




Annual Report

2019



交通銀行
BANK OF COMMUNICATIONS

B
BM



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Who we are

Innovating and enhancing are attitudes that are part of Banco BOCOM BBM's essence. Always attentive to continuous change in the financial environment, we invest our efforts in the pursuit of solutions that achieve the goals of our clients and those who work here.

We are recognized for our capacity to spot and develop talent. Our highly qualified team excels in creating and refining products and processes, always in accordance with our group's ethical standards.

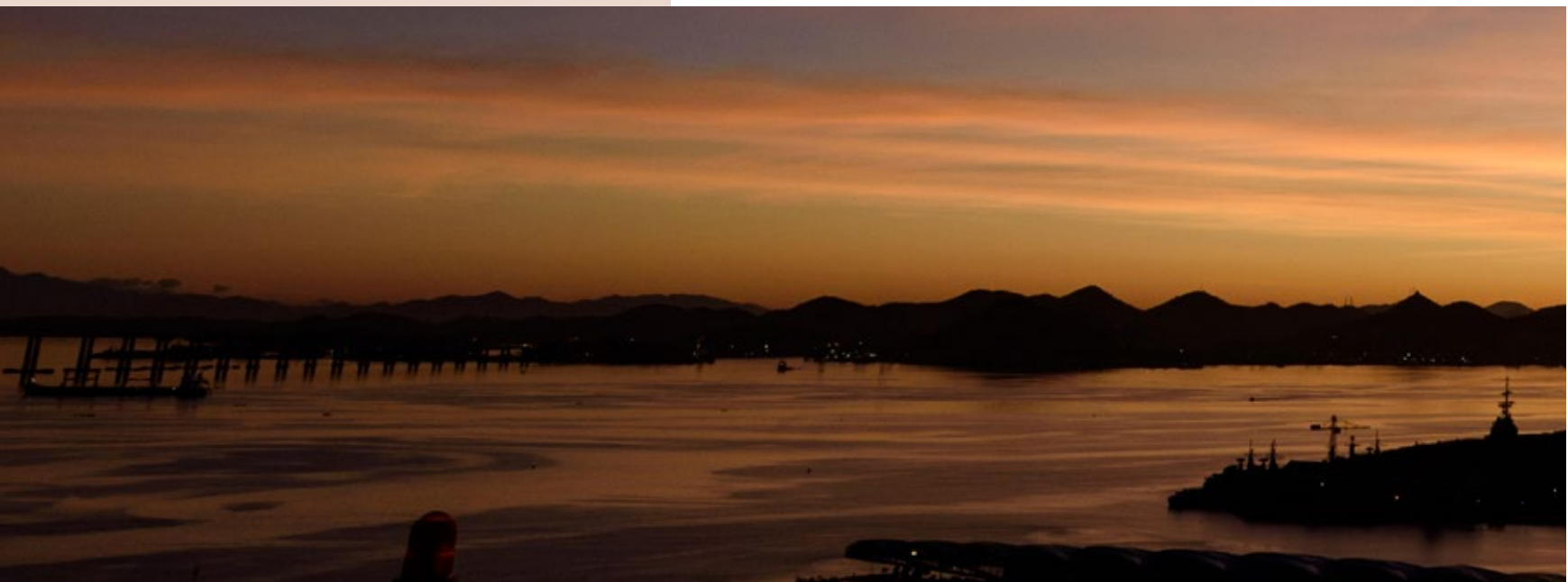
Our strategy focuses on the use of the best techniques to meet the needs of companies established in Brazil for credit and financial services with agility and transparency. In wealth management for individual clients, we use methods and knowledge acquired and successfully tested over decades.



VISION

To be the best financial institution in meeting the objectives of our stakeholders through:

- transparency, reciprocity, accuracy and agility in our relationships with customers, employees, shareholders and suppliers;
- sustainable increase in the profitability of our shareholder's capital and the integration of Brazil / China;
- creation of opportunities and guidance for the constant professional, material, and intellectual growth of our employees, generating knowledge and a tireless pursuit of the frontier, especially financial and technological;
- an ethic that takes into account the dignity and well-being of the social groups with which we interact.



