-	6	-
Open market funding	(21,209)	(53,261)	(37,155)
Time deposits expenses	(3,977)	(19,487)	(18,787)
Évora S.A.	(90)	(187)	(10)
Bank of Communications Co., Ltd.		(10,768)	(10,677)
Bocom Brazil Holding Company Ltda	(769)	(1,769)	(976)
Bahia Holding S.A.	(940)	(2,071)	(5,547)
Other related individuals/legal entities	(2,178)	(4,692)	(1,577)
Repurchase agreements - Debentures expenses	(1,283)	(1,855)	(788)
Bocom Brazil Holding Company Ltda	-	-	(5)
Other related individuals/legal entities	(1,283)	(1,855)	(783)
Agriculture credit bills expenses	(7,825)	(16,151)	(14,657)
Other related individuals/legal entities	(7,825)	(16,151)	(14,657)
Real estate credit bills expenses	(1,974)	(3,979)	(2,923)
Other related individuals/legal entities	(1,974)	(3,979)	(2,923)
Expenses with banks abroad	-	-	(3,195)
BBM Bank Limited	-	-	(3,531)
BBM Nassau Branch	-	-	336
Subordinated debt	(6,150)	(11,789)	-
Bocom Brazil Holding Company Ltda	(4,940)	(9,469)	-
Other related individuals/legal entities	(1,210)	(2,320)	-
Loans expenses abroad	(36,737)	(45,060)	(86,936)
Bank of Communications Co., Ltd.	(36,737)	(45,060)	(86,936)
Other operational income	-	-	-
Expenses with dividends and bonuses	(17,956)	(37,187)	(38,730)
Interest on equity	(17,956)	(37,187)	(38,730)
Total	(80,419)	(141,309)	(166,016)

Notes to the financial statements as at December 31, 2019 and 2018

19. 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. It is currently under analysis the adoption of repurchased agreements with sovereign bonds to formalize the payment of Deferred Compensation as of next semester (ending in June 30th, 2020).

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

	In R\$ thousand		
	Prudential Conglomerate		
	12/31/2019	12/31/2018	
Liabilities			
Statutory	21,814	14,329	
Management Variable Compensation - Short Term	7,952	5,103	
Deferred Management Variable Compensation - Long Term	13,862	9,226	
	In R\$ thousand		
	Prudential Conglomerate		
	Second half of 2019	12/31/2019	12/31/2018
Result	(15,396)	(27,912)	(22,911)
Fixed compensation	(4,604)	(9,235)	(10,031)
Variable compensation	(10,792)	(18,677)	(12,880)

In November 2019, Banco BOCOM BBM SA received assessments from the Federal Revenue of Brazil with the purpose of: (i) Social security contributions allegedly due on PLR (Profit Sharing or Results) in the amount of \$ 5.5 Million and (ii) social security contributions allegedly due on food in the amount of R \$ 1.1 Million, both correspond to payments made in 2015. The Bank discusses the assessments at the administrative level. In the opinion of our legal advisors, the chances of loss in these cases are possible.

Notes to the financial statements as at December 31, 2019 and 2018**20. Derivative Financial Instruments (Continued)**

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, 2019, the guarantees for the transactions involving derivative financial instruments are represented mainly by government securities in the total amount of R\$ 242,403 thousand (December 31, 2018 - R\$ 170,976 thousand and fund quotas in the total amount of R\$ 9,916 thousand (December 31, 2018 - R\$ 9,033 thousand).).

Notes to the financial statements as at December 31, 2019 and 2018

20. Derivative Financial Instruments (Continued)

a) Recorded in offsetting and equity accounts

The commitments arising from these financial instruments, recorded in offsetting accounts, on December 31, 2019, within maturity up to January 2024 (December 31, 2018 - up to January 2023) are as follows:

