



ANNUAL REPORT

2017

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WHO WE ARE

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

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

Coherently with these two origins, today we are dedicated to meeting the credit and financial service requirements of companies established in Brazil, and to providing Wealth Management services for individuals, including the administration of exclusive investment funds and protection against financial risks.

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



Part of BOCOM BBM's team

FINANCIAL HIGHLIGHTS

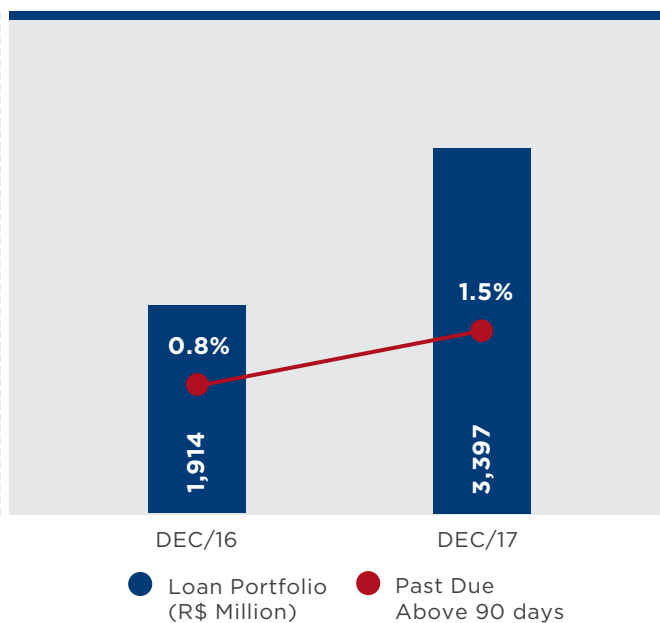
In R\$ Million, unless otherwise indicated

FINANCIAL CONDITION

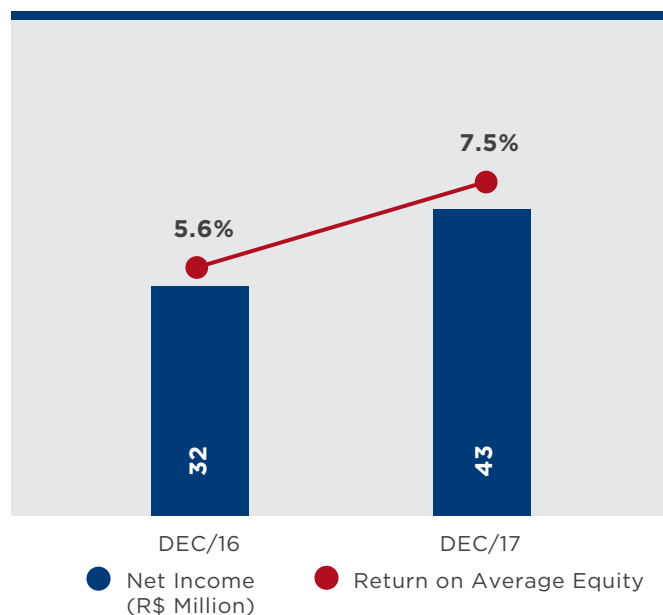
	Years Ending on 12/31	
	2016	2017
Net Income	32	43
Shareholders' Equity	574	575
Return on Average Equity	5.6%	7.5%
Total Loan Portfolio	2,171	3,668
Total Funding	2,964	4,085
Basel Index	21.3%	16.1%

* Prudential Conglomerate amounts were used (4060).

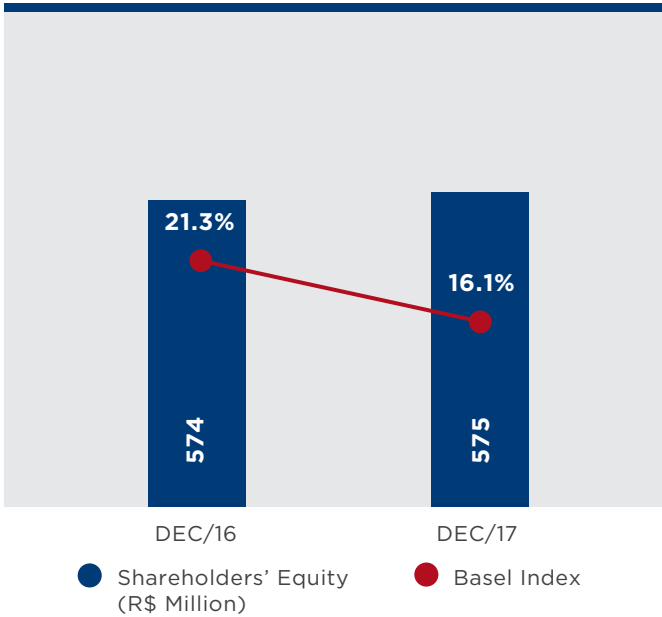
LOAN PORTFOLIO & PAST DUE ABOVE 90 DAYS



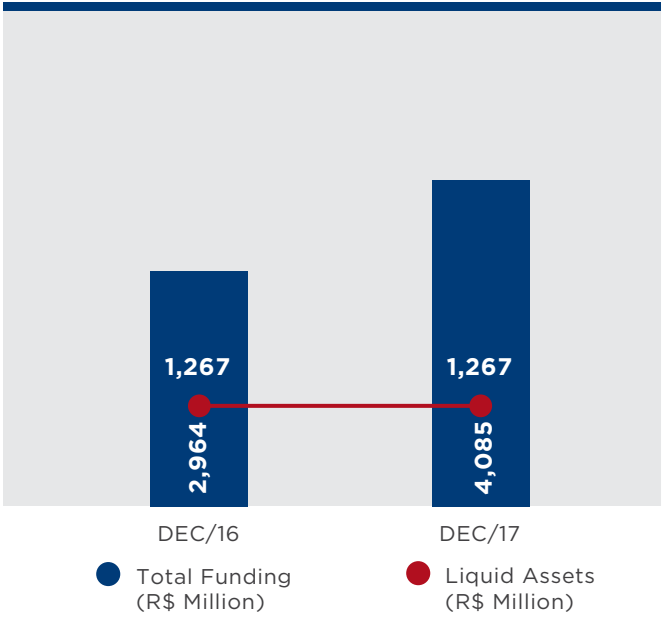
NET INCOME & RETURN ON AVERAGE EQUITY



SHAREHOLDERS' EQUITY & BASEL INDEX

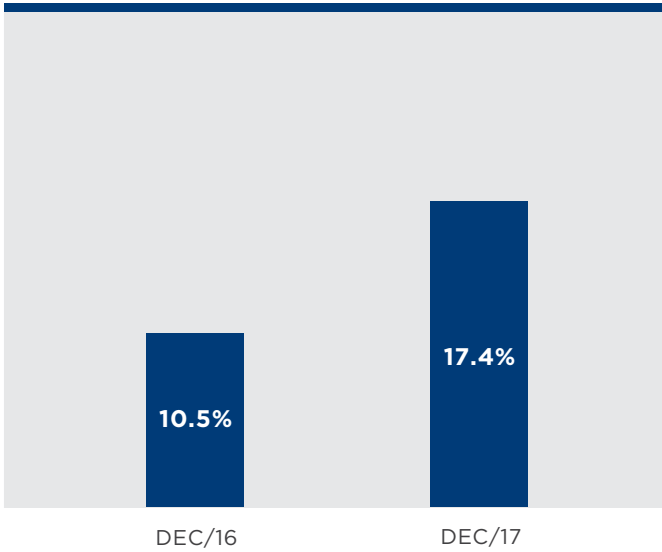


TOTAL FUNDING & LIQUID ASSETS*



* Liquid Assets = Cash and Cash Equivalents + Short-term Interbank Investments (Funded Position, Investments in Interbank Deposits and Foreign Currency) + Fixed Income Securities (Not Considering Those Linked to Repo Transactions and Guarantees) + Variable Income Securities (Not Considering Fund Shares).

SERVICE REVENUES (% OF THE TOTAL REVENUES)*



* Gross Financial Income Before Allowance for Doubtful Accounts + Service Revenue + Result of Equity Pickup.

MESSAGE FROM MANAGEMENT



The vast majority of economies worldwide achieved faster GDP growth in 2017. In this regard there was no difference between industrial countries and economies that mainly produce raw materials. Nine years after the 2008 crisis the global economy can be described as thriving and on the way to normalization of the role of central banks and governments in the major economies. Voter discomfort with globalization has not materially affected these economies' trade policies to date, and so global growth has not been jeopardized by this variable. Expectations of US rate hikes are consistent with the current stage of the cycle, and regulation of the global financial system points to its solidity in response to the crisis. The disruptive events inherent in technological progress, changing consumer and investor habits and continuous growth in Asia have apparently remained concentrated in the microeconomy, hence not posing systemic risks.

For Brazil it was a successful year in several respects, thanks to measures taken since the change of federal administration in 2016. Historically low inflation and nominal interest rates point to healthy growth for the private sector without the need for subsidies providing the positive prospects for pensions reform are maintained.

In addition, Brazil's agricultural output and merchandise trade surplus are growing continuously, and investor countries recognize Brazil as committed to stable administrative and judicial rules.

These factors enabled Brazil to face with economic solidity the considerable political crises that ended up postponing pensions reform. The federal spending cap established at end-2016, labor law reform, and creation of the long-term interest rate (TLP) for loans by BNDES, the national development bank, show that despite the setbacks there are grounds for

optimism regarding the continuous enhancement of our economic framework under the responsibility of Congress and the federal administration.

The repeal of microeconomic policies inconsistent with growth in the medium to long term and the pursuit of new microeconomic measures to bolster Brazil's competitiveness point in the direction of lifting growth from the low levels seen in recent years and reversing the loss of jobs.

This year new investments by Chinese companies, such as SPIC's purchase of the license to operate the São Simão hydropower plant and CITIC's acquisition of Dow Chemical's corn seed business in Brazil, showed the unremitting strategic engagement of Brazil's main trade partner. China accounted for 23% of Brazil's trade flow and some US\$10 billion in foreign direct investment in 2017.

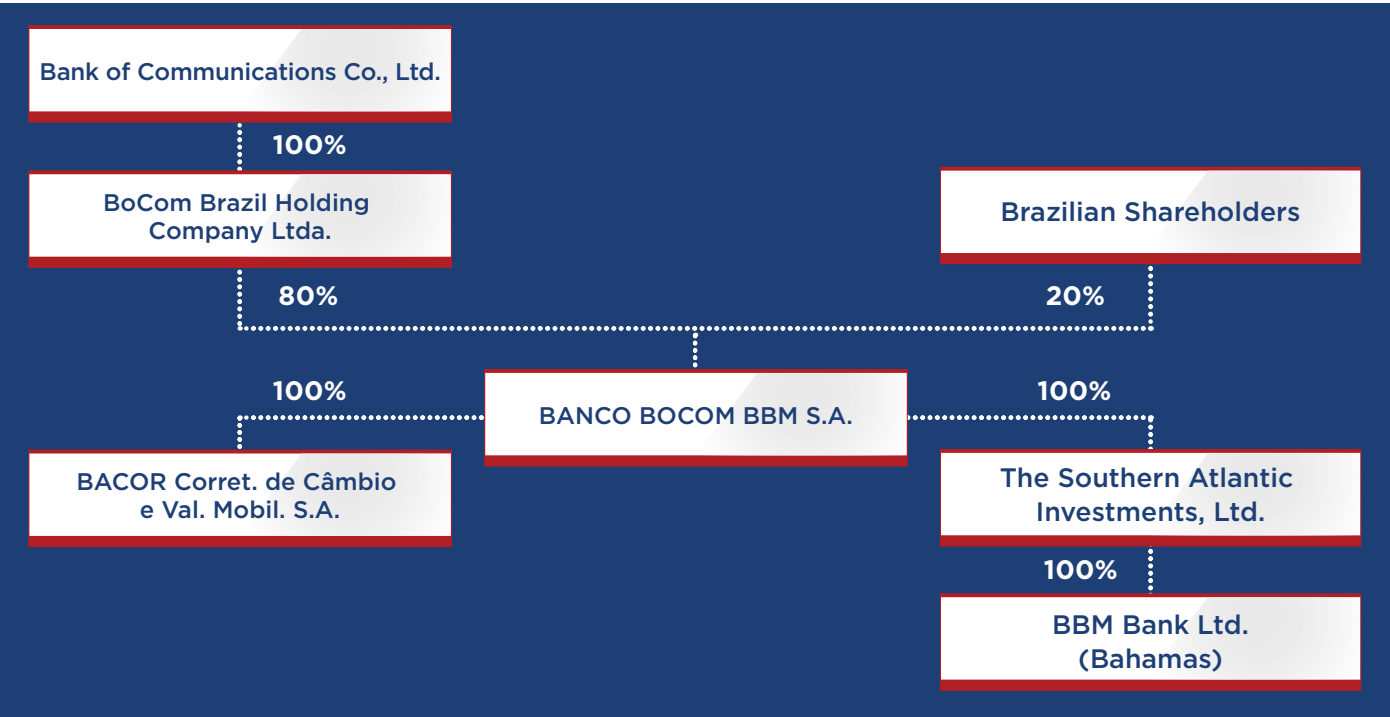
In one more stage of our integration with the global network of Bank of Communications, on March 27 we changed our corporate name to Banco BOCOM BBM S.A., assuming the brand name we are using in this report.

Bank of Communications (BOCOM) is one of the five largest banks in the People's Republic of China, with US\$1.3 trillion in assets and a market value of US\$67 billion. It has 90,000 employees and more than 3,000 branches in China, with operations in more than ten other countries including the United States, Japan, Singapore, South Korea, Germany, Australia, Canada, Luxembourg and the United Kingdom.

The coming year promises several microeconomic and macroeconomic challenges for us here at Banco BOCOM BBM. These challenges are opportunities, for which our team have more instruments and capabilities at their disposal to satisfy the needs of all our stakeholders.

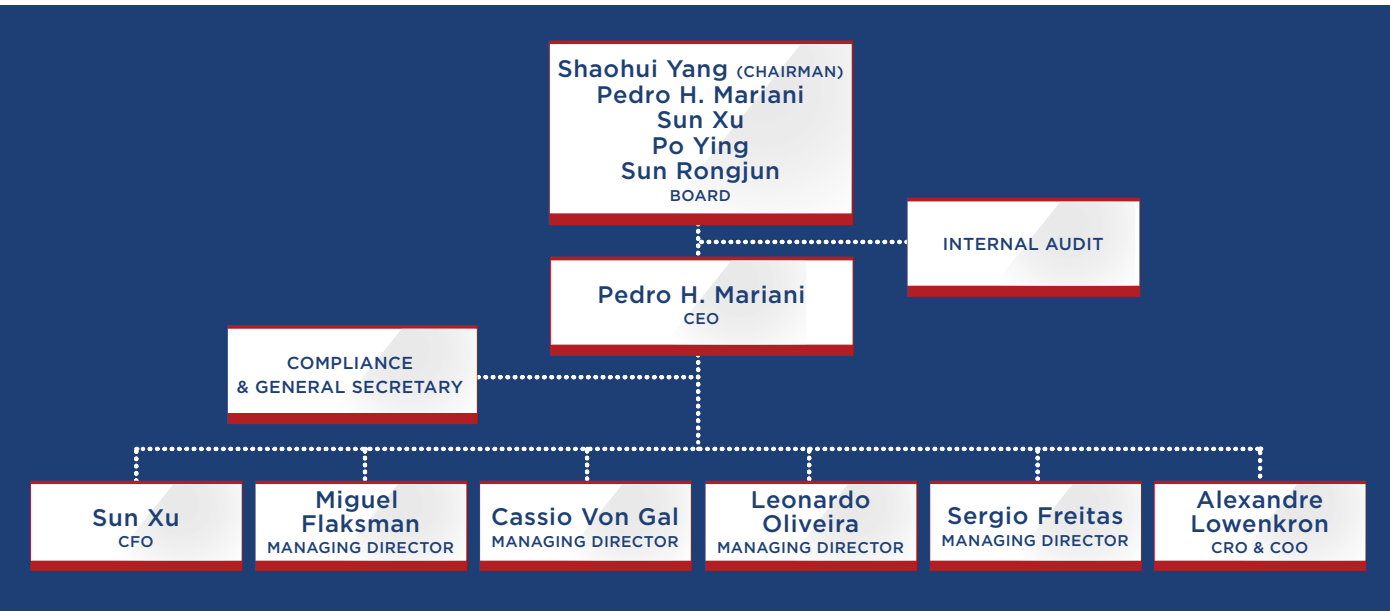
ORGANIZATIONAL STRUCTURE

SHAREHOLDING COMPOSITION



Percentages considered excluding shares held in treasury.
Participations of less than 0.001% were excluded from this organization chart and the value was rounded to the controlling company.

ORGANIZATION CHART



HISTORY



Founded in 1908 with the aim of boosting Chinese industry. It is one of the largest commercial banks in China and the world.



Established in 1858 in the city of Salvador with the name Banco da Bahia, it focused on the extension of credit to agricultural producers.



It becomes a currency issuer and remains so for 33 years.

1909

It becomes the only major Chinese commercial bank to be headquartered in Shanghai among the top five.

1987

It is the first large Chinese commercial bank to list on the Hong Kong Stock Exchange.

2005

It is the first large Chinese commercial bank to list simultaneously on the Hong Kong and Shanghai Stock Exchanges.

2007

1859

It becomes one of the only Brazilian banks authorized to issue currency.



1942

Clemente Mariani leads Banco da Bahia to become one of Brazil's pre-eminent commercial banks.



1973

The bank makes the strategic decision to focus on the wholesale segment.

1998

It becomes a multiple bank and changes its name to Banco BBM S.A.



2015

Bank of Communications (BoCom) and shareholders belonging to Banco BBM's controlling group sign a Share Purchase Agreement of 80% of the Bank's equity.

2016

The acquisition process of 80% of Banco BBM's equity by Bank of Communications is concluded, giving rise to Banco BOCOM BBM S.A.

2018


The bank starts using the name Banco BOCOM BBM.





1

ECONOMIC
ENVIRONMENT



Inflation has continued to fall and closed the year at 2.9%, below the inflation target floor. Looking forward, the outlook should remain positive, where a sizable output gap, positive inertial effects and anchored inflation expectations should keep inflation below the target again in 2018.

The economy clearly reached a turning point in 2017. To sum up, the recession ended, inflation and interest rates fell to historical low levels and the country's external accounts remained solid. Even though relevant reforms have been sanctioned, e.g. Labor Market Reform and TLP, Social Security Reform's approval has been delayed. Now that 2017 is behind, what should we expect ahead?

The recovery in progress appears well entrenched and GDP growth should accelerate from 1.0% in 2017 to 2.0% in 2018. Consumption has been leading the recovery while investment has started to pick up. The labor market has also improved, with the unemployment rate falling from 13.1% to 12.5% (in seasonally adjusted terms) and employment growing for 6 months in a row. Lastly, confidence indicators have risen and are approaching their historical average levels. All in all, the economy looks to be entering 2018 on a sound footing.

Inflation has continued to fall and closed the year at 2.9%, below the inflation target floor. Looking forward, the outlook should remain positive, where a sizable output gap, positive inertial effects and anchored inflation expectations should keep inflation below the target again in 2018. As for monetary policy, the policy rate has been halved from +14.25% in late 2016 to +7.0% in December 2017, the lowest level in history. Furthermore, it is likely to fall to 6.5% in 2018.