VALUES

OUR TEAM IS OUR MAIN ASSET

Do all we can to continuously identify talents and create an environment that allows them to reach their full potential.

PRODUCTIVITY AND INNOVATION

Continuously (re)search the top tier practices, models, innovations, opportunities and risks controls in all fields of knowledge related to our business.

OUTSTANDING AND SUSTAINABLE PERFORMANCE ORIENTATION

Systematic search and analysis of opportunities in our business, seeking to know them in the broadest sense, internally and externally. Being attentive and inquisitive to the needs of our customers, seeking to serve them in an excellent way with products in which we are competitive.

CONCEPTUALIZE, PLAN, EXECUTE AND CONTROL

Accuracy in the conceptualization, planning, execution, and duly control of our internal and external programs, processes and relationships.

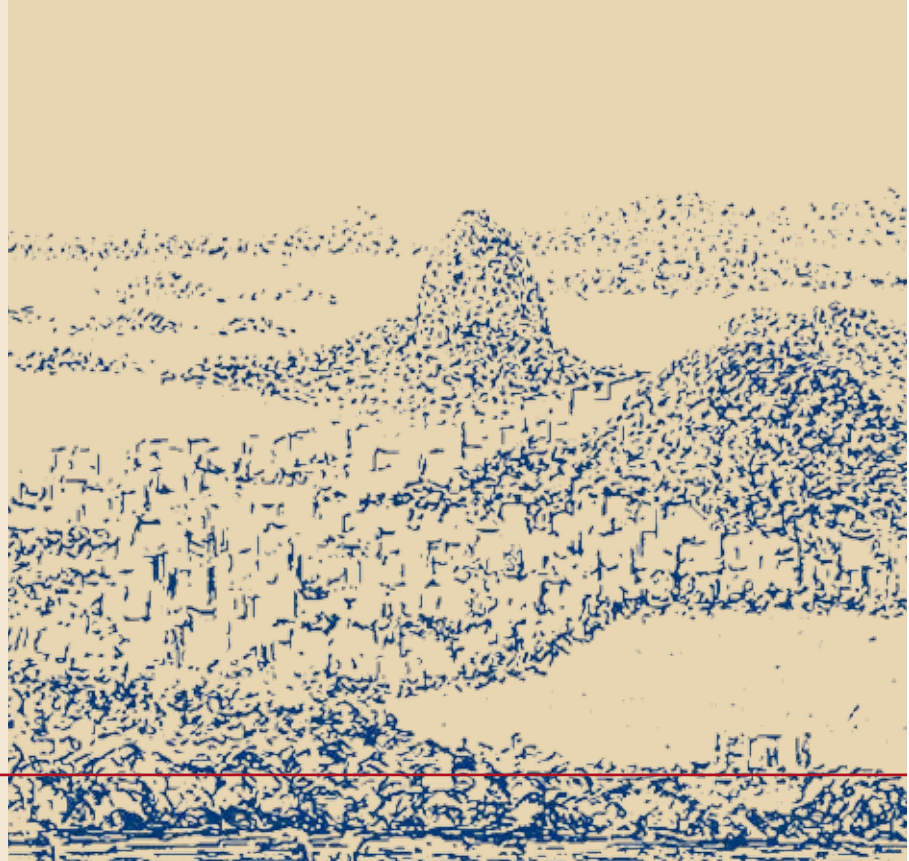
RESPECT FOR OTHERS

Having in mind the importance of subjective assessments and diversity on the relationship between people and institutions, not disregarding for the importance of the previous item.