	In R\$ thousand					
	Prudential Conglomerate					
	31/12/2019					31/12/2018
	Up to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total	Total
Future market						
Purchased position						
Foreign exchange coupon	267,950	210,914	23,761	1,408,621	1,911,246	2,050,607
Interest rate	13,495	15,828	64,549	330,618	424,490	400,438
Foreign currency	444,043	107,000	130,000	277,000	958,043	678,752
IPCA	-	-	-	20,862	20,862	18,673
Sold position						
Foreign exchange coupon	204,891	91,526	118,263	222,216	636,896	857,716
Interest rate	161,384	80,608	56,715	280,148	578,855	297,305
Foreign currency	478,110	223,000	402,000	894,000	1,997,110	445,700
IPCA	-	-	153,319	43,896	197,215	247,624
Non-deliverable forward - NDF						
Asset position						
Currency	121,483	290,005	10,083	333,519	755,090	651,323
Liability position						
Currency	93,429	-	3,440	165,138	262,007	526,291
Swaps						
Asset position						
Interest rate	87,006	274,838	137,516	985,719	1,485,079	668,518
Liability position						
Interest rate	82,689	49,984	56,550	1,935,408	2,124,631	780,752
Options market						
Liability position						
Currency	334	-	-	-	334	

Notes to the financial statements as at December 31, 2019 and 2018
20. Derivative Financial Instruments (Continued)
b) At cost and market value

	In R\$ thousand						
	Prudential Conglomerate						
	12/31/2019						12/31/2018
	Cost	Market	Up to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total
Future market							
Purchased position	1,319	1,319	106	209	282	722	7,824
Sold position	9,182	9,182	962	931	1,976	5,313	539
Swaps							
Asset position	23,707	41,585	1,902	2,518	1,550	35,615	20,475
Liability position	47,955	81,764	29,209	500	4,950	47,105	49,324
Non-deliverable forward - NDF							
Asset position	9,778	10,352	3,927	14	1,020	5,391	4,474
Liability position	9,752	532	141	-	105	286	3,405
Options market							
Liability position	120	334	334	-	-	-	-

Notes to the financial statements as at December 31, 2019 and 2018
20. Derivative Financial Instruments (Continued)
c) Notional value per counterparty

	In R\$ thousand							
	Prudential Conglomerate							
	12/31/2019							12/31/2018
	Financial Institutions	Related-parties	Legal entities	Stock exchanges	Institutional customers	Individuals	Total	Total
Future market								
Purchased position	592,000			2,722,641			3,314,641	3,148,470
Sold position	1,820,666			1,589,410			3,410,076	1,848,345
Swaps								
Asset position	423,224	426,242	635,613				1,485,079	668,518
Liability position	397,024	1,009,235	718,372				2,124,631	780,752
Non-deliverable forward - NDF								
Asset position	383,723	333,518	37,849			-	755,090	651,323
Liability position	-	262,007	-			-	262,007	526,291
Options market								
Liability position	334						334	

Notes to the financial statements as at December 31, 2019 and 2018

20. 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\$ 1,911,246 thousand (December 31, 2018 – purchased foreign exchange coupon (DDI) in the amount of R\$ 2,050,607 thousand);
- Sold foreign exchange coupon contracts (DDI) in the amount of R\$ 636,896 thousand (December 31, 2018 – sold foreign exchange coupon (DDI) in the amount of R\$ 857,716 thousand);
- Purchased interest contracts (DI1) in the amount of R\$ 424,490 thousand; (December 31, 2018 – R\$ 394,038 thousand);
- Sold interest contracts (DI1) in the amount of R\$ 578,855 thousand; (December 31, 2018 – R\$ 297,305 thousand);
- Purchased currency contracts (DOL) in the amount of R\$ 366,043 thousand; (December 31, 2018 – Purchased currency contracts (DOL) in the amount of R\$ 678,752 thousand);
- Sold currency contracts (DOL) in the amount of R\$ 176,110 thousand (December 31, 2018 – Sold currency contracts (DOL) in the amount of R\$ 445,700 thousand);
- Purchased currency contracts (DAP) in the amount of R\$ 20,862 thousand; (December 31, 2018 – R\$ 18,673 thousand);
- Sold currency contracts (DAP) in the amount of R\$ 197,215 thousand (December 31, 2018 – R\$ 247,624 thousand);

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

	R\$ thousand		
	Prudential Conglomerate		
	Second half of 2019	12/31/2019	12/31/2018
Future contracts	26,482	21,555	48,622
Options contracts	(214)	(214)	(31)
Swap and term contracts	(20,502)	(15,725)	6,233
Total	5,766	5,616	54,824

Notes to the financial statements as at December 31, 2019 and 2018**20. Derivative Financial Instruments (Continued)****d) Hedge Accounting****Fundraising hedge (I)**

During the 3rd quarter of 2017, Banco BOCOM BBM entered into loan agreements in dollars with Bank of Communications Shanghai Branch with the objective of providing funding. As follows below:

- On September 6, 2017 in the amount of USD 35,000 thousand with payment of pre-fixed interest of 2.05% p.a..
- On September 11, 2017 in the amount of USD 35,000 thousand with payment of pre-fixed interest of 2.05% p.a..
- On September 18, 2017 in the amount of USD 30,000 thousand with payment of fixed interest of 2.06% p.a..
- On November 13, 2019 in the amount of USD 40,000 thousand with payment of fixed interest 2.04% p.a..