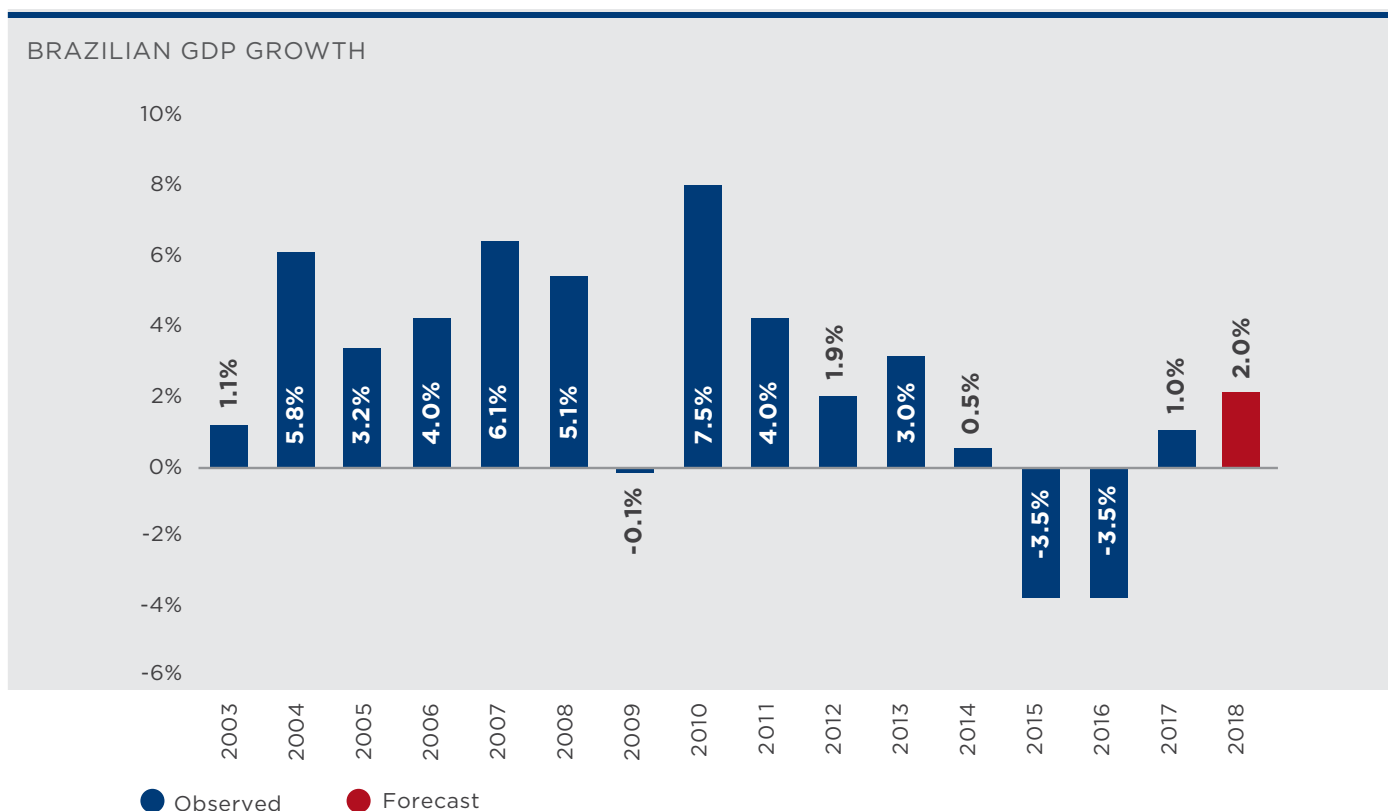
Fiscal policy remains as the main challenge. Public debt stability is a yet unsolved urgent task. The government did not manage to approve the Social Security Reform in 2017 and voting has been delayed. However, its approval in an election year is unlikely and this difficult task might be left to the new government.

That is why 2018's elections matter so much, even though numerous uncertainties still cloud its results. The winner must commit to structural reforms to consolidate the positive outlook, with solid growth, low inflation and single digit interest rates. However, any negative change in expectations regarding future fiscal policy represent a downside risk to the overall economic outlook.

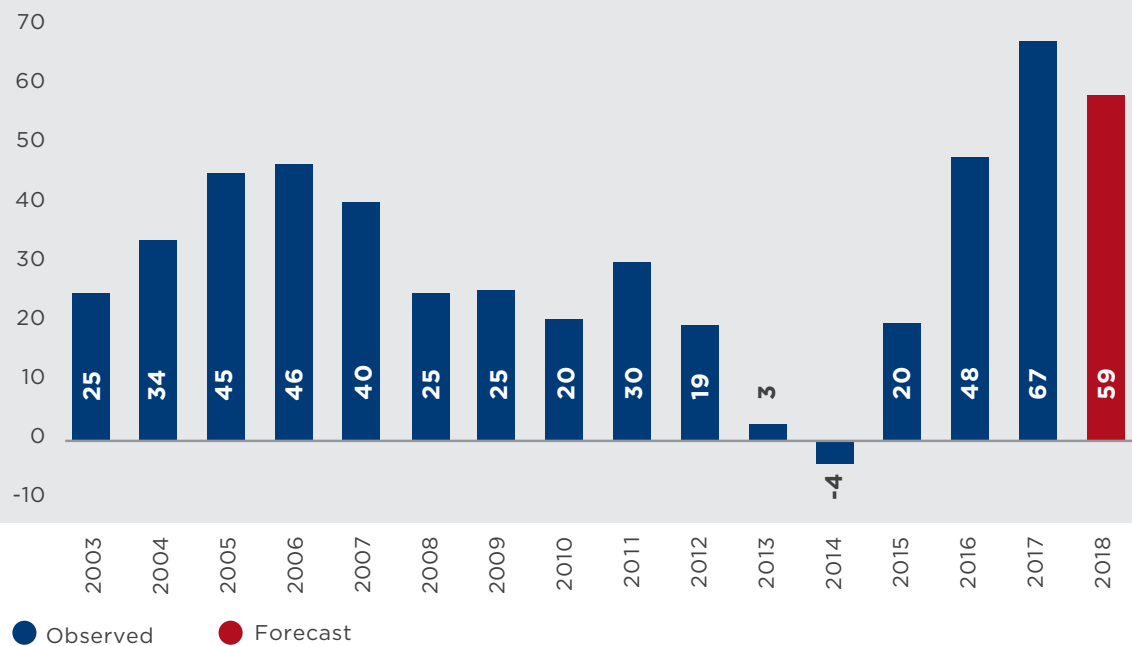
The country's external accounts stand as the highlight: the trade surplus reached US\$67 billion in 2017, the current account deficit fell to 0.5% of GDP and FDI's levels are still strong. Therefore, as global liquidity remains abundant, Brazil will face an election year with solid external accounts and a benign global environment.

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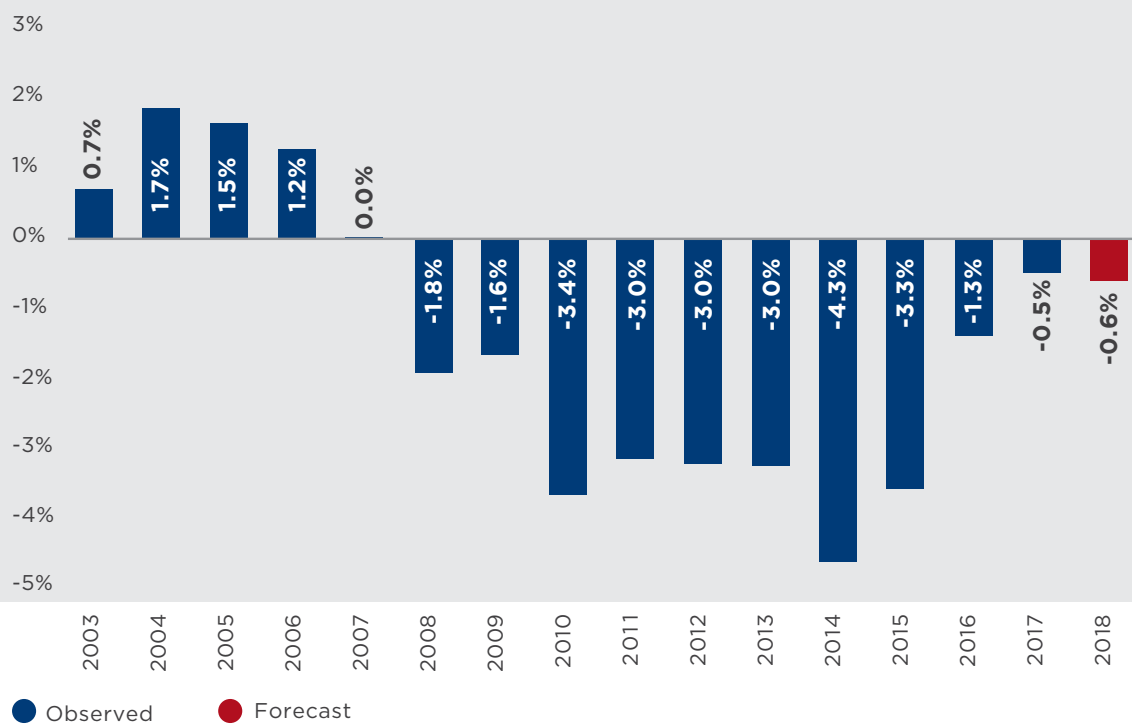
In summary, the economic outlook seems set in the near future. Uncertainty will increase as the elections approaches and the victory of a candidate committed to reforms is required to consolidate the current economic outlook.



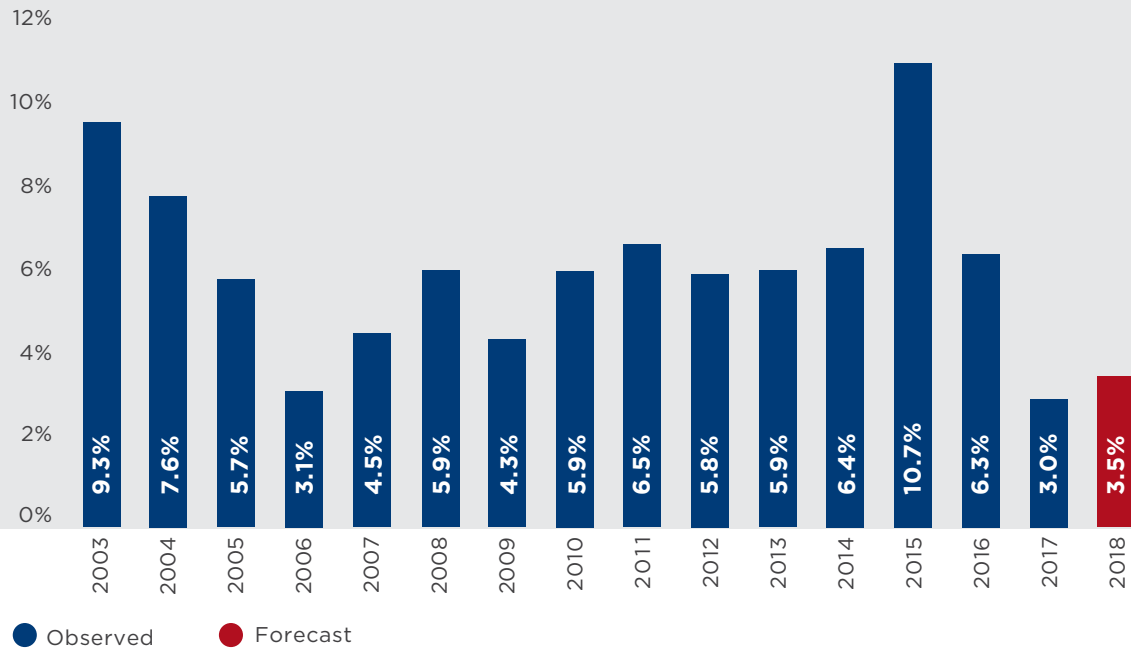
TRADE BALANCE (US\$ BILLION)



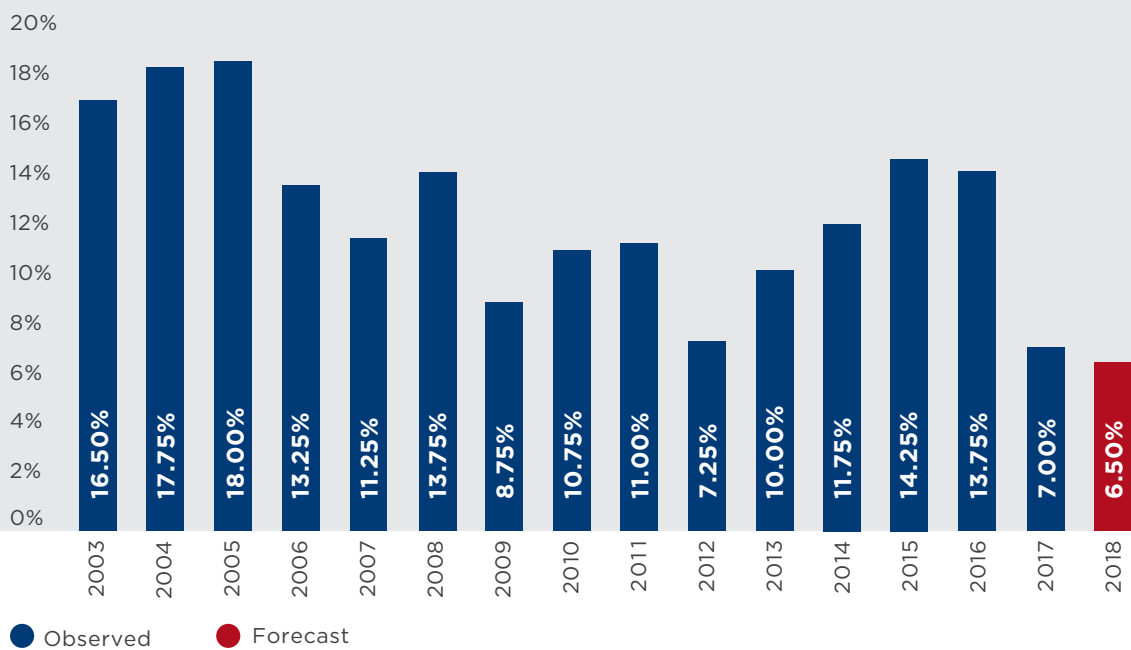
CURRENT ACCOUNT BALANCE - % OF GDP



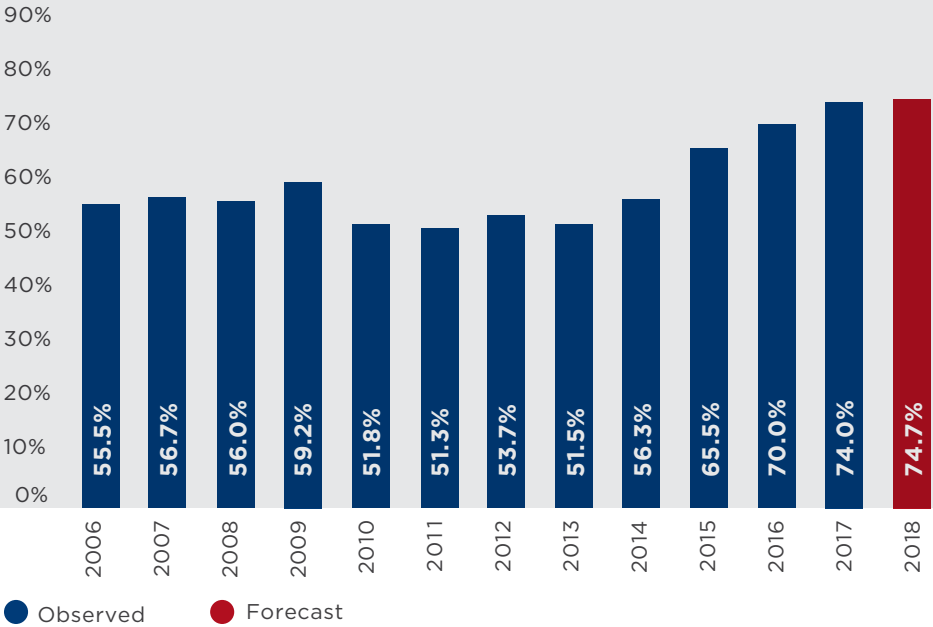
INFLATION



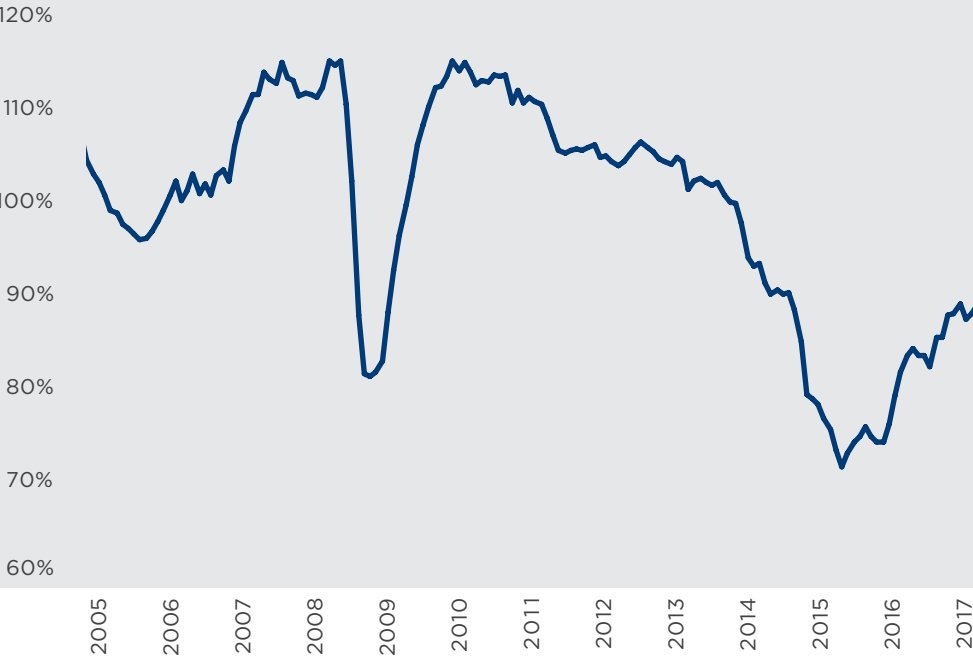
POLICY RATE - END OF PERIOD



GROSS GOVERNMENT DEBT - % OF GDP



BUSINESS CONFIDENCE



The background of the page is a complex composition of geometric shapes and textures. A large, dark blue triangle occupies the top right corner. Below it, a horizontal band of light blue and white clouds stretches across the middle. The bottom half of the page features a grid of blue and white lines, resembling a solar panel array, which is overlaid with various semi-transparent geometric shapes in shades of blue and grey. A thin red line separates the dark blue top section from the lighter blue and white middle section.

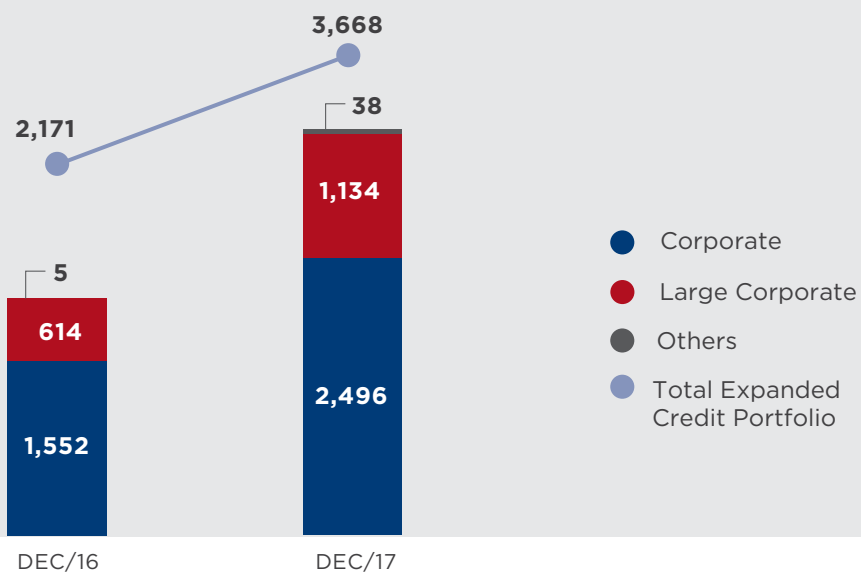
2

OUR BUSINESS

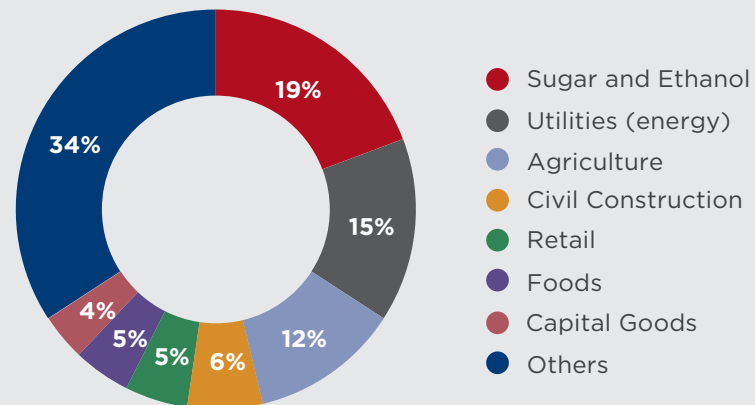
CORPORATE CREDIT

The expanded credit portfolio comprising loans, guarantees extended in the form of surety bonds and avals, pre-shipment export financing and corporate bonds ended 2017 with a balance of R\$3,668 million, an increase of 69% in 12 months.