RECIPROCITY AND LOYALTY

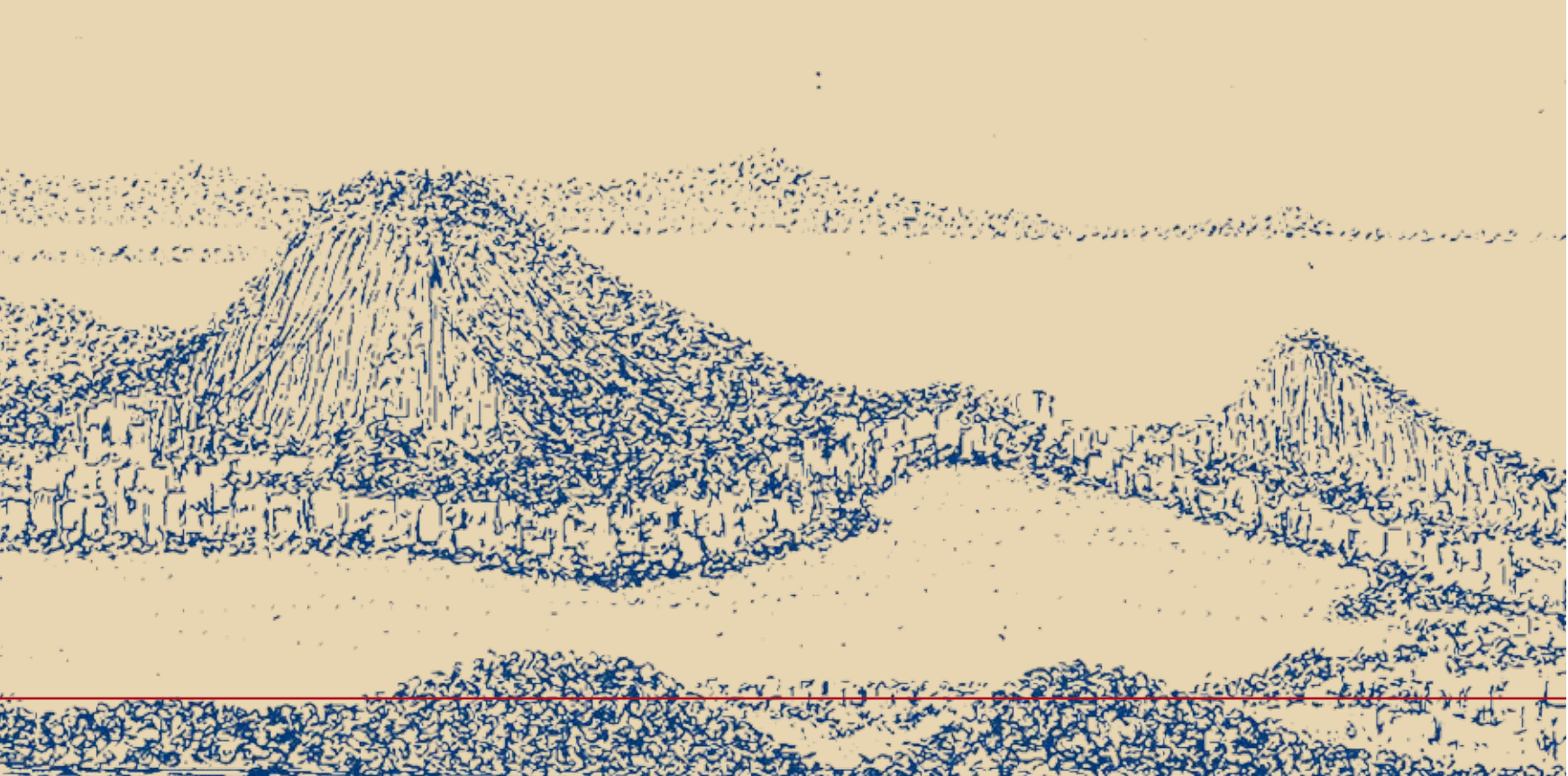
Keep in mind the concepts of reciprocity and loyalty with all the people and institutions with whom we interact.