In order to index these flows to the CDI, a series of exchange coupon operations were carried out at BM&F, in accordance with the maturities and exposures of the available FRC contracts and the maturity of the operations. Disbursements were made in US dollars and, upon cash receipt, a market risk hedge was contracted, designating a portfolio of derivative financial instruments, consisting of DDI, DOL and ED contracts for total hedge, considering the foreign exchange exposure and interest rate risks. In order to equalize the mark-to-market effects of derivative financial instruments designated as hedge, the amount of the hedge principal, plus interest due, is stated at fair value and also marked to market.

Due to the fact that there is a matching of hedge object flows and the results of hedge derivatives, the effectiveness of the operation remains close to 102.74%.

Fundraising Hedge (II)

In June 2017, Banco BOCOM BBM designated a portfolio of derivative financial instruments constituted by DI1 and DAP contracts, with the objective of indexing to the CDI part of its funding portfolio indexed to the IPCA. In order to equalize the effects of mark-to-market derivative financial instruments designated as hedge, the value of the funding portfolio indexed to the IPCA is stated at fair value and also marked to market.

Due to the fact that there is a matching of hedge object flows and the results of hedge derivatives, the effectiveness of the operation remains close to 97.6%.

Credit Operations Hedge

In August 2017, Banco BOCOM BBM designated a portfolio of derivative financial instruments consisting of Euro Dollar Futures contracts (ED), in order to hedge the U.S. Dollar short term interest rate variations. In order to equalize the effects of the mark to market of the derivative financial instruments assigned as hedge, the amount of USD 29,761 thousand of the credit operation released in August 2017 by Banco BOCOM BBM SA Nassau Branch, with a fixed interest rate of 4.28 % p.a., is stated at fair value and also marked to market.

Due to the fact that there is a matching of hedge object flows and the results of hedge derivatives, the effectiveness of the operation remains close to 87,46%.

In November 2018, Banco BOCOM BBM designated a portfolio of derivative financial instruments consisting of Euro Dollar Futures contracts (ED), in order to hedge the U.S. Dollar short term interest rate variations. In order to equalize the effects of the mark to market of the derivative financial instruments assigned as hedge, the amount of USD 32,500 thousand of the credit operation released in November 2018 by Banco BOCOM BBM SA Nassau Branch, with a fixed interest rate of 5.00% p.a. is stated at fair value and also marked to market.

In 2019, by decision of the executive board, this hedge was discontinued

Notes to the financial statements as at December 31, 2019 and 2018**20. Derivative Financial Instruments (Continued)****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 there is a matching of hedge object flows and the results of hedge derivatives, the effectiveness of the transaction remained close to 100%

21. Risks Management**Market Risk**

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

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

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

Liquidity Risk

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

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

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

Notes to the financial statements as at December 31, 2019 and 2018
21. Risks Management (Continued)

	Em R\$ Mil	
	Conglomerado Prudencial	
	31/12/2019	31/12/2018
Ativo Circulante	4,430,964	3,345,385
Passivo Circulante	(5,600,344)	(3,503,090)
Capital Circulante Líquido	(1,169,380)	(157,705)
Títulos e Valores Mobiliários "Disponíveis para Venda" apresentados no Realizável a Longo Prazo	1,198,619	637,810
	29,239	480,105

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).

Operational Risk

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

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

Capital Management

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

Notes to the financial statements as at December 31, 2019 and 2018

21. Risks Management (Continued)

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).

22. 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 8.0% 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, 2019.