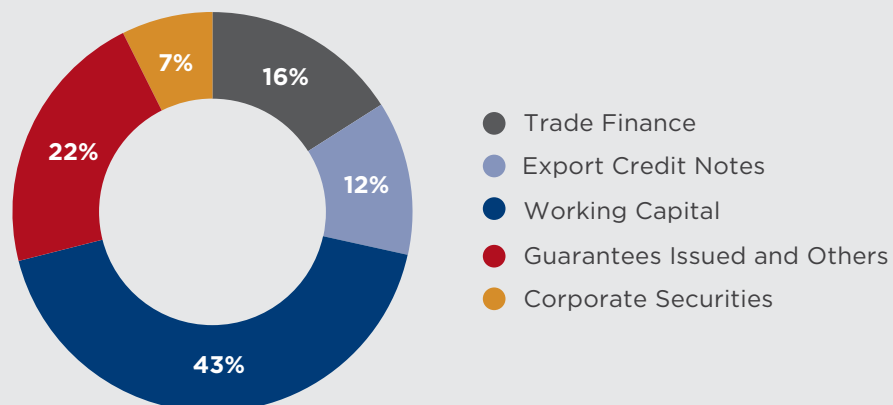
EXPANDED CREDIT PORTFOLIO - CORPORATE AND LARGE CORPORATE
(R\$ MILLION)



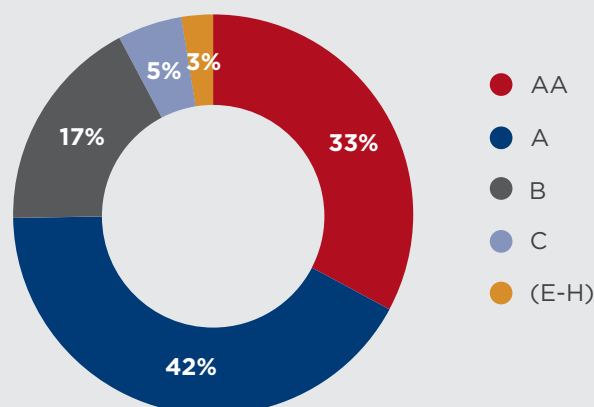
TOTAL EXPANDED CREDIT PORTFOLIO
BREAKDOWN BY SECTOR



TOTAL EXPANDED CREDIT PORTFOLIO
BREAKDOWN BY TRANSACTION - DEC/17



LOANS AND GUARANTEES ISSUED PORTFOLIO* RISK RATES - DEC/17



* Expanded credit operations, classified according to the Central Bank of Brazil's 2.682/99 Resolution.

Corporate

At the end of 2017, the credit portfolio for companies in the Corporate segment displayed significant growth of 60%, reaching R\$2,496 million.

Revenues rose 95% to R\$126.1 million (from R\$64.7 million in the previous year), mainly owing to active monitoring of borrowers' financial health, as well as our recognized efficiency in debt recovery, which kept both loan delinquency and loan loss allowance expenses under control. This revenue does not include income from fines, late interest charges and service fees.

Large Corporate

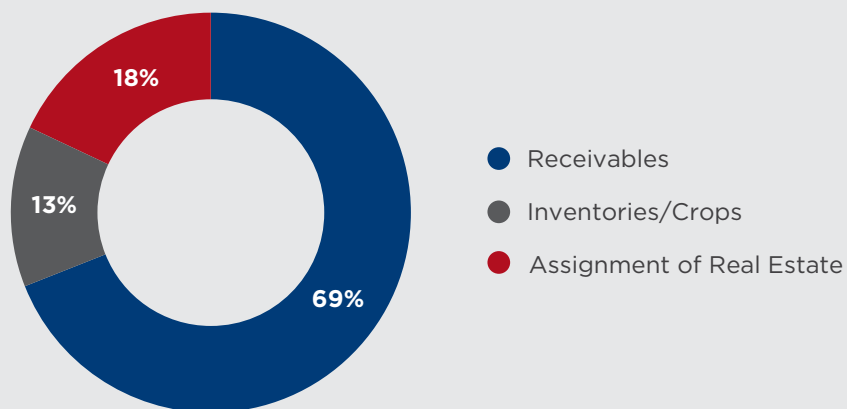
In the Large Corporate segment (for companies with annual sales in excess of R\$3 billion), the balance of the credit portfolio totaled R\$1.13 billion at the end of December 2017, growing 85% in 12 months.

This increase in the portfolio largely reflected (i) a focus on low-risk borrowers, both Brazilian and Chinese, and (ii) better funding conditions in the period, with maturities and costs more accurately tailored to the clients' needs.

China Corporate Desk

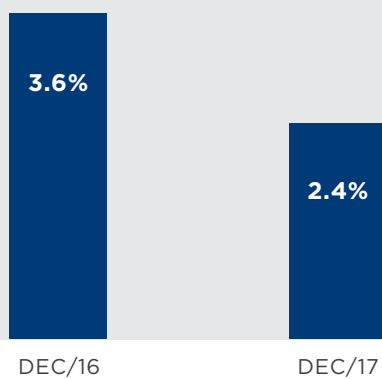
Lending to Chinese companies that operate in Brazil.

COLLATERALS*
LOANS AND GUARANTEES ISSUED - DEC/17



* In Dec/17, the outstanding balance that had some kind of collateral was 63%.

ALLOWANCES FOR LOAN LOSSES



In the Large Corporate segment (for companies with annual sales in excess of R\$3 billion), the balance of the credit portfolio totaled R\$1.13 billion at the end of December 2017, growing 85% in 12 months.

FINANCIAL SERVICES

BOCOM BBM offers clients financial services that include debt structuring and pricing of derivatives and other products.

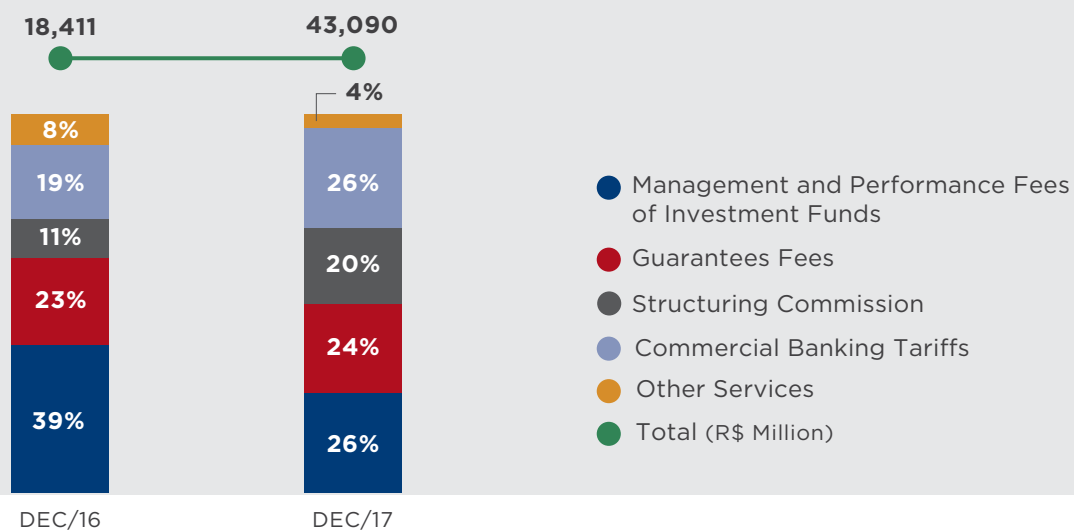
Structured Solutions

Banco BOCOM BBM's Structured Solutions Area operates alongside Corporate Credit to identify debt restructuring opportunities, taking advantage of scale economies in prospecting for the proprietary portfolio.

Several instruments and securitization structures are offered to the Brazilian and international capital markets, from private deals involving:

- Bank Credit Notes (CCBs);
- Export Pre-Payments (PPEs);
- Foreign loans in compliance with Law No. 4131;

VOLUME OF STRUCTURED TRANSACTIONS AND DISTRIBUTIONS



to the structuring of:

- Debentures;
- Promissory notes;
- Mortgage-Backed Securities (CRIs), and;
- Agribusiness Receivables Certificates (CRAs).

Banco BOCOM BBM coordinated the issuance of more than R\$550 million in debentures and promissory notes in 2017.

These activities also involve synergy with Wealth Management, which offers clients opportunities for allocating to assets originated by Structured Solutions.

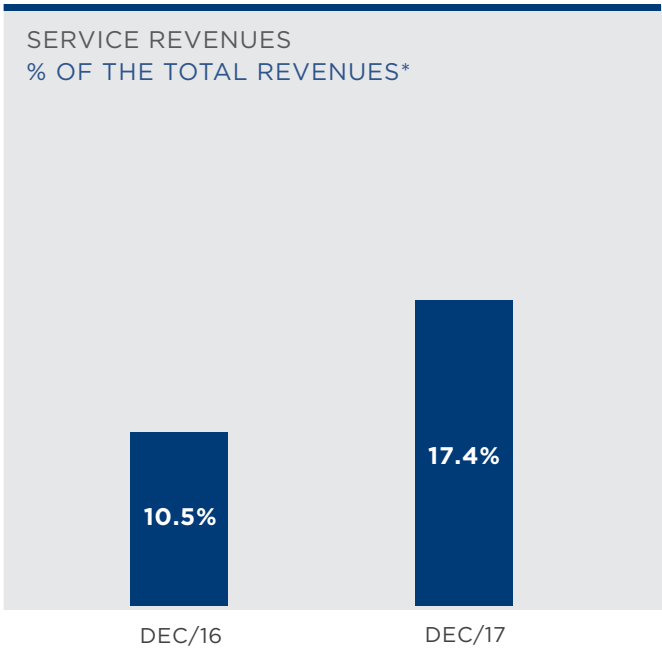
Treasury for Clients

The Treasury for Clients team works with Corporate Credit on the structuring and pricing of derivatives and other products that address the market risks to which the client’s assets and liabilities are exposed.

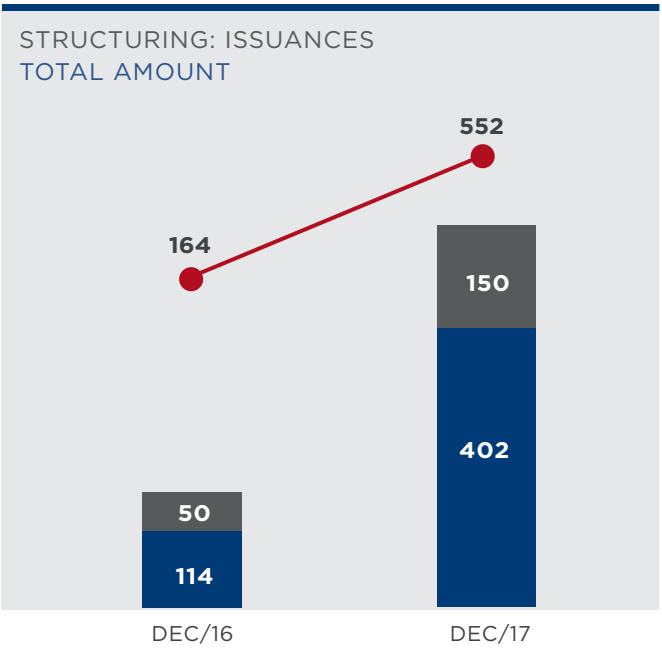
The product offering includes derivatives for protection against the following risks:

- Exchange-rate variation;
- Interest rates;
- Price indices.

Treasury for Clients also offers various types of foreign-exchange service.



* Total Revenue: Gross Financial Income Before Allowance for Doubtful Accounts + Service Revenue + Result of Equity Pickup.



- Other Banks
- Coordinated by BOCOM BBM
- Total Amount



Through its open platform, Wealth Management offers clients portfolio diversification through partners previously approved in accordance with best governance practice.

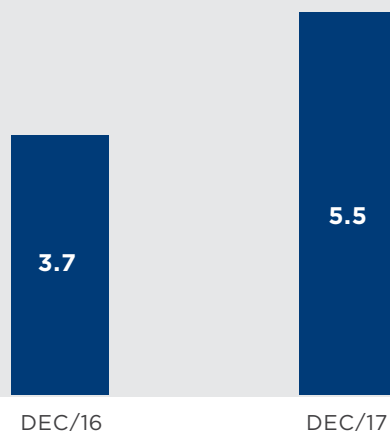
WEALTH MANAGEMENT

Banco BOCOM BBM's Wealth Management Area uses constantly updated tools to provide financial advice and wealth management services to high net worth clients, offering diversified solutions on an open platform in accordance with their long-term goals. It strives to identify points of connection between the client's lifecycle and the dynamics of market cycles. Permanent investment in the technological platform enables BOCOM BBM Wealth Management to offer differentiated services, customized reports and efficient financial planning.

Through its open platform, Wealth Management offers clients portfolio diversification through partners previously approved in accordance with best governance practice. We pursue strong returns combined with preservation of capital. Permanent development of risk control systems, thorough internal controls and emphasis on transparency in our relationships with clients are also key features of this operation.

In addition to its own vast know-how in asset allocation, the Wealth Management team works closely with other areas of Banco BOCOM BBM, such as Legal, Products, Treasury and Research, in search of customized solutions for clients. To meet requirements that go beyond the management of a client's financial portfolio, we have partnerships with renowned law firms and leading auditors, accountants and consultants. Our scope ranges from liquid assets to other aspects of the client's personal and financial affairs, including succession and family planning.

ASSETS UNDER ADVISORY
(R\$ BILLION)



We focus on individuals or families, both Brazilian and foreign, whether their wealth is consolidated or still under construction. These clients are personally cared for by a team of trained and certified professionals dedicated to understanding the most suitable profile and allocation for each individual, taking into consideration risk tolerance, liquidity, cash generation and wealth size. Our strategy presupposes dynamic but also sustainable growth of the portfolios we manage. We ended 2017 with R\$5.5 billion in total assets under management. Our solutions are organized in the form of exclusive/restricted funds or as investments directly held by the individual concerned. Allocation is distributed across funds, fixed-income assets and structured products offered by BOCOM BBM and other approved institutions.

In addition to its own vast know-how in asset allocation, the Wealth Management Banking team works closely with other areas of Banco BOCOM BBM, such as Legal, Products, Treasury and Research, in search of customized solutions for clients.

WEALTH MANAGEMENT STRUCTURE

CLIENT SUPPORT

Operational Support to Both the Banker and the Client

- Transactions
- Registration
- CRM Monitoring
- Customer Service

BANKER

Main Contact between the Bank and the Client

- Understanding Client Profile and Needs
- Interaction with Different Areas

ASSET ALLOCATION

Portfolio Management Team

- Risk Analysis
- Suitability Control
- Market Follow-up
- Management of Exclusive Funds
- Portfolio Allocation

FAMILY OFFICE SERVICES

Partnerships to Manage Consolidated Equity of the Economic Group

- M&A and Audit
- Income Tax
- Succession Planning
- Real Estate Purchasing, in Brazil and Abroad, Including Mortgages
- Social Security



BANCO BOCOM BBM PLATFORM

Use of Banco BOCOM BBM's Structure

- Treasury for Client
- Products
- Macroeconomic Research
- Analysis of Companies
- Credit

3

FUNDING AND INSTITUTIONAL RELATIONS



In December 2017, the balance of funding totaled R\$4.08 billion, for growth of 37.8% in 12 months due to expansion of the credit portfolio in the period.

We maintained our policy of prudent liquidity management, enhancing and adjusting our funding sources throughout the year. The top performer was Wealth Management, which contributed 33.6% of total funding in 2017.

In R\$ Million, unless otherwise indicated	Dec/16	Dec/17	Change
FUNDING SOURCE			
Real Estate Credit Bills (LCIs), Agribusiness Credit Bills (LCAs)	715	1,260	76%
Financial Bills (LFs)	481	1,175	144%
Bank of Communications	232	772	234%
Term Deposits	910	418	-54%
External Lines*	162	96	-40%
Demand Deposits	27	88	226%
Interbank Deposits	108	19	-82%
Other	331	257	-23%
TOTAL FUNDING	2,966	4,085	37.70%

* Excluding Amounts for Bank of Communications.

With regard to liquidity, free cash flow is managed very conservatively and is sufficient to cover funding completely with daily liquidity. It is important to note that BOCOM BBM's controlling shareholder extends a credit facility worth R\$1.25 billion, which represents a significant liquidity reserve.

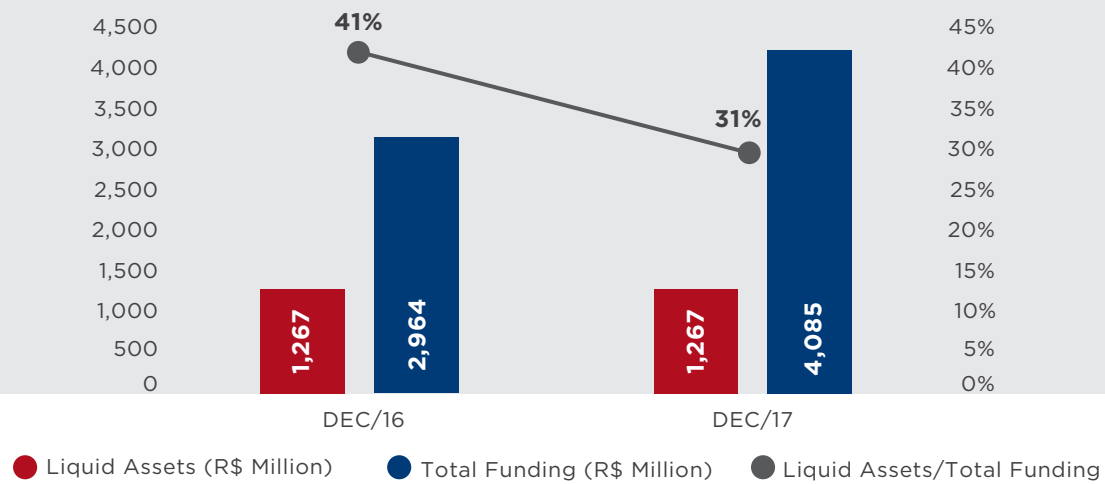
As for the product mix, management increased the share of more stable funding instruments such as LFs, LCIs and LCAs, improving the profile of market funding, which accounted for almost 60% of total funding in December 2017 (R\$2.43 billion).

The funding profile also improved thanks to Fitch's announcement on October 6, 2017, that it had awarded its highest long-term national scale rating (AAA bra), as well as global scale ratings BB+ for foreign currency and BBB- for local currency, making BOCOM BBM the only Brazilian bank with investment grade ratings in this category. In addition, Moody's reaffirmed its top national scale rating (Aaa.br). Funding cost fell significantly in the period thanks to these excellent ratings.

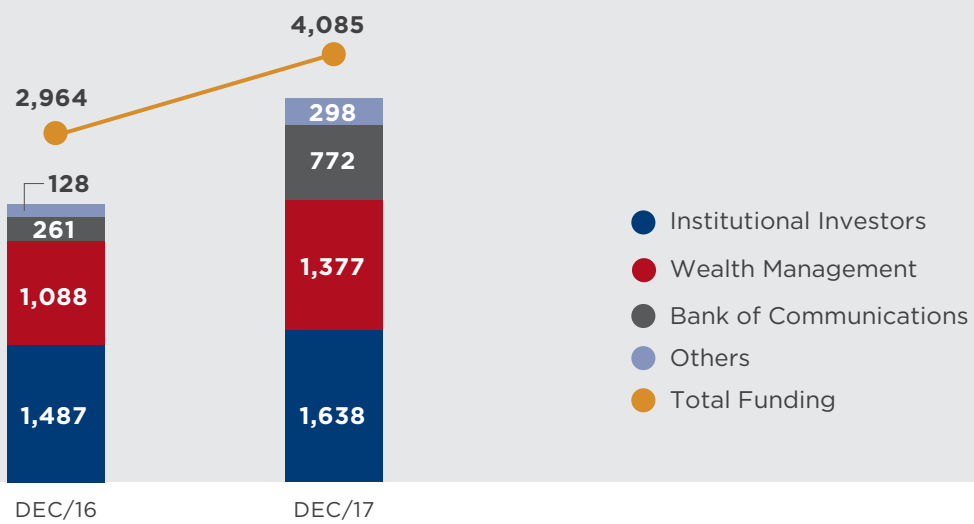
The funding portfolio therefore remains suitably diversified. The institution has access to local and foreign markets on competitive terms and comfortable maturities compared with its asset profile.