About 2019

2019 was a year of many changes to the economic perspectives of Brazil. The approval of a robust Social Security Reform was accompanied by an additional agenda of new Reform proposals, low inflation, and a faster pace of growth in the second half of the year. GDP grew 1.3%, with impulses especially from household consumption and investments, which grew respectively 1.8% and 2.3%. The discussion of new reforms was postponed to 2020, as was the Tax Reform, but the country's fiscal and debt perspectives ended 2019 on a better trend relative to recent years. The decline in the unemployment rate was slow but steady, ending the year at 11.7% (seasonally adjusted), the lowest since 2015.



Another drive of structural improvement came from monetary policy, with the Selic rate reaching 4.5% in the end of 2019 – historically low for local standards. The improved fiscal perspective mentioned above, the global scenario of low interest rates, higher credibility of the (declining) inflation targets and still high spare capacity opened up space for permanently lower levels of interest rates. Inflation reached 4.3% at year end on the back of transitory foodstuff pressures, but will be back below the inflation target's midpoint during 2020.

GDP grew 1.3%, with impulses especially from household consumption and investments, which grew respectively 1.8% and 2.3%

Our highlights Numbers

2019

NET INCOME
R\$ 89
million

SHAREHOLDERS' EQUITY
R\$ 653
million

TOTAL FUNDING
R\$ 6,373
million

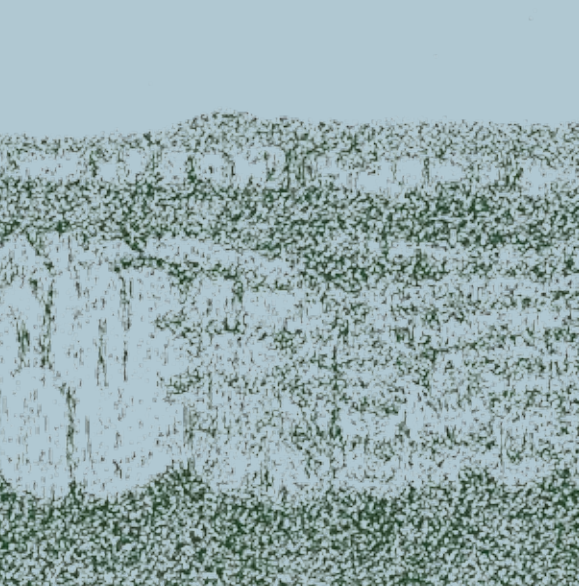
ROAE
14.1%

BASEL INDEX
15.1%

TOTAL LOAN PORTFOLIO
R\$ 6,061
million

	Years Ending on 12/31			
	2016	2017	2018	2019
FINANCIAL CONDITION (R\$ Million)				
Net Income	32	43	64	89
Shareholders' Equity	574	575	601	653
Return on Average Equity	5.6%	7.5%	10.8%	14.1%
Total Loan Portfolio*	2,171	3,668	4,408	6,061
Total Funding	2,964	4,085	4,897	6,373
Basel Index	21.3%	16.1%	14.5%	15.1%

* Includes guarantees, sureties, avals, letters of credit and transactions with credit risk (issuance of debentures and promissory notes).



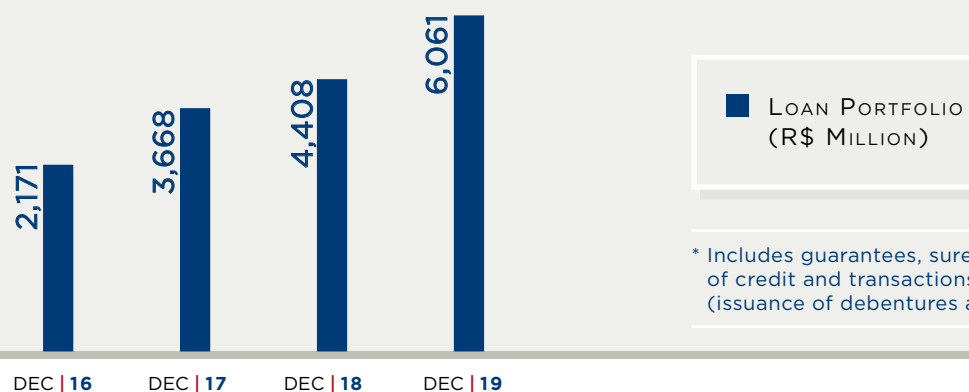
RATINGS

BANCO BOCOM BBM	
MOODY'S INVESTORS SERVICE OCT/19	FITCH APR/19
NATIONAL RATING SCALE	NATIONAL RATING SCALE
Aaa.Br	AAA (bra)
GLOBAL RATING SCALE	GLOBAL RATING SCALE
Ba1	BB+