	In R\$ thousand	
	Prudential Conglomerate	
	12/31/2019	12/31/2018
Reference Equity Level I	836,998	576,753
Adjusted Equity (*)	858,131	601,253
Decrease in intangible / deferred assets according to CMN Resolution No. 4,192	21,133	24,500
Reference Equity (PR)	836,998	576,753
Risk-Weighted Assets (RWA)	443,442	344,288
Portion referring to:		
Credit risk (RWACPAD)	391,703	304,769
Foreign exchange risk (PCAM)	11,520	7,563
Interest rate risk (RWAMPAD)	60	1,378
Operating Risk (RWAOPAD)	40,159	30,578
Margin or Insufficiency Value (PR - RWA)	393,556	232,465
Risk Factor - 8.00% of PR	66,960	49,745
Basel Rate (Risk Factor / RWA)	15.10%	14.45%
Fixed Asset Ratio		
RBAN	127,480	80,255
ACP Required	138,575	74,845
Reference Equity Margin + RBAN	127,501	77,365

(*) The increase in Level I capital is mainly due to the raising of R\$ 200,000 thousand made on January 30, 2019 through the issuance of subordinated financial bills carried out with the Bank's shareholder base and approved by the Central Bank.

Notes to the financial statements as at December 31, 2019 and 2018

23. 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	
	12/31/2019	12/31/2018
Asset credit tax:		
Balance at January 1	70,340	76,036
Constitution (Reversal)		
- With effects in the result	(3,317)	(9,476)
- With effects in equity		
(Securities held for sale)	1,269	3,554
- Credit assignment/ Write-off of tax debits	-	226
Balance at December 31	68,292	70,340
Provision for deferred taxes:		
Balance at January 1	20,926	12,371
Constitution (Reversal)		
- With effects in the result	(1,710)	8,666
- With effects in equity		
(Securities held for sale)	32	(111)
Balance at December 31	19,248	20,926

(*) 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, 2019 and 2018

23. Income Tax and Social Contribution (Continued)

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

	In R\$ thousand	
	Prudential Conglomerate	
	12/31/2018	12/31/2017
Asset Tax Credit:		
Temporary differences (a)		
- Provision for loan transactions	26,742	37,171
- Market value adjustment - marketable securities and derivatives	21,765	8,623
- Provisions for Contingencies (Note 25a)	4,338	3,595
- Others	13,460	7,617
Social Contribution Negative Basis	785	3,958
Tax loss	1,202	9,376
Total	68,292	70,340
Current	38,877	37,608
Non-Current	29,415	32,732
Provision for deferred taxes (*)		
Temporary differences (a)		
- Market adjustment of securities and derivatives	7,778	7,880
- Interest rate over deposit in court	11,470	13,046
Total	19,248	20,926
Current	7,778	7,880
Non-Current	11,470	13,046

(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\$ 18 million and R\$ 12 million, respectively. The Social Contribution on tax credits was calculated considering a new rate in force of 20%, after publication of PEC No. 6, 2019., for the additions and exclusions as of March 1, 2020.

Notes to the financial statements as at December 31, 2019 and 2018

23. Income Tax and Social Contribution (Continued)

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			
	12/31/2019		12/31/2018	
	IRPJ	CSLL	IRPJ	CSLL
Income before taxes	72,153	72,154	42,865	42,865
Bank's net profit	88,521	88,521	63,660	63,660
(-) Interest on Bank's Capital	(37,187)	(37,186)	(38,730)	(38,730)
(-/+) Income tax and social contribution	(20,819)	(20,819)	(17,756)	(17,756)
Tax rate	25%	15%	25%	20%
Income tax and social contribution				
At tax rate	(18,038)	(10,823)	(10,671)	(8,537)
Permanent additions	66,384	48,510	53,744	40,865
Non-deductible expenses	19,638	1,764	15,394	2,515
Addition on profit abroad	46,746	46,746	38,350	38,350
Permanent exclusions	34,097	34,097	44,725	44,725
Tax-free revenues	12	12	10,648	10,648
Equity in the result investees (Bank)	34,085	34,085	34,077	34,077
Temporary additions / exclusions	12,603	16,839	(26,230)	(23,301)
Tax basis	117,044	103,407	25,475	15,524
Utilization of tax loss and negative basis	(32,886)	(21,767)	(7,642)	(4,657)
Tax basis with usage of tax loss and negative basis	84,156	81,637	17,832	10,867
Income tax and social contribution (a)	(21,015)	(12,246)	(4,434)	(2,173)
Utilisation of tax incentives and taxes of subsidiaries abroad	1,630	-	219	-
Income tax and social contribution in the result for the year	(19,385)	(12,246)	(4,215)	(2,173)
DIPJ adjustment	1,362	-	7	10
Liability deferred taxes	1,886	(138)	(5,598)	(3,046)
Income tax and social contribution in the result for the year - Banco BOCOM BBM	(15,978)	(12,354)	(9,806)	(5,210)
Income tax and social contribution of other institutions of the Prudential Conglomerate	(387)	(204)	(1,008)	(823)
Income tax and social contribution in the result for the year - Prudential Conglomerate	(16,365)	(12,560)	(10,814)	(6,033)