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LIQUID ASSETS & TOTAL FUNDING



FUNDING BY TYPE OF INVESTOR (R\$ MILLION)



The background is a complex digital composition. It features overlapping geometric shapes in shades of blue, purple, and grey. Faint, semi-transparent financial charts are visible, including a candlestick chart with red and white bars on the left and a line graph with a dashed trend line on the right. Binary code (0s and 1s) is scattered throughout the image, particularly in the lower-left and central areas. The overall aesthetic is high-tech and corporate.

4

RISK MANAGEMENT



BOCOM BBM has long tradition in risk management excellence, with continuous development throughout the past 20 years of proprietary methodologies for risk management, always positioned in the cutting edge of the industry.

Strong Culture of Risk Management is a Core Principle of our Institution, People and Processes

The core principle of our business model is an enterprisewide risk management approach. We seek high risk adjusted returns and conservative capital allocation in our activities. The Bank strongly emphasizes a comprehensive and sound structure of monitoring, assessment, and management of all risks borne in its operations. Banco BOCOM BBM's approach to risk management is based on the continuous development and application of proprietary state of the art financial models adapted to the Brazilian business environment and strongly supported by Senior Management. Risk models and parameters are incorporated in our governance and business decision processes, such as funding, credit loan origination and credit portfolio management. As a result, economic capital is efficiently allocated in our activities.

Risk models and parameters are incorporated in our governance and business decision processes, such as funding, credit loan origination and credit portfolio management.

Credit Risk

Banco BOCOM BBM has a credit risk management structure comprising of the following agents and their respective duties: a) Credit Committee, responsible for defining credit limits of economic groups and for the monitoring and consolidated assessing of the portfolio, including its level of concentration and risk. It is also responsible for stipulating the term to solve credit operations in default or with any guarantee deterioration and for deciding the start of judicial collection, if necessary; b) Board of Directors, responsible for approving the policies and risk limits, at least once a year; c) Credit Risk, area reporting to the Risk director, responsible for concentrating and assessing information related to individual credit risk per operation and the consolidated risk of the portfolio in order to ensure that the operating limits are followed, and for disclosing reports to assist the decision-making process of credit limits approved by the Credit Committee. The Risk area is also responsible for previously assessing new operating modalities in relation to credit risk; d) the Credit Analysis area, responsible for assessing the credit risk of economic groups with which the Bank holds or intends to hold credit relations; e) Internal Audit, which carries out regular audits in business units and in the Bank credit processes; f) Legal area, responsible for analyzing the contracts made between BOCOM BBM and clients, as well as coordinating the actions aiming at recovering credit or protecting the rights of BOCOM BBM; and g) Contract Control area, responsible for verifying the compliance of operations with parameters set in the Credit Limit Proposal (PLC), as well as the correct establishment of collateral. It must also issue contracts to be signed between BOCOM BBM and the client.

Market Risk

Banco BOCOM BBM was one of the pioneer banks in quantifying risk in the Brazilian market, having developed in 1997 a proprietary system which ended up being used as reference in the industry. The structure for market risk management comprises the following agents, with their respective duties: a) Executive Committee, responsible for reviewing policies and suggesting operating limits for risk management, being subject to approval of the Board of Directors, at least once a year; b) Board of Directors, responsible for approving the policies and risk limits, at least once a year; c) Market Risk area, reporting to Risk director, responsible for identifying, measuring, monitoring, and reporting the institution's market risk to the Executive Committee, thus ensuring the effective compliance with the market risk management policy, as well as ensuring that the operating limits are being followed; d) Pricing area, which among other duties defines the models and sources of prices used in marking to market of traded products, independently from the management areas; and e) Internal Audit, responsible for ensuring the adequacy of procedures and the consistency between the market risk management policies and the structure in fact implemented.

The market risk is monitored through the daily calculation of Value at Risk (VaR), a statistical tool which measures the potential loss of the Institution with a given level of confidence for a given investment horizon. A VaR limit is stipulated and may be allocated by the Treasury director among the various risk factors. The calculation model of the VaR is submitted to periodic backtesting. In addition to that, the Risk Committee, which is independent from the management areas, quarterly defines the scenarios of stress to be analyzed on a daily basis.

Liquidity Risk

Banco BOCOM BBM's goal with regard to liquidity is to ensure that at all times it has enough cash to honor its liabilities and all other covenants. Liquidity Risk is responsible for monitoring the free cash position in order to guarantee the continuity of operations in the event of severe stress, while complying with the limits and guidelines set by the Risk Committee and approved by the Board of Directors.

Liquid risk management is based on projections of the institution's cash flow under various scenarios for the evolution of funding, lending and treasury operations. The analysis of cash flow takes into account (a) each client's implicit risk, (b) any additional cash required for compliance with reserve requirements at the Central Bank of Brazil, (c) adjustments to derivatives, and (d) other obligations. The general principle is to ensure that commitments are aligned with the institution's equity and with its funding, lending and treasury policies.

Banco BOCOM BBM has a liquidity risk management structure comprising of the following agents, and their respective duties: a) Liquidity Risk area, reporting to the Risk director, responsible for centralizing and measuring the information related to liquidity risk management, for ensuring that operating limits are followed, and for disclosing reports to assist in the decision-making process specific to liquidity risk; and b) Internal Audit, responsible for ensuring the adequacy of procedures and the consistency between the liquidity risk management policies and the implemented structure in effect.

Operational Risk

Banco BOCOM BBM has an operational risk management structure in accordance with the best market practices and in compliance with the rules in effect. Such structure is enforced in the document "Operational Risk Management Policy", which defines the methodology and management process, the roles and accountabilities, the categories, procedures for documentation and information storage, in addition to the disclosure process which ensures the transparency of management activities. The Operational Risk area is an organization unit, separated from Internal Audit and under responsibility of the Risk and Internal Controls director. The area is responsible for acting jointly with other components of the structure with the purpose of ensuring compliance within the guidelines set forth in such Policy.



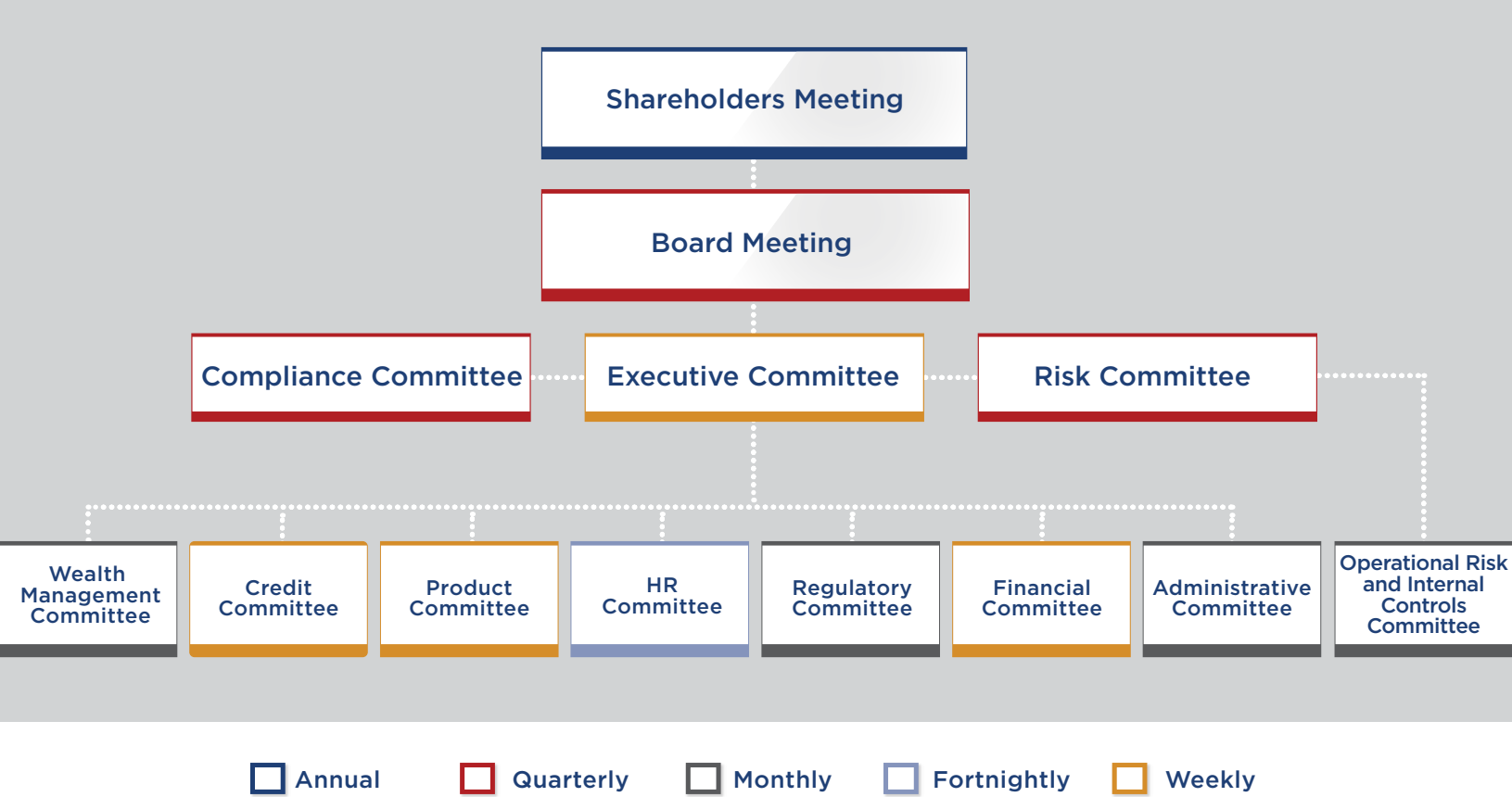
5

CORPORATE GOVERNANCE
AND PEOPLE

Due to a solid and transparent governance structure, based on the correct incentives, the executives are strongly committed to the activities affected by their decisions, both in the short and long term, thus minimizing the conflicts of interest among business units, executives, and shareholders.

Banco BOCOM BBM’s corporate governance model is based on two main pillars: the executives’ compensation policy and the structure of management committees. A significant share of the officers’ annual compensation is withheld and subjected to future income variations, thus obtaining the right incentives for generation and preservation of value in the long term.

Banco BOCOM BBM’s corporate governance model is based on two main pillars: the executives’ compensation policy and the structure of management committees.



GENERAL SHAREHOLDERS' MEETING

The higher decision-making body of the Institution, that meets at least once a year.

BOARD OF DIRECTORS

As the bank's quarterly strategic decision-making forum, the Board of Directors comprises four representatives of the controlling shareholder and one representative of minority shareholders.

Proposals drafted by the Executive Committee involving matters that must be approved by the Board of Directors for regulatory or corporate legal reasons are reviewed by the Board for a final decision or for submission to the General Shareholder Meeting.

MANAGEMENT COMMITTEES

All bank policies are defined by senior management through a committee structure. The committees have substantial autonomy and decision-making power, and their decisions are reported, or in some cases submitted to the Board of Directors or Executive Committee for approval, according to reporting lines. This structure assures coherent and responsible decisions aligned with the bank's objectives and culture.

Executive Committee

It meets on a weekly basis and is responsible for the proposal, deliberation, and escalation of the main business decisions, in addition to monitoring the Bank's activities. The Committee is also responsible for determining the corporate governance structure to be implemented in the Company and approving the creation of special committees not provided in the Bylaws.

Compliance Committee

It meets on a quarterly basis or on demand, in order to approve the annual compliance program, present regulatory requests, discuss compliance issues, and define the guidelines for money laundering prevention. The committee considers the cases related to this subject, enabling the issuance of a final opinion (whether or not favorable) on the indication of a suspicious activity to the regulatory bodies. The committee is comprised of the Executive Committee coordinator and Compliance director, Legal director, Human Resources director as well as Legal and Compliance members.

Risk Committee

It meets on a quarterly basis or whenever there are significant changes to the business environment in order to discuss and monitor the main sources of market risk, credit, and liquidity. It analyzes and defines stress scenarios, in addition to validating quantitative models used for the calculation of risk measures. The committee is comprised of the Executive Committee coordinator, directors responsible for Risk, Research, Middle and Back Office areas, and Risk members.

Wealth Management Committee

It meets monthly to discuss and suggest to the Executive Committee actions for the development of the Wealth Management area, in accordance with the Bank's business plan. It monitors the market and informs all participants on relevant issues that may interfere positively or negatively in the business. The committee is comprised of at least 3 statutory directors, members of the Wealth Management area, 1 Compliance representative and the Executive Committee coordinator.

Credit Committee

The credit transactions are assessed in weekly committees with the purpose of analyzing and keeping portfolio with solid transactions and good risk/return ratios. The credit capacity of each debtor together with the collateral are assessed using qualitative and quantitative proprietary models applied to a large database with information accumulated throughout our extensive experience in the credit market.

The Bank's financial counterparties are assessed in a specific Credit Committee with a minimum halfyearly frequency when all maximum allowed exposures are defined.

The committee comprises of Executive Committee coordinator, Credit directors, directors responsible for Risk, Research, Middle and Back Office areas, two members of the Board of Directors, and agents of Corporate Credit, Credit Analysis, Corporate Credit Control, Risk, Legal, Compliance, in addition to the Commercial Managers responsible for such analysis. The directors and the members of the board of directors have individually veto powers.

Product Committee

The main purpose of the committee is to identify business opportunities, its economic feasibility, in addition to analyzing risks, and legal and operating aspects of new and existing products. The committee is held weekly and is comprised of directors responsible for Products, Risk, Research, Middle and Back Office areas, Product Manager and coordinator, and Legal, Compliance and Accounting/Tax Control Managers. New products, once approved by this committee, are submitted to the Executive Committee.

Human Resources Committee

It meets on a fortnightly basis to address issues associated with compensation, recruiting, training, and other subjects relevant to human resources.

Regulatory Committee

Meets monthly for a systematic review of regulatory issues and their impact on the bank's activities.

The committee is comprised of directors responsible for Risk, Research, Legal, Middle and Back Office areas and members of the Legal, Accounting/Tax Control, Products, and Compliance areas.

Financial Committee

It meets on a weekly basis to discuss the economic and political outlook and evaluate the trading positions from the Proprietary Treasury and Corporate Treasury. The committee is comprised of the Executive Committee Coordinator, the Bank's directors and the managers responsible for Macro Research, Proprietary Treasury and Corporate Treasury.

Administrative Committee

Meets monthly to manage the budget and administrative costs, and to assess technological and control projects, among others.

The members of this committee are the executive officers responsible for Risk, Research, and Middle & Back Office, as well as representatives of the following areas: Risk, Legal, Internal Controls, Credit Control, Accounting/Tax Control, Treasury & Settlement Control, Managerial Control, Compliance, Human Resources, Products, IT, and Administration.

Operational Risk and Internal Controls Committee

Meets monthly to execute the Risk Committee's directive regarding the management of operational risk and internal controls.

The members of this committee are the executive officers responsible for Risk, Research, and Middle & Back Office, as well as representatives of the following areas: Risk, Legal, Internal Controls, Credit Control, Accounting/Tax Control, Treasury & Settlement Control, Managerial Control, Compliance, Human Resources, Products, IT, and Administration.

PEOPLE

Banco BOCOM BBM is a talent qualification and identification pool which values the systematic search for top-notch knowledge and favors people who want to reach their professional ambitions, adding value to the company.

Its culture provides ideal conditions for practical learning, since it enables a direct contact with the dynamic routine of the financial market through a broad sharing of knowledge within a highly qualified professional environment and team building atmosphere.

Professional Growth

Professional development is closely followed by the managers of the areas and the possibility of growth is one of the main factors of motivation and mutual commitment between Banco BOCOM BBM and its team.

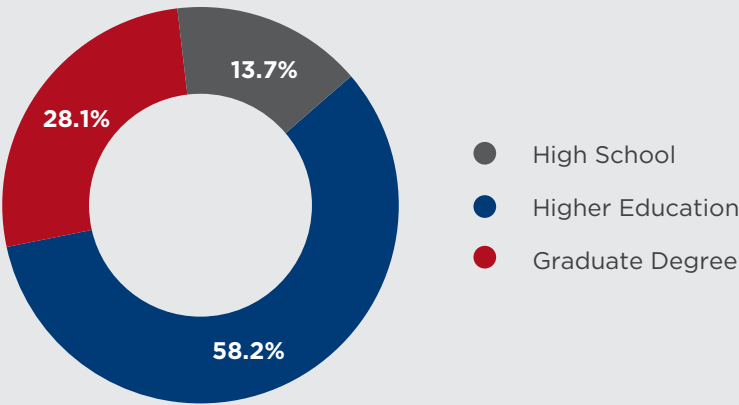
The performance of all employees and interns is analyzed based on a performance assessment policy which aligns the history of professional growth of its employees to the long-term performance of the company. The compensation includes a variable halfyearly bonus coupled to individual performance.

Attracting Highly Qualified Professionals

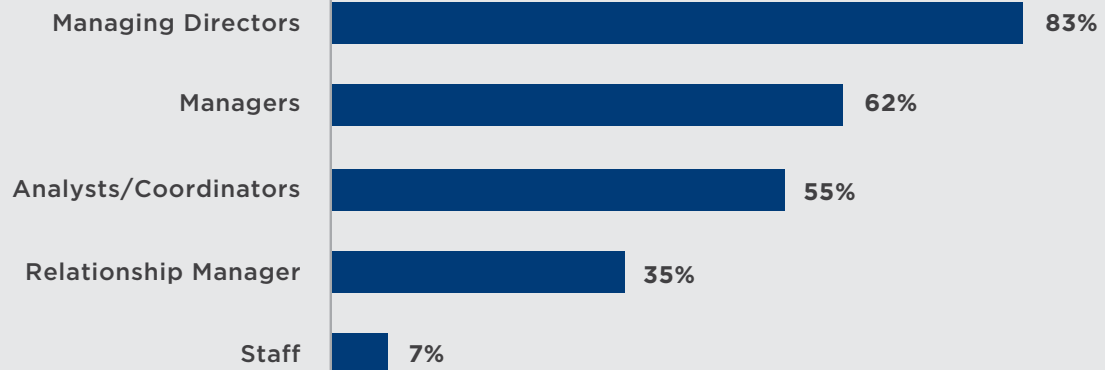
Banco BOCOM BBM, always aiming at seeking the best talents, liaises closely and directly with academic institutions, carrying out activities in the best universities of the country and investing in the identification and qualification of professional talents.

As an incentive for development, it encourages and supports projects through partnerships with universities of excellence, offering undergraduate and graduate scholarships, besides awarding dissertations and thesis.

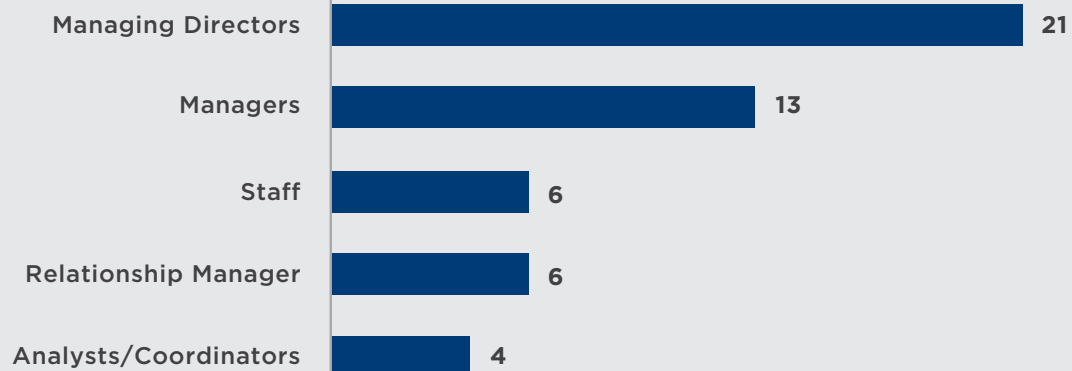
ACADEMIC PROFILE



BEGINNING OF CAREER IN THE FINANCIAL SECTOR AT BBM



WORKING PERIOD IN THE FINANCIAL MARKET (YEARS)



6

FINANCIAL STATEMENTS



CREDIT RATINGS

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

Moody's Investors Service reaffirmed the ratings of Banco BOCOM BBM on December 7, 2017. On a global scale, "Ba1" rating was assigned to our senior unsecured local currency debts, with a notch above the sovereign rating ("Ba2"). In the national scale Banco BOCOM BBM was rated as "Aaa.br", the best possible credit rating in this category.