BANK OF COMMUNICATIONS		
MOODY'S INVESTORS SERVICE	S&P	FITCH
LONG TERM*	LONG TERM*	LONG TERM*
A3	A-	A
SHORT TERM*	SHORT TERM*	SHORT TERM*
P-2	A-2	F1

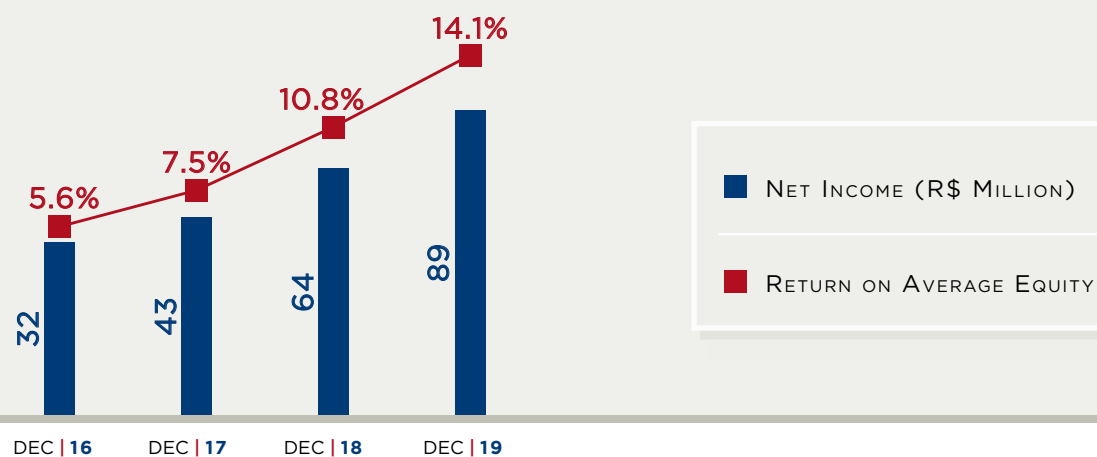
* Foreign Currency Deposit.

EXPANDED CREDIT PORTFOLIO

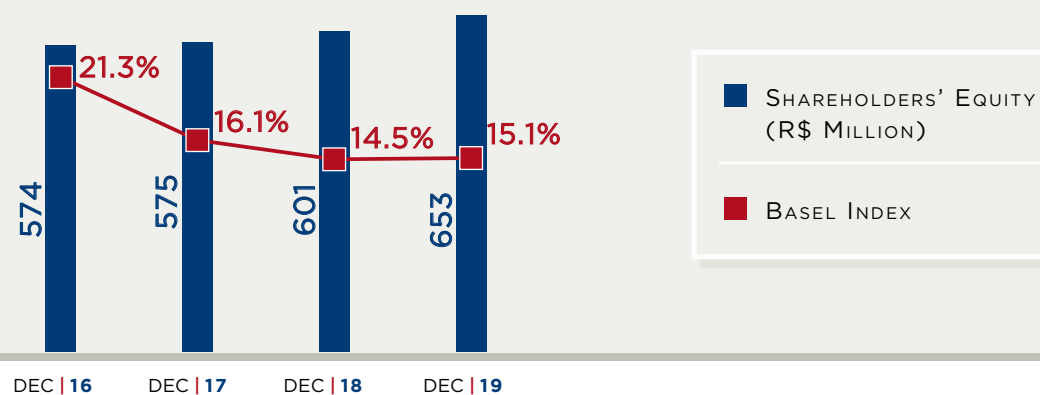


* Includes guarantees, sureties, avals, letters of credit and transactions with credit risk (issuance of debentures and promissory notes).