- (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. For the year 2019, the effective tax rate for CSLL was 15%, however, deferred tax assets and liabilities have already been recognized considering the definitive increase of said rate to 20%, after the publication of the Proposed Amendment to Constitution No. 6, June 2019, subsequently transformed into Amendment to Constitution No. 103. It should also be noted that, according to said EC No. 103, 2019, this increase is definitive and exclusive for banks.

Notes to the financial statements as at December 31, 2019 and 2018

24. 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 on 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	
	12/31/2019	12/31/2018
Labor	8,804	8,325
Civil	633	633
Total - Provisions for contingencies	9,437	8,958

These provisions are recorded as "Other liabilities - sundry" under Long-term liabilities. During the year ended December 31, 2019, a provision was made in the amount of R\$ 479 thousand of provisions for contingencies in the Prudential Conglomerate

b) Liabilities for legal obligations

Based on the preliminary injunction obtained, Banco BOCOM BBM and BOCOM BBM Corretora de Câmbio e Valores Mobiliários SA ensured the suspension of the requirement for tax credits of PIS/Pasep and COFINS that are determined, with the incidence of ISS in their calculation bases, as well as their respective bookkeeping for timely and future compensation, if applicable, with the respective ISS deductibility of the calculation bases of the mentioned contributions. Based on that preliminary injunction, Banco BOCOM BBM and BOCOM BBM Corretora de Valores Mobiliários SA started to collect, as of November 2018, PIS/Pasep and COFINS disregarding the municipal tax in their respective calculation bases, having been constituted a liability for the remaining balance until December 2019, included in the item "Other Sundry Liabilities" in Long-Term Liabilities, as follows:

	In R\$ thousand	
	Prudential Conglomerate	
	12/31/2019	12/31/2018
PIS and COFINS	208	29
Total - Liabilities for legal obligations	208	29

c) 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 advisors, has already presented its administrative defense, still pending judgment.

In November 2019, Banco BOCOM BBM SA received assessments from the Federal Revenue of Brazil with the purpose of: (i) Social security contributions allegedly due on PLR (Profit Sharing or Results) in the amount of \$ 5.5 Million and (ii) social security contributions allegedly due on food in the amount of R \$ 1.1 Million, both correspond to payments made in 2015. The Bank discusses the assessments at the administrative level. In the opinion of our legal advisors, the chances of loss in these cases are possible.

Notes to the financial statements as at December 31, 2019 and 2018

25. 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	
	12/31/2019	12/31/2018
Guarantee		
Other sureties	164,232	122,068
Surety or guarantee in lawsuits and administrative procedures	480,743	256,526
Linked to bids, auctions, service render or construction	327,654	180,939
Linked to international trade	1,171	3,053
Total	973,800	562,585
Changes in allowance for financial guarantees		
Beginning balance	1,161	538
Constitution	10,990	15,478
Reversal (*)	(11,063)	(14,855)
Ending balance	1,088	1,161

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

Notes to the financial statements as at December 31, 2019 and 2018**26. 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\$ 801,302 thousand (December 31, 2018 - R\$ 810,442 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, 2019 is aligned with the variation of the guarantees.

(c) Marketable Securities Portfolio

In the year of 2019, 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 NTN-F 01/2025 was above the rate of NTN-F 01/2023, and that for the budget and business plan of the coming years, it is important to have predictability and to avoid decrease in revenues, the Bank's Executive Committee unanimously approved to continue the process of extending the portfolio of nominal securities held to maturity, selling R\$ 288,630 thousand in NTN-F 01/2023 and buying R\$ 288,668 thousand in NTN-F 01/2025, which generated an effect in the result of R\$ 24,009 thousand.

At the end of the period, Banco BOCOM BBM had R\$ 705,734 thousand in marketable securities classified as "held to maturity", according to Circular Letter No. 3.068 /01 of Central Bank of Brazil. Banco BOCOM BBM has financial capacity and intention to hold them to maturity.

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