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

COMPANY NAME AMENDMENT

On February 20, 2017, the transfer of shareholding control of Banco BBM S.A. to Bank of Communications Co., Ltd. was published on the "Diário Oficial" (Federal Government's official journal) by the Central Bank of Brazil.

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

The full financial statements, accompanied by the qualified opinion of independent auditors PriceWaterhouseCoopers, are available on the website www.bocombbm.com.br.

ASSETS

	Note	In R\$ thousand	
		Prudential Consolidated	
		12/31/2017	12/31/2016
CURRENT ASSETS		2,364,487	2,538,138
Cash and cash equivalents	4	14,501	17,671
Cash		–	3
Free reserves		157	860
Funds in foreign currency		14,344	16,808
Short-term interbank investments	5	355,776	338,753
Open market investments	4	200,028	210,691
Investments in foreign currencies	4	155,748	128,062
Marketable securities and derivative financial instruments	6	111,068	849,911
Bank portfolio		82,425	817,561
Subject to repurchase agreements		3,624	17,468
Derivative financial instruments		8,523	14,882
Linked to guarantees given		16,496	–
Interbank accounts		1,606	767
Deposits – Central Bank of Brazil		1,387	754
Correspondent banks		219	13
Loan transactions	7	1,212,696	881,801
Discounted securities and loans		687,655	543,899
Financing		337,642	365,525
Rural and agroindustrial financing		225,348	–
Allowance for loans		(37,949)	(27,623)
Other receivables		630,558	435,694
Foreign exchange portfolio	8	559,146	386,001
Unearned income		3,411	1,035
Trading and brokerage		–	133
Realized surenty	7	19,954	–
Sundry	14	17,818	32,357
Tax credits	24	48,999	22,530
Allowance for other receivables	7	(18,770)	(6,362)
Other assets	15	38,283	13,541

See accompanying notes.

ASSETS

		In R\$ thousand	
		Prudential Consolidated	
	Note	12/31/2017	12/31/2016
NONCURRENT ASSETS			
Long-term assets		2,604,579	1,423,099
Short-term interbank investments	5	3,258	2,963
Interbank deposits		3,258	2,963
Marketable securities and derivative financial instruments	6	1,323,431	884,837
Bank portfolio		987,668	304,156
Linked to repurchase agreements		100,396	329,037
Derivative financial instruments		1,727	128
Linked to guarantees given		233,640	251,516
Loan transactions	7	1,197,301	443,268
Discounted securities and loans		711,223	325,649
Financing		217,707	140,085
Rural and agroindustrial financing		291,090	-
Allowance for loans		(22,719)	(22,466)
Other receivables		80,589	91,203
Unearned income		1,585	-
Sundry	14	51,968	47,382
Tax credits	24	27,037	55,545
Allowance for other receivables	7	-	(11,724)
Other assets	15	-	828
Permanent assets		7,122	42,533
Investments		-	37,560
Income from interest in subsidiaries			
Abroad	9	-	37,509
Other investments		2,628	2,628
Provision for losses		(2,628)	(2,577)
Property and equipment in use		4,101	3,530
Intangible assets		3,021	1,443
Total assets		4,976,189	4,003,770

See accompanying notes.

LIABILITIES

	Note	In R\$ thousand	
		Prudential Consolidated	
		12/31/2017	12/31/2016
CURRENT LIABILITIES		2,539,435	2,426,143
Deposits	10	740,271	821,412
Demand deposits		87,885	26,943
Interbank deposits		18,040	105,657
Time deposits		634,346	688,812
Repurchase agreements	11	103,846	343,961
Bank portfolio		103,846	343,961
Funds from acceptance and issue of securities	12	1,179,879	731,599
Liabilities - marketable securities abroad		-	160
Liabilities from issue of agribusiness credit bills		855,544	544,807
Liabilities from issue of credit bills		292,284	164,469
Liabilities from issue of real estate credit bills		32,051	22,163
Interbranch accounts		81,625	35,251
Third-party funds in transit		81,625	35,251
Borrowings	13	349,997	439,785
Loans abroad		349,997	439,785
Lending obligations - Official institutions	13	3,028	-
Other institutions		3,028	-
Derivative financial instruments	6	3,369	3,766
Derivative financial instruments		3,369	3,766
Other liabilities		77,419	50,369
Collection of similar taxes		150	1,162
Foreign exchange portfolio	8	575	7
Social and statutory		31,713	11,637
Tax and social security		24,856	6,830
Securities trading		1,527	7,305
Provision for Financial Guarantees	7 and 26	417	-
Sundry		18,181	23,428

See accompanying notes.

LIABILITIES

		In R\$ thousand	
		Prudential Consolidated	
	Note	12/31/2017	12/31/2016
NONCURRENT LIABILITIES			
Long-term payables		1,852,803	1,001,923
Deposits	10	216,839	259,141
Interbank deposits		837	2,199
Time deposits		216,002	256,942
Funds from acceptance and issue of securities	12	1,254,497	463,736
Liabilities from issue of agribusiness credit bills		353,253	140,329
Liabilities from issue of credit bills		882,583	316,074
Liabilities from issue of real estate credit bills		18,661	7,333
Borrowings	13	340,350	248,627
Loans abroad		340,350	248,627
Derivative financial instruments	6	3,818	-
Derivative financial instruments		3,818	
Other liabilities		37,299	30,419
Social and statutory		7,532	10,692
Tax and social security		11,705	4,251
Sundry		17,941	15,476
Provision for financial guarantees	7 and 26	121	-
Deferred income	27	9,037	2,127
Equity	16	574,913	573,577
Capital		469,300	469,300
Domiciled in Brazil		469,300	469,300
Market value adjustment - marketable securities and financial instruments		(1,356)	(2,954)
Available-for-sale securities		(1,356)	(2,954)
Income reserves		288,808	286,181
Treasury stock		(181,839)	(184,469)
Non-controlling interest		-	5,519
Total liabilities and equity		4,976,189	4,003,770

See accompanying notes.

		In R\$ thousand		
		Prudential Consolidated		
	Note	Second half of 2017	12/31/2017	12/31/2016
Financial income		269,564	525,261	399,657
Loan transactions		142,660	268,602	219,511
Income from marketable securities transactions	5 and 6	85,274	194,465	215,429
Result of exchange operations	17	20,991	58,252	(35,283)
Loss (gain) on derivative financial instruments	20	20,639	3,942	-
Financial expenses		(178,420)	(364,006)	(299,909)
Market funding operations	17	(130,398)	(279,719)	(223,286)
Income from derivative financial instruments	21	-	-	(126,325)
Loans, assignments and onlending operations	17	(35,171)	(52,502)	82,647
Set up (reversal) of allowance doubtful accounts	7	(12,851)	(31,785)	(32,945)
Gross financial income		91,144	161,255	99,748
Other operating income (expenses)		(48,251)	(75,491)	(46,657)
Service revenues	18	25,879	43,090	18,411
Personnel expenses		(37,918)	(66,162)	(49,401)
Other administrative expenses	19	(25,142)	(46,140)	(38,333)
Tax expenses		(13,006)	(18,911)	(8,956)
Income from interest in subsidiaries	9	(71)	10,842	23,520
Other operating income		8,414	9,881	8,803
Other operating expenses		(6,407)	(8,091)	(701)
Operating income (loss)		42,893	85,764	53,091
Non-operating income (expenses)		(1,620)	(2,680)	(8,494)
Income before income taxes and profit sharing		41,271	83,084	44,597
Income and social contributions taxes	23	(4,839)	(10,799)	4,587
Provision for income tax		(6,085)	(10,812)	(2,906)
Provision for social contribution tax		(3,702)	(7,007)	(2,629)
Deferred tax asset		4,948	7,020	10,122
Profit sharing - managers and employees		(16,211)	(28,930)	(16,815)
Attributable to:				
Leading institution		20,221	43,355	32,750
Non-controller		-	-	(381)
Net income		20,221	43,355	32,369
Earnings per share		0.10	0.21	0.17

See accompanying notes.

STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

	In R\$ thousand								
	Capital	Income reserves		Marketable securities and derivatives	Treasury shares	Retained earnings	Total controlling	Non-controlling interest	Total
		Legal	Statutory	Bank					
YEAR ENDED DECEMBER 31, 2016									
Balances at January 1, 2016	413,131	82,626	273,380	(4,139)	(185,809)	-	579,189	5,900	585,089
Capital increase	57,942	(57,942)							
Profit Reserve								(381)	(381)
Market value adjustments – marketable securities				1,185			1,185		1,185
Scission (Note 16g)	(1,773)		(797)		797		(1,773)		(1,773)
Purchase of treasury shares					543		543		543
Net income for the year						32,750	32,750	(381)	32,369
Allocations:									-
- Interest on equity (R\$0.11 per share)						(43,836)	(43,836)		(43,836)
- Reserves		1,637	(12,723)			11,086		381	381
Balances at December 31, 2016	469,300	26,321	259,860	(2,954)	(184,469)	-	568,058	5,519	573,577
Changes in the period	56,169	(56,305)	(13,520)	1,185	1,340		(11,131)	(381)	(11,512)
YEAR ENDED DECEMBER 31, 2017									
Balances at January 1, 2017	469,300	26,321	259,860	(2,954)	(184,469)		568,058	5,519	573,577
Market value adjustments – marketable securities	-			1,598			1,598		1,598
Investment sale (Note 2c)								(5,519)	(5,519)
Earnout reversal					2,630		2,630		2,630
Net income for the year						43,355	43,355		43,355
Allocations:									
- Reserves		2,168	459			(2,627)			
- Interest on equity (R\$0.14 per share)						(40,728)	(40,728)		(40,728)
Balances at December 31, 2017	469,300	28,489	260,319	(1,356)	(181,839)	-	574,913	-	574,913
Changes in the period	-	2,168	459	1,598	2,630	-	6,855	(5,519)	1,336
Balances at July 1, 2017	469,300	27,478	261,679	(2,180)	(184,469)		571,808	-	571,808
Market value adjustments – marketable securities				824			824		824
Earnout reversal					2,630		2,630		2,630
Net income for the semester						20,221	20,221		20,221
Allocations:									
- Reserves		1,011	(1,360)			349	-		-
- Interest on equity (R\$0.07 per share)						(20,570)	(20,570)		(20,570)
Balances at December 31, 2017	469,300	28,489	260,319	(1,356)	(181,839)	-	574,913	-	574,913
Changes in the period	-	1,011	(1,360)	824	2,630	-	3,105	-	3,105

See accompanying notes.

STATEMENT OF CASH FLOW

	In R\$ thousand		
	Prudential Consolidated		
	Second half of 2017	12/31/2017	12/31/2016
CASH FLOW STATEMENTS			
Net income	20,221	43,355	32,369
Adjustments to net income	6,544	17,136	2,229
Set up (reversal) of allowance doubtful accounts	12,851	31,785	32,945
Depreciation and amortization	726	1,729	1,629
Expenses from civil, labor and tax allowances	1,620	2,715	2,192
Income from interest in subsidiaries	71	(10,989)	(27,575)
Deferred income and social contribution taxes	(4,948)	(7,020)	(10,122)
Unrealized gains/losses on marketable securities and derivatives	(4,600)	(2,829)	(2,081)
Restatement of membership certificates	824	1,598	1,185
Equity adjustments	-	147	4,055
Adjusted net income	26,765	60,491	34,598
(Increase)/Decrease in short-term interbank investments	(128)	(295)	2,413
(Increase)/Decrease in marketable securities and derivative financial instruments	(22,389)	306,499	33,668
Decrease/(Increase) in interbank and interbranch accounts	38,684	45,535	(10,564)
(Increase) in loan and lease transactions	(300,873)	(1,116,713)	(267,126)
(Decrease) in deposits	(62,126)	(123,443)	626,599
(Decrease) in open market funding	(639,870)	(240,115)	(226,696)
Increase/(Decrease) in securities issue resources	594,837	1,239,042	(182,228)
Increase/(Decrease) in borrowings and onlending	(103,512)	4,963	57,566
Increase in future period results	805	6,910	1,227
(Increase) in other assets	(17,314)	(201,143)	(34,409)
(Decrease)/Increase in other liabilities	10,129	11,141	(40,096)
Net cash flow from (used in) operating activities	(501,758)	(67,619)	(39,646)
CASH FLOW FROM INVESTING ACTIVITIES			
Increase/(Decrease) in investments	(71)	48,402	17,421
Disposal of investment	-	(5,519)	(1,773)
Disposal of property and equipment for use and leased	(2,740)	(3,878)	(2,284)
Disposal of deferred charges	-	-	1,528
Dividends and interest on equity received	-	-	300
Net cash provided by (used in) investing activities	(2,811)	39,005	15,192
CASH FLOW FROM FINANCING ACTIVITIES			
Dividends and interest on equity paid	(17,373)	(20,654)	(41,712)
Purchases of treasury shares	2,630	2,630	(1,340)
Net cash provided from (used in) financing activities	(14,743)	(18,024)	(43,052)
Net increase (decrease) in cash and cash equivalents	(492,547)	13,853	(32,909)
At beginning of period	862,824	356,424	389,333
At end of period	370,277	370,277	356,424
Net increase (decrease) in cash and cash equivalents	(492,547)	13,853	(32,909)
NON-MONETARY TRANSACTION			
Interest on equity	20,570	40,728	3,255
See accompanying notes.			

1. OPERATIONS

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

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

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

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

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

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

2. PRESENTATION OF THE FINANCIAL STATEMENTS AND CONSOLIDATION CRITERIA

The Prudential Consolidated Financial Statements were prepared in accordance with accounting practices derived from the Brazilian Corporation Law, in accordance with Resolution No. 4280/2013, from Brazilian National Monetary Board (CMN) and Circular No. 3701/2015, from the Central Bank of Brazil (BACEN), presented in conformity with the accounting practices from Law No. 4595/64 (National Financial System Law) and No. 6404/76 (amended by Law No. 11638/07 and No. 11941/09, in compliance with the norms and instructions from CMN, BACEN and Federal Accounting Council (CFC) and the accounting practices adopted in Brazil, applicable to financial institutions regulated by BACEN.

The preparation of these statements in accordance with the accounting practices adopted in Brazil, applicable to financial institutions, requires management to use judgment in the determination and recording of accounting estimates, when applicable. Significant assets and liabilities subject to these estimates and assumptions include: provision for doubtful accounts, realization of deferred tax assets,

2. PRESENTATION OF THE FINANCIAL STATEMENTS AND CONSOLIDATION CRITERIA (CONTINUED)

provision for labor, tax and civil claims, valuation of financial instruments, assets and liabilities related to post-employment benefits to employees and other provisions. The definitive values of the transactions involving these estimates will only be known at the time of their settlement.

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

In the process of consolidation of the institutions included in the Prudential Conglomerate, for the valuation and recognition of assets, liabilities, revenues and expenses of these entities, to apply the same classifications, criteria, procedures and accounting policies used by the leading institution, complemented by eliminations, were adjusted, as of the base date:

- Equity interests, reserves and retained earnings maintained between institutions, and it should be noted that there are no reciprocal cross-holding;
- Balances of current accounts and other Assets/Liabilities between the institutions, whose balance sheets were consolidated; and
- The effects on profit or loss arising from significant transactions between these institutions.

The Prudential Consolidated financial statements comprise the financial statements at December 31, 2017 and 2016 of the following institutions:

- Banco BOCOM BBM S.A. and Agência Nassau;
- BBM Bank Ltd. (a);
- BACOR Corretora de Câmbio e Valores Mobiliários S.A. (b);
- BBM Administração de Recursos DTVM S.A. (c);
- Bahia Fund (a);
- The Southern Atlantic Investments, Ltd. (b).

(a) The indirect interest of 100% of Banco BOCOM BBM S.A. in BBM Bank Ltd. capital and Bahia Fund were eliminated from the Prudential Conglomerate.

(b) Banco BOCOM BBM S.A. directly holds 100% of the capital of this entity. The consolidation of The Southern Atlantic Investments, Ltd. started in August 2017, as explained in Note 9.

(c) In October 2015, Banco BOCOM BBM S.A. sold its 100% direct ownership interest in BBM Administração de Recursos DTVM S.A. to BBM Holding S.A. However, on September 30, 2016, it was still part of Prudential Conglomerate, according to item II of Art. 3º of Resolution No. 4280/2013. On February 20, 2017, the transfer of shareholding control of Banco BOCOM BBM S.A. to the Bank of Communications Co., Ltd. was published in the Diário Oficial of the Central Bank of Brazil, and from this moment on BBM Administração de Recursos DTVM S.A. was no longer part of Prudential Conglomerate.

2. PRESENTATION OF THE FINANCIAL STATEMENTS AND CONSOLIDATION CRITERIA (CONTINUED)

Management understands that in accordance with BACEN Circular No. 3701/2015, the consolidation criteria used adequately meets the requirements, as explained in Note 9.

3. SIGNIFICANT ACCOUNTING PRACTICES

(a) P&L from operations

Profit and loss are recorded on an accruals basis.

(b) Marketable securities and derivative financial instruments

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

I – Trading securities;

II – Securities available-for-sale;

III – Securities held to maturity.

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

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

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

(c) Current and noncurrent assets

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

(d) Permanent assets

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

- Significant investments in subsidiaries are accounted for based on the equity pickup method in the individual financial statements;

3. SIGNIFICANT ACCOUNTING PRACTICES (CONTINUED)

- Property and equipment and leased assets are depreciated on the straight-line basis, at annual rates that take into account the economic and useful lives of assets, as follows: property in use – 4%; furniture and fixtures, machinery and equipment – 10%; and EDP equipment – 20%;
- Amortization of intangible assets is computed in accordance with the assets' economic useful lives.

According to the Resolution No. 4534/16 of the National Monetary Council (CMN), financial institutions and other institutions authorized by the Central Bank of Brazil to operate are not allowed to register deferred assets. The balances recorded in deferred assets on the date of entry into force of this resolution, except for losses on leases to amortize, must be:

- I – Reclassified to the appropriate asset accounts, according to the nature of the transaction, when referring to items that constitute an asset, in the form of the regulation in force; and
- II – Amortized on a straight-line basis up to, at most, December 31, 2019, in other cases.

In 2016 the deferred asset balance was fully reclassified to the facilities account and will be amortized according to the term established in current legislation.

(e) Current and noncurrent liabilities

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

(f) Income and social contribution taxes

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

The deferred tax assets and liabilities arising from temporary differences were recognized in accordance with CMN Resolution No. 3059 issued on December 20, 2002, and CMN Resolution No. 3355, issued on March 31, 2006, and take into account the history of profitability and the expected generation of future taxable income supported by technical feasibility studies. Deferred taxes were constituted based on the expected rate for Income Tax of 25% and for Social Contribution of 20%, provided that its use occurred within the current tax period.

In May 2015, the Provisional Measure No. 675 was issued, amending the rate of Social Contribution on Net Income (CSLL) of financial institutions from 15% to 20%. This rate increase went into effect, according to the Provisional Measure, from September 2015 and it remains in effect until December 2018.

(g) Swaps, futures, forwards and options

The nominal amounts of contracts are recorded in offsetting accounts. Daily adjustments of transactions conducted in the future market are recorded as effective income or expenses as they are incurred. Premiums paid or received upon the realization of operations in the options market are recorded in the respective equity accounts at cost value, adjusted to market value through P&L. The market value of swap and term

3. SIGNIFICANT ACCOUNTING PRACTICES (CONTINUED)

operations are individually recorded in asset and liability equity accounts, reconciled with the respective income and expense accounts.

(h) Earnings per share

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

(i) Impairment of assets

Pursuant to CPC 01, approved by CMN Resolution No. 3566 of May 29, 2008, based on Management's analysis, if the book value of the assets of the Bank and its subsidiaries exceeds their recoverable amount, a loss is recognized for impairment in its result.