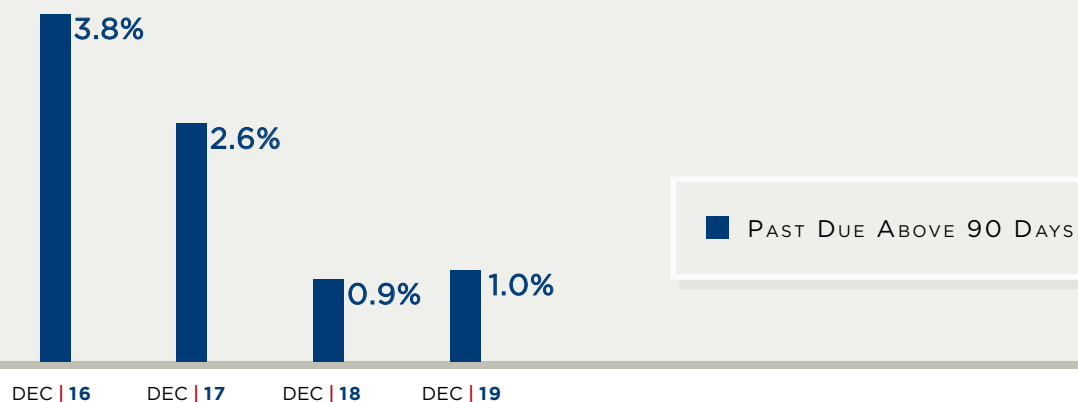
NET INCOME & RETURN ON AVERAGE EQUITY



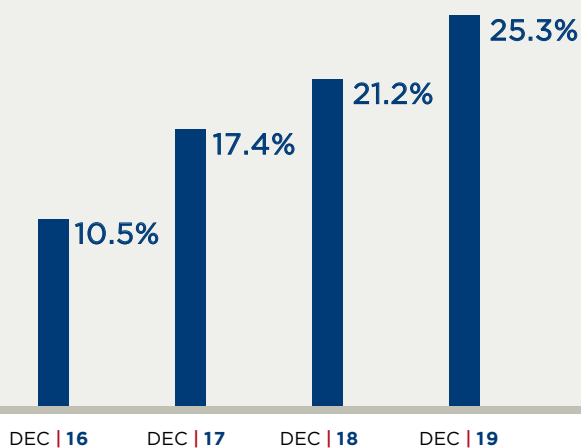
SHAREHOLDERS' EQUITY & BASEL INDEX



DELINQUENCY RATE (LOANS RATED E-H / EXPANDED CREDIT PORTFOLIO)

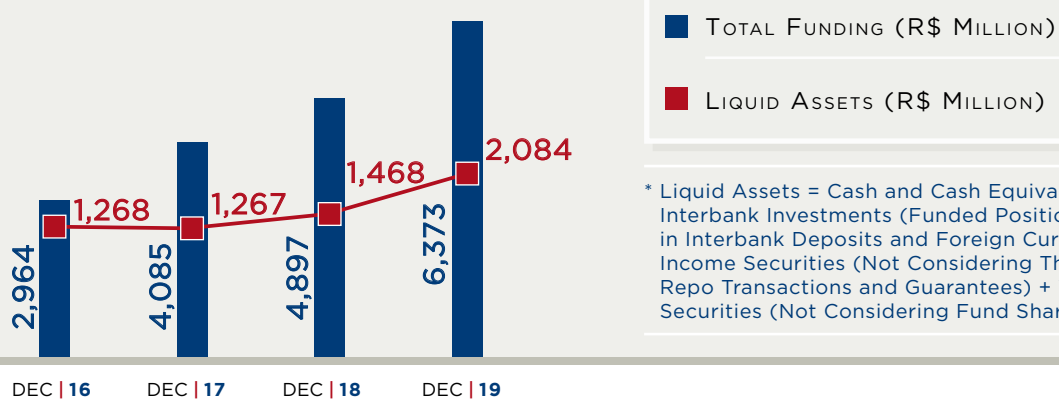


SERVICE REVENUES (% OF THE TOTAL REVENUES)*



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

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).