(j) Contingent assets and liabilities and legal obligations

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

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

Contingent liabilities – These are recognized in the financial statements in cases where legal counsel and management rate the likelihood of an unfavourable outcome on a lawsuit or administrative proceeding as probable, and where the amounts involved are measurable with sufficient certainty. Contingent liabilities classified by the legal advisors as representing possible losses are only disclosed in the notes, whereas those classified as remote losses do not require any provision or disclosure. In the case of labor claims with probability of loss classified as possible by the external offices, management will take into account certain premises, such as: procedural stage, right involved, history of losses, possibility of making an agreement. In this way, we can have provision, even if the causes are classified as possible.

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

(k) Short-term interbank investments

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

(l) Loan transactions

Loan transactions are stated at their acquisition, investment or release cost, plus foreign exchange, monetary and interest variations, as contractually defined. When the market value is lower, a provision for the adjustment of the asset to its realization value is made. An allowance for doubtful accounts is set at an amount considered sufficient to cover any losses, and it considers, in addition to experience in the

3. SIGNIFICANT ACCOUNTING PRACTICES (CONTINUED)

past, the assessment of debtors and their guarantors, as well as the specific characteristics of transactions, in accordance with the requirements of Brazilian Central Bank Resolution No. 2682. These are recorded at present value on a daily pro rata basis, based on the index variation and the agreed-upon interest rate, restated up to the 59th day in arrears at the financial companies, observing the estimated receipt date. Since the 60th day, the P&L are recognized when the instalments are effectively received. Renegotiated transactions are recorded at least at the same level they were previously classified and, if they are written off against a provision, they are then classified at H level, and gains are recognized in revenue when they are effectively received.

Loan assignments without risk retention result in the write-off of the financial assets that are the object of the operation, which are now kept in a clearing account. The result of the assignment is fully recognized when it is realized. Since January 2012, as determined by CMN Resolution No. 3533/2008 and CMN Resolution No. 3895/2010, all loan assignments with risk retention are now recognized by the remaining terms of operations, and the financial assets subject to the assignment and the amount received as liabilities for sales or transfer of financial assets are recorded as loan operations in the financial statement.

(m) Cash and cash equivalents

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

(n) Other values and assets

Transactions classified as Other Securities and Assets are operations arising from the execution of guarantees for credit operations, which are initially valued by the remaining balance of the debt, and are valued at fair value through appraisal reports prepared by recognized professional entities, using evaluation techniques.

(o) Hedge accounting

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

Derivative financial instruments used to mitigate risks arising from exposure to variations in the market values of assets and liabilities, and that are highly correlated with changes in its market value in relation to the market value of the item that is being protected, at the beginning and during the life of the contract and considered effective in reducing the risk associated with the exposure to be protected, are considered protection instruments (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 non-effective parcel of the respective hedge is recognized directly in the result.

3. SIGNIFICANT ACCOUNTING PRACTICES (CONTINUED)

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

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

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

(p) Deposits and Funding in the Open Market

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

4. CASH AND CASH EQUIVALENTS

	In R\$ thousand	
	Prudential Consolidated	
	12/31/2017	12/31/2016
Cash and checking accounts in banks	14,344	16,808
Free reserves in cash with the Central Bank	157	863
Interbank investments (a)	200,028	210,691
Investments in foreign currencies	155,748	128,062
Total	370,277	356,424

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

5. SHORT-TERM INTERBANK INVESTMENTS

Short-term interbank investments are as follow:

	In R\$ thousand	
	Prudential Consolidated	
	12/31/2017	12/31/2016
Open market investments	200,028	210,691
Self-funded position	200,028	210,691
National Treasury Bills	-	207,192
Financial Treasury Bills	-	3,499
National Treasury Notes - B series	200,028	-
Interbank deposits	3,258	2,963
Investments in foreign currencies*	155,748	128,062
	359,034	341,716
Current assets	355,776	338,753
Long-term receivables	3,258	2,963
Total	359,034	341,716

* The amount in foreign currency investments in the Prudential Conglomerate in December 2017 and 2016 refers basically to overnight operations with first-tier banks.

At December 31, 2017 and 2016, the collateral received through repurchase agreements amounted to R\$206,627 thousand and R\$215,567 thousand respectively, in Prudential Conglomerate. The collateral provided amounted to R\$10,526 thousand and R\$302,435 thousand during the same periods.

The results of short-term interbank investments for the Bank and Prudential Conglomerate are as follow:

	In R\$ thousand		
	Prudential Consolidated		
	Second half of 2017	12/31/2017	12/31/2016
Open market investments	9,176	41,055	21,523
Interbank deposits	128	295	587
Investments in foreign currencies	1,100	1,708	581
Income from marketable securities transactions	10,404	43,058	22,691

6. MARKETABLE SECURITIES AND DERIVATIVE FINANCIAL INSTRUMENTS

	In R\$ thousand			
	Prudential Consolidated			
	Cost	Market	Cost	Market
	12/31/2017		12/31/2016	
I - MARKETABLE SECURITIES	1,423,839	1,424,249	1,718,547	1,719,738
SECURITIES FOR TRADING*	52,130	52,283	1,103,480	1,105,067
Own portfolio	33,945	34,098	804,569	805,022
Fixed income securities	33,945	34,098	754,017	754,470
Financial Treasury Bills	9	9	3,225	3,217
National Treasury Bills	-	-	99,964	99,949
National Treasury Notes - B series	33,936	34,088	147,571	148,131
National Treasury Notes - F series	-	-	503,257	503,173
Investment fund shares	-	-	50,552	50,552
Shares in Credit Rights Fund	-	-	50,552	50,552
Subject to repurchase agreements	-	-	298,911	300,045
National Treasury Notes - B series	-	-	298,911	300,045
Subject to guarantees granted	18,185	18,185	-	-
Shares in Guarantee Fund	18,185	18,185	-	-
AVAILABLE-FOR-SALE SECURITIES*	778,292	778,549	615,067	614,671
Own portfolio	505,944	506,002	316,710	316,695
Fixed income securities	505,944	506,002	316,636	316,496
Financial Treasury Bills	319,130	319,269	102,057	101,901
National Treasury Notes - B series	9,826	9,733	1,661	1,667
National Treasury Notes - F series	-	-	55	55
Promissory note	51,477	51,477	117,410	117,410
Debentures	125,512	125,523	95,453	95,463
Variable income securities	-	-	74	199
Shares of listed companies	-	-	74	199
Subject to repurchase agreements	103,796	104,020	46,435	46,460
Financial Treasury Bills	10,521	10,526	-	-
National Treasury Notes - B series	-	-	2,381	2,390
Debentures	93,276	93,494	44,054	44,070
Subject to guarantees given	168,551	168,527	251,922	251,516
Financial Treasury Bills	168,551	168,527	251,922	251,516
HELD TO MATURITY SECURITIES*	593,417	593,417		
Own portfolio	529,993	529,993		
Fixed income securities	529,993	529,993		
National Treasury Notes - F series	529,993	529,993		
Subject to guarantees granted	63,424	63,424		
National Treasury Notes - F series	63,424	63,424		

Continued

6. MARKETABLE SECURITIES AND DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

II - DERIVATIVE FINANCIAL INSTRUMENTS	7,623	10,250	15,664	15,010
Swap transactions	7,362	9,447	11,148	11,148
Forward	261	803	4,305	3,752
Options premium	-	-	211	110
Total marketable securities and derivative financial instruments	1,431,462	1,434,499	1,734,211	1,734,748

SEGREGATION OF PORTFOLIO BY MATURITY

No maturity	-	-	74	199
Within 3 months	53,518	53,952	781,543	781,438
From 3 to 12 months	56,207	57,116	68,872	68,274
Above 12 months	1,321,737	1,323,431	883,722	884,837
Total	1,431,462	1,434,499	1,734,211	1,734,748

III - DERIVATIVE FINANCIAL INSTRUMENTS

Swap transactions	5,093	6,345	1,963	1,763
Forward	1,088	842	1,815	1,988
Futures			15	15
Short position	6,181	7,187	3,793	3,766

SEGREGATION BY MATURITY

Within 3 months	2,053	1,770	2,877	2,944
From 3 to 12 months	1,698	1,599	771	822
Above 12 months	2,430	3,818	145	-
Total	6,181	7,187	3,793	3,766

6. MARKETABLE SECURITIES AND DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Gains (losses) on marketable securities in Bank and Prudential Conglomerate are as follows:

	In R\$ thousand		
	Prudential Consolidated		
	Second half of 2017	12/31/2017	12/31/2016
Investment fund shares	1,501	4,365	6,436
Government securities	62,338	119,903	147,197
Private securities	11,031	27,139	39,105
Income from marketable securities	74,870	151,407	192,738

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

* Securities classified as “Securities for trading” maturing within longer than 12 months and which, at December 31, 2017, amount to R\$34,098 thousand (R\$451,391 thousand at December 31, 2016), are stated in current assets, according to BACEN Circular No. 3068/01. Securities classified as “Securities available for sale” maturing within longer than 12 months, amounting to R\$710,286 thousand at December 31, 2017 (R\$181,800 thousand at December 31, 2016), are stated in noncurrent assets, according to BACEN Circular No. 3068/01, irrespective of their liquidity level. The effect of this classification on net working capital is stated in Note 22 – Liquidity risk.

There were no transfers of securities categories in 2017 and in 2016 due to the change of the controlling shareholder of Banco BOCOM BBM, the Bank’s executive committee unanimously approved the transfer of the category of the 150,000 NTN-Bs maturing on May 15, 2019 classified as “held to maturity” to “trading” when the balance sheet was prepared. This reclassification generated a positive result of R\$2,933 thousand.

7. LOAN TRANSACTIONS, SURETIES AND GUARANTEES

At December 31, 2017 and 2016, loans and guarantees provided through sureties or guarantee agreements by the Bank and the Operational Consolidated statements, classified according to the clients' economic activities, are as follows:

	In R\$ thousand			
	Prudential Consolidated			
	12/31/2017		12/31/2016	
ATIVIDADE ECONÔMICA				
Sugar and Ethanol	699,814	20.60%	328,297	17.15%
Agriculture	438,089	12.89%	298,311	15.59%
Foods – Sundry	168,616	4.96%	59,245	3.10%
Civil Aviation	60,194	1.77%	29,337	1.53%
Capital Goods	136,744	4.02%	80,237	4.19%
Foreign trade	58,930	1.73%	33,844	1.77%
Retail market	184,721	5.44%	188,016	9.82%
Utilities (energy)	188,187	5.54%	132,068	6.90%
Building and Real Estate	221,363	6.52%	91,921	4.80%
Pharmaceutics	89,873	2.65%	83,339	4.35%
Construction Material	75,854	2.23%	16,443	0.86%
Metallurgy	44,508	1.31%	4,235	0.22%
Mining	50,140	1.48%		0.00%
Pulp and Paper	69,703	2.05%	46,957	2.45%
Chemical and Petrochemical	82,122	2.42%	104,707	5.47%
Specialized Services	115,510	3.40%	114,638	5.99%
Textile and Leathers	85,495	2.52%	42,849	2.24%
Transportation and Logistics	62,814	1.85%	24,142	1.26%
Others*	119,497	3.52%	162,705	8.50%
Private Sector	2,952,171	87%	1,841,290	96%
Utilities (energy)	181,950	5.36%		0.00%
Oil & Gas	131,678	3.88%	54,233	2.83%
State government	91,356	2.69%		0.00%
Others*	40,214	1.18%	18,485	0.97%
Public Sector	445,199	13%	72,718	4%
Total	3,397,370	100%	1,914,008	100%

* The activities classified within Other include all economic sectors that individually represent less than 1% of the total active loan portfolio at the base date of December 31, 2017.

7. LOAN TRANSACTIONS, SURETIES AND GUARANTEES (CONTINUED)

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

	In R\$ thousand	
	Prudential Consolidated	
	12/31/2017	12/31/2016
CURRENT ASSETS		
Loan transactions	1,250,645	909,424
Private sector	1,189,055	901,848
Public sector	61,590	7,576
Other receivables	36,476	11,404
Foreign exchange portfolio - Receivables (a)	15,563	10,798
Securities and credits receivable (b)	20,913	606
NONCURRENT ASSETS		
Loan transactions	1,220,020	465,734
Private sector	991,678	454,825
Public sector	228,342	10,909
Other receivables	6	152
Securities and credits receivable (b)	6	152
CURRENT LIABILITIES		
Other liabilities	524,498	384,816
Foreign exchange portfolio - Advances on exchange contracts (a)	524,498	384,816
Sub-total	3,031,645	1,771,530
Co-obligations and risks in guarantees provided (c)	365,725	142,478
Total	3,397,370	1,914,008

(a) The advances on exchange contracts and the related income receivables are classified as reduction accounts of Other Liabilities - Exchange Portfolio and Other Receivables - Exchange Portfolio, respectively, as shown in Note 8.

(b) These refer mainly to the portfolio of honoured guarantee.

(c) These refer to guarantees granted through sureties, guarantees and import letters of credit. Guarantees granted are recorded in offsetting accounts, and their respective proceeds are classified in P&L for future years, allocated to P&L for the period in accordance with the contractual terms of guarantees. These also include, in the Bank, guarantees provided for loan transactions of BBM Bank Ltd., which are eliminated in the Operational Consolidated.

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

7. OAN TRANSACTIONS, SURETIES AND GUARANTEES (CONTINUED)

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

In R\$ thousand													
12/31/2017											12/31/2016		
Risk level	Overdue - days					Falling due - days				Total	PDD	Total	PDD
	Within 14	15 to 60	61 to 90	91 to 180	180 to 360	Within 90	From 91 to 180	From 181 to 360	Over 360 days				
AA						131,331	161,831	289,657	533,211	1,116,030		323,452	
A	959					134,847	272,588	529,491	484,959	1,422,844	7,114	851,631	4,258
B	810	23				113,434	90,210	190,210	199,563	594,250	5,943	491,426	4,514
C	2,549	149				46,193	37,829	44,600	45,661	176,981	5,309	150,605	4,518
D												24,807	2,481
E		622		8,970		671	649	788		11,700	3,510	5,267	1,580
F			6,088			230	227	358	13,984	20,888	11,628	22,810	14,279
G				19,954		218	218	437	10,948	31,776	23,571	27,336	19,858
H				12,909	9,788	3	197	5		22,901	22,901	16,674	16,674
	4,318	794	6,088	41,833	9,788	426,928	563,749	1,055,546	1,288,326	3,397,370	79,976	1,914,008	68,163

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

In R\$ thousand		
	12/31/2017	12/31/2016
Allowance for loan losses	60,668	50,089
Current assets	37,949	27,623
Noncurrent assets	22,719	22,466
Provision for other credits	18,770	3,463
Securities and credits receivable	14,003	466
Current assets	14,003	455
Noncurrent assets		11
Provision for advances on exchange contracts	4,767	2,997
Current assets	4,767	2,997
Provision for co-obligations and risks in guarantees provided*	538	14,611
Current assets/Liability	417	2,898
Noncurrent assets/Liability	121	11,713
Total	79,976	68,163

* In accordance with Resolution No. 4512 of July 28, 2016, financial institutions began to record in liabilities the provision for Co-Borrowings and Risks in Guarantees Given. According to Note 26.

7. LOAN TRANSACTIONS, SURETIES AND GUARANTEES (CONTINUED)

Changes in allowances are as follows:

	In R\$ thousand	
	12/31/2017	12/31/2016
Balance at January 1	68,163	45,601
Set up/(Reversal)	31,797	32,933
Write-offs to loss	(19,984)	(10,371)
Total	79,976	68,163

For the year ended December 31, 2017, no loan transactions were renegotiated (2016 – R\$39,523 thousand).

For the year ended December 31, 2017, there was recovery of losses on loan transactions in the amount of R\$753 thousand (2016– R\$6,328 thousand).

The breakdown of sales or transfers of assets without the substantial retention of risks and rewards in the years ended December 31, 2017 and 2016 was as follows:

	Prudential Conglomerate	
	In R\$ thousand	
	12/31/2017	12/31/2016
Number of contracts	22	32
Assignment amount	25,637	57,733
Provision net book value	25,038	61,859
Revenue from assignments	599	(4,126)

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

	In R\$ thousand			
	12/31/2017	%	12/31/2016	%
Top debtor	131,678	3.9%	83,116	4.3%
Top 10 debtors	816,634	24.0%	465,125	24.3%
Top 20 debtors	1,287,098	37.9%	747,393	39.0%
Top 50 debtors	2,133,335	62.8%	1,324,885	69.2%
Top 100 debtors	2,914,920	85.8%	1,790,373	93.5%

7. LOAN TRANSACTIONS, SURETIES AND GUARANTEES (CONTINUED)

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

	In R\$ thousand	
	12/31/2017	12/31/2016
Working capital	1,562,365	821,688
Trade finance	586,293	423,222
Export credit notes	457,299	413,085
Co-obligations	365,725	142,479
Others	425,688	113,534
Total	3,397,370	1,914,008

8. FOREIGN EXCHANGE PORTFOLIO

	In R\$ thousand	
	12/31/2017	12/31/2016
OTHER RECEIVABLES - FOREIGN EXCHANGE PORTFOLIO		
Foreign exchange purchases pending settlement	543,006	375,196
Rights on foreign exchange sales	577	7
Income receivable from advances granted (a)	15,563	10,798
Total	559,146	386,001
OTHER PAYABLES - FOREIGN EXCHANGE PORTFOLIO		
Foreign exchange sales pending settlement	575	7
Exchange purchase obligations	524,498	384,816
Advances on foreign exchange contracts granted (a)	(524,498)	(384,816)
Total	575	7

(a) See Note 7.

As of December 31, 2017, there were federal government bonds deposited as collateral for foreign exchange transactions in the Foreign Exchange Clearinghouse BM&FBovespa S.A. - Securities, Commodities and Futures Exchange in the amount of R\$66,651 thousand (2016 - R\$69,159 thousand).

9. INVESTMENTS - INTERESTS IN SUBSIDIARIES

	In R\$ thousand				
	Investment book value		Income from interests in subsidiaries		
	12/31/2017	12/31/2016	Second half of 2017	12/31/2017	12/31/2016
The Southern Atlantic Investments, Ltd. (a)	-	37,509	-	11,060	27,575
Others (b)	-	-	(71)	(218)	(4,055)
Total	-	37,509	(71)	10,842	23,520

(a) On February 23, 2017, Banco BOCOM BBM requested authorization from the Central Bank of Brazil to consolidate The Southern Atlantic Investments, Ltd. (SAI), its non-financial subsidiary abroad, in the preparation of the financial statements of the Prudential Conglomerate, CADOC (4060). In August 2017, the Central Bank, based on the prerogative given by Article 8 of Resolution No. 4280/2013, approved the lawsuit, determining the inclusion of the company in the Prudential Conglomerate.

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

10. DEPOSITS

Maturity	In R\$ thousand			
	Time deposits	Interbank deposits	Total 12/31/2017	Total 12/31/2016
Within 1 month	201,402	154	201,556	144,253
From 1 to 3 months	233,891	11,714	245,605	203,391
From 3 to 6 months	118,538	2,277	120,815	151,162
From 6 to 12 months	80,515	3,895	84,410	295,663
More than 12 months	216,002	837	216,839	259,141
Subtotal	850,348	18,877	869,225	1,053,610
Cash deposits and other deposits			87,885	26,943
Total			957,110	1,080,553

The average terms of interbank and time deposits, for outstanding transactions as of December 31, 2017, were 525 days and 374 days (2016 - 199 and 475 days), respectively.

10. DEPOSITS (CONTINUED)

Maturities upon issue	In R\$ thousand			
	Time deposits	Interbank deposits	Total 12/31/2017	Total 12/31/2016
Within 1 month	1,196	-	1,196	25,506
From 1 to 3 months	169,756	-	169,756	125,694
From 3 to 6 months	213,310	-	213,310	45,959
From 6 to 12 months	156,191	10,720	166,911	164,347
More than 12 months	309,895	8,157	318,052	692,104
Subtotal	850,348	18,877	869,225	1,053,610
Cash deposits and other deposits			87,885	26,943
Total			957,110	1,080,553

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

	In R\$ thousand									
	Demand Deposits		Time deposits		Interbank deposits		Total			
	12/31/2017	12/31/2016	12/31/2017	12/31/2016	12/31/2017	12/31/2016	12/31/2017		12/31/2016	
Legal entities	71,359	22,161	208,336	152,545	-	-	279,695	29.22%	174,706	16.17%
Institutional customers	4	5	32,876	520,769	-	-	32,880	3.44%	520,774	48.20%
Group	76	1,809	567,278	199,642	5,694	-	573,048	59.87%	201,451	18.64%
Financial institutions	1	328	33,739	58,310	13,183	107,856	46,923	4.90%	166,494	15.41%
Individuals	16,445	2,640	8,119	14,488	-	-	24,564	2.57%	17,128	1.59%
Total	87,885	26,943	850,348	945,754	18,877	107,856	957,110	100%	1,080,553	100%

	In R\$ thousand			
	12/31/2017		12/31/2016	
Top depositor	431,857	45.12%	177,238	16.40%
Top 10 depositors	742,943	77.62%	579,128	53.60%
Top 20 depositors	827,219	86.43%	740,043	68.49%
Top 50 depositors	919,498	96.07%	926,632	85.76%
Top 100 depositors	947,966	99.04%	1,031,347	95.45%

11. REPURCHASE AGREEMENTS

The breakdown of the obligations for repo operations in the Prudential Conglomerate is as follows:

	In R\$ thousand	
	Prudential Consolidated	
	12/31/2017	12/31/2016
OWN PORTFOLIO	103,846	343,961
Financial Treasury Bills	10,500	-
National Treasury Notes - B series	-	300,046
Debentures	93,346	43,915
Total	103,846	343,961

12. FUNDS FROM ACCEPTANCE AND ISSUE OF SECURITIES AND REAL ESTATE BILLS

Banco BOCOM BBM issued Eurobonds in the amount of R\$167,708 thousand in December 2017 (December 2016 - R\$261,292 thousand), acquired by The Southern Atlantic Investments, Ltd. company. On December 28, 2015, there was an Eurobonds issuance of US\$30,000 thousand, maturing on January 31, 2019, and on June 30, 2017, there was an Eurobonds issuance of US\$4,000 thousand, maturing on February 28, 2019, and on August 6, 2017, there was a Eurobonds issuance of US\$17,000 thousand, maturing on October 26, 2018.

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

Maturity	In R\$ thousand					
	Prudential Consolidated					
	LCA (a)		LCI (b)		LF (c)	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Within 1 month	74,324	22,807	970	990	3,239	24,453
From 1 to 3 months	68,557	77,103	10,462	1,131	5,704	97,988
From 3 to 6 months	247,890	156,360	242	822	123,371	32,406
From 6 to 12 months	464,773	288,537	20,376	19,220	159,970	9,622
More than 12 months	353,253	140,329	18,661	7,333	882,583	316,074
Total	1,208,797	685,136	50,712	29,496	1,174,866	480,543

(a) Agribusiness Credit Bills (LCA) were issued by the Bank and registered with the Brazil's OTC Clearing House (CETIP) or on the Securities, Commodities and Futures Exchange (BM&FBovespa S.A.), under Law No. 11076/2004 and Law No. 11311/2006 and subsequent amendments.

(b) Housing Credit Bills (LCI) are nominative securities created by MP 2223 on September 4, 2011, which resulted in Law No. 10931 of August 2, 2004.

(c) Financial Bills (LF) issued by the Bank were registered with CETIP, under Law No. 12249/10 (section II, articles 37 to 43) and regulated by the National Monetary Council - CMN (Law No. 3836).

13. BORROWING AND ONLENDING

a) Borrowing abroad

The Bank's and Prudential Conglomerate's borrowing abroad are comprised as follows:

	In R\$ thousand	
	Prudential Consolidated	
	12/31/2017	12/31/2016
Obligations with borrowings abroad*	593,971	526,999
Export credit facility	92,346	150,595
Import credit facility	4,030	10,818
	690,347	688,412
Current liabilities	349,997	439,785
Long-term payables	340,350	248,627
	690,347	688,412

* The amount of R\$593.971 thousand in December 31, 2017, classified as overseas borrowing, refers to an US Dollar fundraising transaction from the International Finance Corporation (IFC), from the World Bank, maturing in December 2019 and in March 2018, respectively.

IFC contracts require the maintenance of financial covenants. The financial ratios are calculated based on the accounting information, prepared in compliance with Brazilian legislation and BACEN standards. On December 31, 2017, Banco BOCOM BBM complies with all financial ratios.

b) Domestic onlending obligations

Banco BOCOM BBM has operations of financing lines with funds from the Coffee Economy Defense Fund (Funcafé) for coffee growers, their cooperatives and agro-industries, for use in storage and acquisition of coffee and working capital.

	In R\$ thousand						
	12/31/2017						12/31/2016
	Within 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	Over 12 months	Total	Total
Funcafé – FAC	-	-	1,005	1,005	-	2,010	-
Funcafé – Working capital	-	-	509	509	-	1,018	-
Total	-	-	1,514	1,514	-	3,028	-

14. OTHER RECEIVABLES/SUNDRY

	In R\$ thousand	
	Prudential Consolidated	
	12/31/2017	12/31/2016
SUNDRY		
Debtors deposits on warranty	47,011	47,231
Taxes and contributions to offset	13,830	7,350
Sundry debtors - Domestic	6,494	7,124
Securities and credits receivable	964	2,006
Advances - Salaries and constructions	396	328
Sundry debtors - Foreign	1,091	15,700
	69,786	79,739
Current asset	17,818	32,357
Long-term asset	51,968	47,382
Total	69,786	79,739

15. OTHER VALUES AND ASSETS

	In R\$ thousand	
	Prudential Consolidated	
	12/31/2017	12/31/2016
OTHER VALUES AND GOODS		
Properties	37,334	12,726
Others	949	1,643
	38,283	14,369
Current asset (a)	38,283	13,541
Long-term assets	-	828
Total	38,283	14,369

(a) The amount of R\$38,283 thousand in December 2017 classified as Current Assets refers mainly to the execution of guarantee of real estate, registered in the BNDU according to independent appraisal report.

16. EQUITY

(a) Capital – Banco BOCOM BBM S.A.

The capital is comprised of 282,201,085 registered shares with a par value of R\$1.60 each, divided into 188,626,652 common shares and 93,574,433 preferred shares. Each common share is entitled to one (1) vote in resolutions of the General Meeting. Preferred shares do not have voting rights.

(b) Legal reserve

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

(c) Statutory reserve

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

(d) Treasury stock

In August 2017, R\$2,630 thousand was reversed referring to the complementary price of the repurchased treasury stocks on March 28, 2011. In the earnout contract, the buyer Banco BOCOM BBM assumed the future obligation to pay the seller, over a period of 72 months from the date of signature, an amount calculated based on the revenue received from the recovery of a specific loan transaction, determined in this agreement. This obligation was extinguished in this period.

At December 31, 2017, Banco BOCOM BBM has 76,296,769 treasury shares in the amount of R\$181,839 thousand.

(e) Interest on equity (IOE)

According to article 9 of Law No. 9249/95 and its subsequent amendments, Banco BOCOM BBM S.A., at the end of the year 2017, declared interest on equity of R\$40,728 thousand, with the retention of withholding income tax of R\$6,109 thousand, calculated at the rate of 15%. This amount was determined based on the legal limits in force and classified in the official records as “Other operating expenses”.

For the purposes of the publication of the income statement, as established by BACEN Circular No. 2739, the expense related to the payment of interest on equity capital was adjusted by a reclassification to retained earnings, and recognized in the statement of changes in equity as an allocation of income.

Interest on equity proposed at the end of the year 2017 reduced tax burden by R\$18,328 thousand (2016 – R\$19,726 thousand).

(f) Equity valuation adjustments

For the year ended December 31, 2017, the equity valuation adjustments are comprised of the adjustment to market of available-for-sale securities in the amount of R\$142 thousand (2016 – R\$218 thousand), the variation of the instruments of cash flow hedge in the amount of R\$1,491 thousand (2016 – R\$2,736 thousand), the variation of foreign investment hedging instruments in the amount of R\$471 thousand

16. EQUITY (CONTINUED)

(2016 - R\$0), and the exchange variation of foreign investments in the amount of R\$465 thousand (2016 - R\$0), net of tax effects.

(g) Partial spin-off

The partial spin-off of Banco BOCOM BBM S.A. to Abaeté Administração de Bens Próprios S.A. was resolved at the Special General Meeting held on October 1, 2015 and approved by BACEN on March 10, 2016. Consequently, assets and equity of Banco BOCOM BBM S.A. decreased by R\$1,773 thousand, measured at the related book values.

(h) Dividends

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

	In R\$ thousand	
	12/31/2017	12/31/2016
Net income - Banco BBM S.A.	43,355	32,750
(-) Statutory reserve	(2,168)	(1,618)
Dividend calculation basis	41,187	31,132
Mandatory dividend (a)	25%	25%
	10,297	7,783
Interest on own capital (b)	40,728	43,836
Total	40,728	43,836

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

(b) The dividends above of the mandatory dividends were approved by the shareholders and will be ratified at the Annual Shareholders' Meeting.

17. FINANCIAL INTERMEDIATION EXPENSES AND FOREIGN EXCHANGE GAINS

In R\$ thousand			
Prudential Consolidated			
	Second half of 2017	12/31/2017	12/31/2016
OPEN MARKET FUNDING			
Agriculture credit bills - Expenses	(39,787)	(82,241)	(64,228)
Financial bills - Expenses	(43,740)	(78,347)	(81,724)
Time deposits	(24,501)	(67,567)	(74,568)
Expenses with repurchase agreement	(17,843)	(38,985)	(44,735)
Securities abroad - Expenses	-	(6,962)	(4,921)
Interbank deposits	(792)	(4,711)	(3,810)
Real estate credit bills- Expenses	(1,894)	(3,911)	(5,256)
Credit guarantee fund	(1,328)	(2,591)	(1,669)
Deposits previous notice	-	(34)	(2)
Expenses with obligations related to linked loans granted	-	-	(113)
Structured operations certificates - Expenses	-	-	(54)
Foreign exchange variation (a)	(513)	5,630	57,795
Total	(130,398)	(279,719)	(223,286)
LOANS, ASSIGNMENTS AND ONLENDING OPERATIONS			
Loan expenses abroad	(19,638)	(31,462)	(20,768)
Foreign exchange variation (a)	(15,504)	(21,011)	103,415
Other expenses	(29)	(29)	-
Total	(35,171)	(52,502)	82,647
FOREIGN EXCHANGE TRANSACTIONS			
Revenue from advances on exchange contracts (ACC)	20,724	40,778	27,210
Foreign exchange variations and interest differences	554	17,878	(62,222)
Other expenses	(287)	(404)	(271)
Total	20,991	58,252	(35,283)

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

18. SERVICE REVENUE

	In R\$ thousand		
	Prudential Consolidated		
	Second half of 2017	12/31/2017	12/31/2016
SERVICE REVENUE			
Other services*	4,884	11,819	4,946
Management and performance fees of investment funds	6,885	11,289	7,235
Structuring commission	7,829	10,116	2,015
Guarantees fees	6,281	9,866	4,215
Total	25,879	43,090	18,411

* Mainly refers to bank fee income.

19. OTHER ADMINISTRATIVE EXPENSES

	In R\$ thousand		
	Prudential Consolidated		
	Second half of 2017	12/31/2017	12/31/2016
Financial system services (a)	(4,378)	(6,920)	(3,234)
Rent	(3,133)	(6,315)	(4,785)
Other administrative expenses	(2,245)	(4,346)	(3,837)
Third-party services	(3,090)	(4,306)	(3,630)
Travel	(2,273)	(4,009)	(2,418)
Data processing	(2,278)	(3,601)	(2,460)
Registry	(1,684)	(3,549)	(2,021)
Specialized technical services	(929)	(2,899)	(6,298)
Communications	(1,295)	(2,434)	(2,066)
Amortization and depreciation	(726)	(1,729)	(1,631)
Property maintenance and upkeep	(790)	(1,551)	(1,386)
Condominium	(776)	(1,485)	(1,336)
Promotion/Advertising/Publications	(692)	(1,393)	(1,624)
Water, energy, gas	(425)	(845)	(851)
Transportation	(225)	(435)	(370)
Fine expenses	(124)	(130)	(23)
Material	(66)	(126)	(310)
Insurance expenses	-	(43)	(31)
Surveillance and security services	(13)	(24)	(22)
Total	(25,142)	(46,140)	(38,333)

(a) This includes brokerage expenses, charges and commission related to guarantee transactions and derivative financial instruments in the Bank and the Prudential Conglomerate, amounting to R\$5,110 thousand at the end of the year 2017 (2016 - R\$894 thousand).

20. SIGNIFICANT TRANSACTIONS WITH RELATED PARTIES

	In R\$ thousand	
	Prudential Consolidated	
	12/31/2017	12/31/2016
LIABILITIES		
Demand deposits	4,397	2,021
Évora S.A.	13	10
The Southern Atlantic Investments, Ltd.		1,525
Bocom Brazil Holding Company Ltda.	4,014	
Other related individuals/legal entities	370	486
Interbank deposits	5,694	5,562
BBM Administração de Recursos DTVM S.A.	5,694	5,562
Time deposits	567,279	200,802
Évora S.A.	3,130	2,852
Bank of Communications Co., Ltd.	431,857	
Bahia Holding S.A.	132,292	
The Southern Atlantic Investments, Ltd.		19,552
Other related individuals/legal entities		178,398
Repo operations - Debentures	32,122	12,935
Other related individuals/legal entities	32,122	12,935
Financial bills		4,672
Other related individuals/legal entities		4,672
Agribusiness credit bills	294,651	273,480
Other related individuals/legal entities	294,651	273,480
Real estate credit notes	30,417	28,475
Other related individuals/legal entities	30,417	28,475
Liabilities on marketable securities abroad		160
The Southern Atlantic Investments, Ltd.		160
Derivative financial instruments		1,706
The Southern Atlantic Investments Ltd.		1,706
Liabilities on loans abroad	340,350	
Bank of Communications Co., Ltd.	340,350	
Dividends and bonuses payable	17,484	3,255
Interest on equity (IOE) credited to shareholders	17,484	3,255
Social and statutory	10,175	5,814
Bonus payable to managers	10,175	5,814
Sundry		15,198
The Southern Atlantic Investments, Ltd.		15,198

20. SIGNIFICANT TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

	In R\$ thousand		
	Prudential Consolidated		
	Second half of 2017	12/31/2017	12/31/2016
P&L			
Income (loss) from derivative financial instruments		(4,927)	(78,251)
The Southern Atlantic Investments, Ltd.		(4,927)	(78,251)
Income from investment funds			4,787
Fundo Imobiliário Estrutura II – FII			4,787
Open market funding	(21,958)	(35,665)	(26,644)
Securities abroad – Expenses	(723)	(1,720)	84,035
The Southern Atlantic Investments, Ltd.	(512)	(1,331)	52,873
BBM Nassau Branch	(211)	(389)	31,162
Repo operations – Debentures expenses	(521)	(738)	
Other related individuals/legal entities	(521)	(738)	
Interbank deposit expenses	(134)	(418)	
BBM Administração de Recursos DTVM S.A.	(134)	(418)	
Expenses with term deposits	(7,182)	(7,420)	(8,510)
Ravenala S.A.			(354)
Évora S.A.	(120)	(278)	(3,189)
Bank of Communications Co., Ltd.	(1,929)	(2,009)	
Bahia Holding S.A.	(5,133)	(5,133)	
Other related individuals/legal entities			(4,967)
Financial bill expenses		(82)	(6,017)
Other related individuals/legal entities		(82)	(6,017)
Agriculture credit bill expenses	(12,121)	(22,823)	(31,068)
Other related individuals/legal entities	(12,121)	(22,823)	(31,068)
Real estate credit bill expenses	(1,277)	(2,463)	(4,211)
Other related individuals/legal entities	(1,277)	(2,463)	(4,211)
Expenses with loans abroad	(24,914)	(27,963)	
Bank of Communications Co., Ltd.	(24,914)	(27,963)	
Expenses with banks abroad	(1,252)	(1,252)	127
BBM Bank Ltd.	(1,175)	(1,175)	16
BBM Nassau Branch	(77)	(77)	111
Key management personnel compensation	(5,271)	(9,677)	(4,081)
Expenses with dividends and bonuses payable	(20,570)	(40,728)	(43,836)
Interest on equity (IOE) credited to shareholders	(20,570)	(40,728)	(43,836)
Total	(73,965)	(120,212)	(43,189)

Transactions between related parties were carried out at the average rates practiced by the market, effective on the dates of operations.

21. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

In accordance with BACEN Circular No. 3082, derivative financial instruments designated to compensate, in whole or in part, exposure to risks from assets, liabilities, commitments or projected future transactions (hedged items) are classified as hedge instruments if they are considered effective in reducing the risk associated with the exposure to the hedged item, according to their nature.

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

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

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

As of December 31, 2017, the guarantees for the transactions involving derivative financial instruments are represented mainly by government securities in the total amount of R\$166,400 thousand (2016 – R\$233,017 thousand) and quotas of funds in the total amount of R\$9,000 thousand (2016 – R\$0).

a) Recorded in clearing and equity accounts

The commitments assumed arising from these financial instruments, recorded in clearing accounts, as of December 31, 2017, maturing until January 2023 (December 31, 2016 – maturing until October 2020), can be demonstrated as follows.

21. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

In R\$ thousand						
Prudential Consolidated						
	12/31/2017					12/31/2016
	Within 3 months	From 3 to 6 months	From 6 to 12 months	Over 1 year	Total	Total
FUTURE MARKET						
Long position						
Foreign exchange rate	447,120	9,826	1,620	631,994	1,090,560	4,878
Interest rate	4,498	47,221	36,302	170,884	258,905	8
Foreign currency	306,701	-	-	-	306,701	2,952
CPI (IPCA)	-	-	-	16,880	16,880	
Short position						
Foreign exchange rate	-		261,426	175,852	466,809	3,889
Interest rate	49,899	-	63,817	6,840	120,557	177
Foreign currency	240,792	-	-	-	240,792	835
CPI (IPCA)	-	-		346,975	398,035	
NDF						
Asset position						
Currency	723	746	1,274	5,502	8,245	34,640
Liability position						
Currency	760	237	120	389	1,506	32,876
SWAPS						
Asset position						
Interest rate	62	709	131	4,319	5,222	744,445
Liability position						
Interest rate	1,066	217	1,203	6,410	8,897	735,060
OPTION MARKET						
Asset position						
Currency	-	-	-	-	-	110

21. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

b) By cost and market value

In R\$ thousand							
Prudential Consolidated							
	12/31/2017						12/31/2016
	Cost	Market	Within 3 months	From 3 to 6 months	From 6 to 12 months	Over 1 year	Total
FUTURE MARKET							
Long position		1,673,046	758,318	57,047	37,922	819,758	7,837
Short position		1,226,194	290,692	29,531	376,303	529,668	4,913
SWAPS							
Asset position	544	5,222	62	709	131	4,320	744,445
Liability position	5,053	8,897	1,066	217	1,203	6,411	735,060
NDF							
Asset position	7,078	8,245	723	746	1,274	5,502	34,640
Liability position	1,128	1,506	760	237	120	389	32,876
OPTION MARKET							
Asset position	-	-	-	-	-	-	110
Liability position	-	-	-	-	-	-	-

c) Notional value by counterparty

In R\$ thousand							
Prudential Consolidated							
	12/31/2017						12/31/2016
	Financial institutions	Related parties	Legal entities	Stock market	Institutional customers	Individuals	Total
FUTURE MARKET							
Long position				1,673,046			1,673,046
Short position				1,226,194			1,226,194
SWAPS							
Asset position	131		5,091			-	5,222
Liability position	-		8,897			-	8,897
NDF							
Asset position			746	7,442		57	8,245
Liability position	406		436	665			1,506
OPTION MARKET							
Asset position				-			-
Liability position				-			-

21. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

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

- Contracts purchased of foreign exchange coupon (DDI) in the amount of R\$180,356 thousand (December 31, 2016 – R\$320 thousand);
- Contracts purchased of interest (DI1) in the amount of R\$4,498 thousand (without position as of December 31, 2016);
- Contracts sold of interest (DI1) in the amount of R\$39,979 thousand (without position as of December 31, 2016);
- Contracts bought of currency (DOL) in the amount of R\$1,654 thousand (December 31, 2016 – R\$335 thousand);
- Contracts sold of currency (DOL) in the amount of R\$182,767 thousand (December 31, 2016 – R\$386 thousand).

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

	In R\$ thousand		
	Prudential Consolidated		
	Second half of 2017	12/31/2017	12/31/2016
Futures contracts	1,856,233	1,836,938	(172,369)
Option contracts	(1,852,536)	(1,852,996)	(1,534)
Swap and term agreements	16,941	19,999	47,578
Total	20,639	3,942	(126,325)

d) Hedge accounting

Fair value hedge (I)

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

This loan allowed Banco BOCOM BBM to have a drawdown option until March 2016 and, based on the transaction structure, the first drawdown, in the amount of US\$10,000 thousand, took place on December 30, 2014, and the second, in the amount of US\$90,000 thousand, occurred on August 18, 2015. Up to this date, Banco BOCOM BBM has entered into a cash flow hedge transaction against the risks arising from exposure to variable interest rates and future cash flow. For this purpose, a swap transaction was entered

21. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

into, receiving the variable interest rate of the transaction and paying a fixed interest rate, both levied on the amount of the principal of the transaction denominated in US Dollars. This results in a fixed cash flow in US Dollars. In order to peg this cash flow to the CDI, a series of foreign exchange coupon transactions were performed with BM&F, in accordance with the maturities and exposures of the respective agreements, all designated as hedges. Disbursements were made in US dollars and, upon cash receipt, a market risk hedge was contracted, designating derivative financial instruments entirely for hedging purposes, considering the foreign exchange exposure risk as well as the market funding conditions prevailing abroad. In order to equalize the mark-to-market effects of derivative financial instruments designated as protection, the value of the principal secured, plus interest due, is stated at fair value and also marked to market.

Because of the match between the hedge object flows and the hedge derivative results, the effectiveness of this transaction remained close to 101.07% (2016 – 98.86%).

Fair value hedge (II)

During the third quarter of 2017, Banco BOCOM BBM signed loan contracts in US Dollars with the Bank of Communications Shanghai Branch that provides funding. On September 6, 2017, the amount is USD 35,000 thousand with pre-fixed annual interest payment of 2.05%. On September 11, 2017, the amount is USD 35,000 thousand with pre-fixed annual interest payment of 2.05%, and on September 18, 2017, the amount is USD 30,000 thousand with annual pre-fixed interest payment of 2.06%.

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

Because of the match between the hedge object flows and the hedge derivative results, the effectiveness of this transaction remained close to 80.35%.

Fair value hedge (III)

In June 2017, Banco BOCOM BBM designated a portfolio of derivative financial instruments consisting of 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 mark-to-market effects of derivative financial instruments designated as protection, the value of the loan portfolio indexed to the IPCA is shown at fair value and also marked to market.

Since the hedge object flows and hedge derivative results were matched, the effectiveness of the transaction remained close to 118.03%.

21. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Hedge of loan operations

In August 2017 Banco BOCOM BBM designated a portfolio of derivative financial instruments consisting of Euro Dollar (ED) Futures contracts, in order to protect fluctuations in short-term US dollar interest rates. In order to equalize the mark-to-market effects of derivative financial instruments designated as hedging, the amount of USD 29,761 thousand of the credit operation released in August 2017 by Banco BOCOM BBM S.A. Nassau Branch, with pre-fixed interest rate of 4.28% p.a., is shown at fair value and also marked to market.

Since the hedge object flows and hedge derivative results were matched, the effectiveness of the operation remained close to 97.44%.

Investment hedge abroad

In September 2016, CMN issued Resolution No. 4524, establishing the criteria for recording operations with financial instruments contracted for the purpose of mitigating the risks associated with foreign exchange exposure on investments abroad.

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

Since the hedge object flows and hedge derivatives results are matched, the effectiveness of the transaction remained close to 100%.

22. RISK 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 submitting them for the approval of the Board of Directors at least annually; b) the Board of Directors, which approves the risk policies at least annually; c) the Market Risk area, subordinated to the Risk Officer, is responsible for reporting to the Bank's Chief Internal Control, Capital and Risk Officer and identifying, measuring, monitoring and reporting online to the Executive Board the Bank's market risk, ensuring compliance with the market risk management policy, as well as guaranteeing that operational limits are observed; d) the Price department, which among other duties is responsible for defining the price models and sources used in mark-to-market adjustments of traded products, independently of management departments; e) Internal Audit, which is responsible for ensuring the adequacy of procedures and the consistency between market risk management policies and the structure actually implemented.

BBM's market risk is monitored through daily calculations of the Value at Risk (VaR), a statistical tool that measures the institution's maximum potential loss at a given confidence level over a given investment horizon. A stipulated VaR limit may be allocated by the Chief Treasury Officer among the various risk factors.

22. RISK MANAGEMENT (CONTINUED)

The VaR calculation model is submitted to periodical backtesting. Investment scenarios are analysed on a daily basis, and these scenarios are defined quarterly 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.bocombbm.com.br).

* VaR = Maximum potential risk, given the level of reliability and the investment scenario. For Banco BOCOM 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) adventitious additional cash for compulsory deposits, (c) derivative adjustments; and (d) other existing obligations. The general principle is that of ensuring that the Bank's commitments are aligned with its equity and the current policies for fundraising, credit and treasury.

Banco BOCOM BBM has a liquidity risk management structure made up of the following agents, with their respective functions: a) the liquidity risk area, subordinated to the Risk Director, 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; and b) Internal Audit, responsible for ensuring the adequacy of the procedures and the consistency between the liquidity risk management policies and the structure effectively implemented. A full description of the Bank's liquidity risk management structure is available on Banco BOCOM BBM's website (www.bocombbm.com.br).

	In R\$ thousand	
	Prudential Consolidated	
	12/31/2017	12/31/2016
Current assets	2,364,487	2,538,138
Current liabilities	(2,539,435)	(2,426,143)
Working capital, net	(174,948)	111,995
Securities available for sale	710,286	181,800
Presented in long-term receivables		
	535,338	293,795

22. RISK MANAGEMENT (CONTINUED)

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 monitoring and evaluating the consolidated portfolio position, its concentration and risk level. It is also responsible for establishing the terms for resolving cases of default on credit operations or with a certain level of deterioration of the guarantees and deciding whether or not to initiate judicial collection proceedings, as applicable; b) Board of Directors, responsible for approving the risk policies, at least once a year; c) Credit Risk area, subordinated to the Control Director, is responsible for centralizing and evaluating information related to the credit risk management, ensuring that operating limits are complied with, and disclosing reports in order to facilitate decision-making related to credit limits approved by the Credit Committee. It is also the responsibility of the Credit Risk area to evaluate new operational genre related to credit risk; d) Credit Analysis area, responsible for assessing the credit risk of economic groups with which the Bank maintains or intends to maintain credit relationships; e) Internal Audit, which carries out periodic audits of the business units and in the Credit processes of the Group; f) Legal Department, responsible for analysing the contracts entered into by BBM and its clients, as well as coordinating measures to recover credits or protect BBM's rights; and g) Contracts Department, responsible for checking the adherence of operations to the parameters established in the Credit Limit Proposal (PLC), as well as the making of adequate guarantees. It must also issue the contracts to be signed between Banco BOCOM BBM and the client. A full description of the credit risk management structure is available on Banco BOCOM BBM's website (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 describes the methodology, management process, roles and responsibilities, categories, information storage and documentation procedures, and also the disclosure process in order to ensure the transparency of management activities.

The Operational Risk Department is an independent organizational unit segregated from the internal audit department, subordinated to the Chief Internal Control, Capital and Risk Officer. This area is responsible for working with the other components of the operational risk structure to ensure compliance. A full description of the operational risk management structure is available on Banco BOCOM BBM's website (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 approve the methodologies to be used on 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

22. RISK MANAGEMENT (CONTINUED)

with the capital management policy and its capital plan. The Treasury and Fundraising Boards are incumbent upon the planning of equity instrument issues, if necessary. The capital management department periodically generates reports on the capital adequacy, which are sent to the Executive Board and the Board of Directors.

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

23. OPERATING LIMITS

In October 2013, the new rules related to capital measurement became effective. Financial institutions and similar entities are required to maintain minimum equity of 9.25% of their assets weighted based on their levels of risk of exposure to gold, foreign currencies and operations subject to operating risk and changes in: foreign exchange, interest rates, prices of commodities and stocks classified as "held for trading", according to BACEN rules and instructions. The Prudential Consolidated of Banco BOCOM BBM is within this operational limit on December 31, 2017.

	In R\$ thousand	
	Prudential Consolidated	
	12/31/2017	12/31/2016
Base capital (PR) - Tier I	559,804	557,081
Equity*	576,411	576,313
Decrease in intangible/deferred assets according to CMN Resolution No. 4192	16,606	19,232
Base capital (PR)	559,804	557,081
Risk-weighted assets (RWA)	322,429	258,268
Portion referring to:		
Credit risk (RWACPAD)	283,835	207,360
Foreign exchange risk (PCAM)	968	2,185
Interest rate risk (RWAMPAD)	14,055	27,316
Operating risk (RWAOPAD)	23,571	21,408
Margin or insufficiency value (PR - RWA)	237,375	298,813
Risk factor - 9.25% of PR	51,782	55,012
Basel index (Risk factor/RWA)	16.06%	21.30%
RBAN	72,470	2,103
ACP required	87,143	32,692
Reference equity margin + RBAN	77,762	264,018

* Does not consider losses of equity valuation adjustments of cash flow hedge.

24. INCOME AND SOCIAL CONTRIBUTION TAXES

The changes in tax credits and the provision for deferred taxes on temporary differences can be shown as follows:

	In R\$ thousand	
	Prudential Consolidated	
	12/31/2017	12/31/2016
TAX CREDIT ASSET		
Balance at January 1	78,075	69,816
Set up (Reversion)		
– With impacts on P&L	(1,026)	10,121
– With impacts on equity		
(Securities available for sale)	(1,013)	(1,862)
Balance at December 31	76,036	78,075
PROVISION FOR DEFERRED TAXES*		
Balance at January 1	11,456	10,164
Set up (Reversion)		
– With impacts on P&L	1,002	2,185
– With impacts on equity		
(Securities available for sale)	(87)	(893)
Balance at December 31	12,371	11,456

* The amount of the provision for deferred taxes is recorded in the Other Tax and Social Security Obligations group.

24. INCOME AND SOCIAL CONTRIBUTION TAXES (CONTINUED)

The breakdown of the tax credits and the provision for deferred taxes can be demonstrated as follows:

	In R\$ thousand	
	Prudential Consolidated	
	12/31/2017	12/31/2016
TAX CREDIT ASSET		
Temporary differences (a)		
- Allowance for loan losses	42,550	34,540
- Market value adjustment - Marketable securities and derivatives	7,442	5,843
- Provision for contingencies (Note 25a)	3,334	2,865
- PIS/COFINS (Note 25b)	127	1,401
- Others	4,846	2,688
Social contribution tax losses	6,013	16,198
Income tax loss	11,724	14,541
Total	76,036	78,075
PROVISION FOR DEFERRED TAXES		
Temporary differences		
- Market value adjustment - Marketable securities and derivatives	116	203
- Others	12,255	11,253
Total	12,371	11,456

(a) It is expected that the realization of these tax credits will occur until the end of the year 2022 for Social Contribution, with present value of R\$21 million, and until the year 2022 for Income Tax, with present value of R\$28 million. The Social Contribution on tax credits was calculated considering the new current tax rate.

In December 2017, in view of the accounting impact of the participation in the instalment program regulated by Law No. 12865, dated October 9, 2013, and by the Joint Ordinance PGNF/RFB No. 8, dated October 18, 2013, Banco BOCOM BBM, as assignor, entered into a tax credit assignment agreement with the assignee Bacor Corretora de Câmbio e Valores Mobiliários S.A. Banco BOCOM BBM's tax credit results from tax loss and negative basis of CSLL that were regularly constituted as a result of its tax assessment of especially the calendar year 2013. With the Provisional Measure No. 783, dated May 31, 2017 and RFB Normative Instruction No. 1711, dated June 16, 2017, which instituted the Special Program for Tax Regularization (PERT), the assignee (Bacor) joined in the PERT for the settlement of tax debts using the CSLL negative basis.

The reconciliation of the expense calculated by applying the tax rates and the income tax and social contribution expense recorded in the Bank can be demonstrated as follows:

24. INCOME AND SOCIAL CONTRIBUTION TAXES (CONTINUED)

	In R\$ thousand			
	12/31/2017		12/31/2016	
	IRPJ	CSLL	IRPJ	CSLL
Income before income and social contribution taxes	12,831	12,831	(16,325)	(16,325)
Bank's net income	43,355	43,355	32,750	32,750
(-) Interest on equity	(40,728)	(40,728)	(43,836)	(43,836)
(-/+) Income and social contribution taxes	10,204	10,204	(5,239)	(5,239)
Tax rate	25%	20%	25%	20%
Income and social contributions taxes				
At statutory rate	(3,208)	(2,566)	4,081	3,265
Permanent additions	53,617	43,940	38,521	34,424
Non-deductible expenses	10,391	714	4,942	845
Addition to income abroad	43,227	43,227	33,579	33,579
Permanent exclusions	38,544	38,544	29,881	29,881
Tax-free income	32	32	13	13
Equity pick-up	38,511	38,511	29,869	29,869
Temporary additions/exclusions	30,880	33,326	21,348	21,100
Tax base	58,785	51,554	13,663	9,318
Income and social contribution tax losses	(17,635)	(15,466)	(4,099)	(2,795)
Tax base - Loss	41,149	36,088	9,564	6,523
Income and social contribution taxes (a)	(10,263)	(7,218)	(2,367)	(1,305)
Use of tax incentives and taxes from subsidiaries abroad	663		416	
Income and social contribution taxes on P&L for the period	(9,600)	(7,218)	(1,950)	(1,305)
Adjustment DIPJ	-	-	661	-
Deferred tax liabilities	(1,192)	223	(1,214)	(971)
Income and social contribution taxes on P&L for the year - Banco BOCOM BBM	(10,792)	(6,995)	(2,503)	(2,276)
Income and social contribution taxes - Other Institutions of Prudential Consolidated	(20)	(12)	(374)	(318)
Income and social contribution taxes in P&L for the year - Prudential Consolidated	(10,812)	(7,007)	(2,877)	(2,594)

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

25. PROVISIONS AND LIABILITIES BY LEGAL OBLIGATION

The Bank and the Prudential Conglomerate are parties to lawsuits and administrative proceedings, arising from the normal course of operations, involving tax, labor, civil and other issues.

a) Breakdown of provisions

Based on the information from its legal advisors, the analysis of the outstanding legal claims, and on its previous experience regarding the amounts claimed in labor claims, the management recorded provisions for amounts considered sufficient to cover estimated losses with the current lawsuits as follows:

	In R\$ thousand	
	Prudential Consolidated	
	12/31/2017	12/31/2016
Labor	7,109	6,367
Civil	464	-
Total - Provisions for contingencies	7,573	6,367

These provisions are registered as "Other Liabilities - Sundry" under noncurrent liabilities. During the year ended December 31, 2017, a conversion in the amount of R\$1,538 thousand was made, as well as a constitution in the amount of R\$2,280 thousand of provisions for contingencies in the Prudential Conglomerate.

b) Liabilities for legal obligations

Since April 2007, based on a preliminary injunction obtained, Banco BOCOM BBMS.A. and BACOR Corretora de Câmbio e Valores Mobiliários S.A. started to collect PIS and COFINS only on service revenue, claiming the unconstitutionality of the law that increased the PIS and COFINS tax calculation basis, consequently recording a liability as "Other Liabilities - Sundry" under noncurrent liabilities for the remaining balances until August 2017, as follows:

	In R\$ thousand	
	Prudential Consolidated	
	12/31/2017	12/31/2016
PIS and COFINS		3,114
Total - Liabilities for legal obligations*	-	3,114

* In August 2017, the PIS and COFINS liabilities, arising from the discussion of the aforementioned calculation basis, were settled due to the participation in the Special Tax Regularization Program (PERT), which was established by Provisional Measure No. 783/2017 and provides settlement by payment and instalment payment of its tax and social security obligations to the Federal Revenue Service (SRF), resulting in a reversal in the amount of R\$1,244 thousand. On October 24, 2017, MP No. 783/17 was converted into Law No. 13496/17, with changes, however, without impact on the Prudential Conglomerate.

25. PROVISIONS AND LIABILITIES BY LEGAL OBLIGATION (CONTINUED)

c) BM&FBovespa demutualization

In December 2013, Banco BOCOM BBM and BACOR Corretora de Câmbio e Valores Mobiliários S.A. joined the program of payment or instalment payment of debts before the Federal Revenue Service (SRF), the General Attorney of the National Treasury (PGFN) and the National Institute of Social Security (INSS) instituted by Law No. 11941/2009, reopened with the amendments issued by Law No. 12865/2013 (REFIS), in order to settle debts discussed in administrative proceedings and tax executions, benefiting from reduction of fine and interest, referring to the notifications issued by the Brazilian Federal Revenue Service (Receita Federal) in December 2011, with the object of: (i) the IRPJ and CSLL taxation of the reserve for updating the equity securities of BM&FBovespa, due to the demutualization of aforementioned entities and (ii) the PIS and COFINS taxation of the capital gain on the sale of aforementioned securities. It should be noted that only Banco BOCOM BBM joined the program for the purposes of PIS and COFINS taxation. The question remains in discussion for BACOR Corretora de Câmbio e Valores Mobiliários S.A.

In August 2017, BACOR Corretora de Câmbio e Valores Mobiliários S.A. joined the Special Tax Regularization Program (PERT), in order to settle debts discussed in administrative proceedings and tax executions, related to PIS and COFINS, of the demutualization of BM&FBovespa, resulting in a provision of R\$6,783 thousand.

d) Others

On December 12, 2016, Banco BOCOM BBM was quoted by CADE in an administrative proceeding that investigates alleged practice of anticompetitive conduct in the onshore foreign exchange market between 2008 and 2012. Banco BOCOM BBM, together with its legal advisors, is in process of elaborating their defense arguments.

26. PROVISION FOR FINANCIAL GUARANTEES

Provisions to cover losses associated with the financial guarantees provided are based on the analysis of operations according to the type of obligation provided on the past experience, future expectations and on the management's risk assessment policy. They are reviewed periodically, as established by CMN Resolution No. 4512/2016.

	In R\$ thousand	
	Prudential Consolidated	
	12/31/2017	12/31/2016
GUARANTEE		
Linked to international trade	301	-
Linked to government	146,885	-
Linked to legal claims	165,267	-
Other	53,272	142,478
Total	365,725	142,478

Continued

26. PROVISION FOR FINANCIAL GUARANTEES (CONTINUED)

CHANGE IN PROVISION FOR FINANCIAL GUARANTEES PROVIDED		
Beginning Balance	14,611	1,041
Addition	3,700	55,533
Reversal*	(17,773)	(41,963)
Ending Balance	538	14,611

* Corresponds to the reclassification of provision for external loan operations, transferred to the provision group for loan operations.

27. OTHER INFORMATION

a) Compensation agreement and settlement of obligations

Banco BOCOM BBM has an agreement for the clearance and settlement of obligations under the National Financial System, in accordance with CMN Resolution No. 3263/05, resulting in an increased liquidation guarantee of its transactions with financial institutions with which they have this type of agreement. The total assets mitigated under compensation agreement in December 31, 2017 amounted to R\$518,613 thousand (December 2016 - R\$148,215 thousand).

b) Deferred income

Deferred income refers mainly to income from guarantees granted (Note 7c), and its increase in the year ended December 31, 2017 is in line with the variation of the guarantees.

c) Securities portfolio

On December 4, 2017, based on Resolution No. 3181 of the Central Bank of Brazil, considering the positive slope in the nominal rates of government securities, in particular that the nominal rate of NTN-F 01/2023 was approximately 100 basis points higher than the LTN 07/2020 rate, that the NTN-F 01/2023 nominal rate was close to 10% and that for our budget and business plan for the coming years, it is important to have predictability and to avoid reductions in revenues, the Executive Committee of the Banco BOCOM BBM unanimously approved the process of extending the portfolio of held to maturity nominal securities by selling R\$120,351,145.20 in LTN 07/2020 and buying R\$120,800,262.81 in NTN-F 01/2023, which generated an effect on the result of R\$2,378 thousand.

At the end of the period, Banco BOCOM BBM had R\$593,417 thousand in securities classified as held to maturity, according to Circular No. 3068/01 of the Central Bank of Brazil. Banco BOCOM BBM has the financial capacity and intention to hold them to maturity.

28. SUBSEQUENT EVENTS

On February 7, 2018, Banco BOCOM BBM made an early repayment of the US dollar loan with the International Finance Corporation (IFC), in the amount of R\$248,668 thousand, which should be matured in December 2019. In addition, the entire hedge structure for this operation was discontinued.

Aline Gomes - Controller

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