Our highlights Business Activities

COORDINATION OF SECURITIES ISSUES

We ended 2019 with a total of

R\$ 2,066 million

in fees from these services,

up more than 30%

in comparison to 2018.

WEALTH MANAGEMENT

19% growth in assets under management for Brazilian and foreign clients, reaching

R\$ 8.5 billion in December 2019.

CORPORATE CREDIT

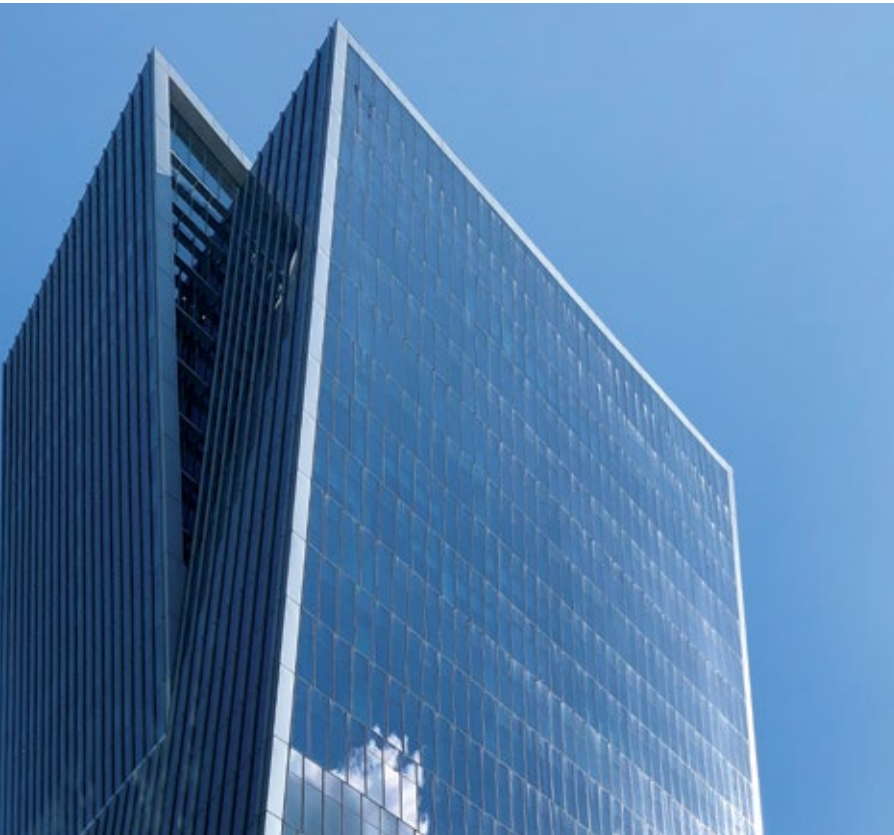
37% growth in 12 months.

The total in December 2019 was

R\$ 6,061 million.



Our highlights People



CONTEMPORARY HEADQUARTERS

Our move to a new address in the heart of Porto Maravilha, Rio's port district revitalization project, increased the well-being and safety of all our staff and contractors. We invested in larger spaces and an infrastructure that provides comfort and enables higher productivity. Our head offices are equipped with new technologies, better conference rooms, novel options in food and more parking spaces, both inside and outside the building. Our new address reinforces our commitment to motivating staff and building ever-better relationships with clients.

INTEGRATION

A pleasant workplace climate is essential to the life quality of our staff. With this in mind we strive to foster constant integration in our team, promoting events that combine activities involving collaboration, relaxation, health and well-being. In this manner we cultivate a harmonious and comfortable workplace that favors productivity and professional development.

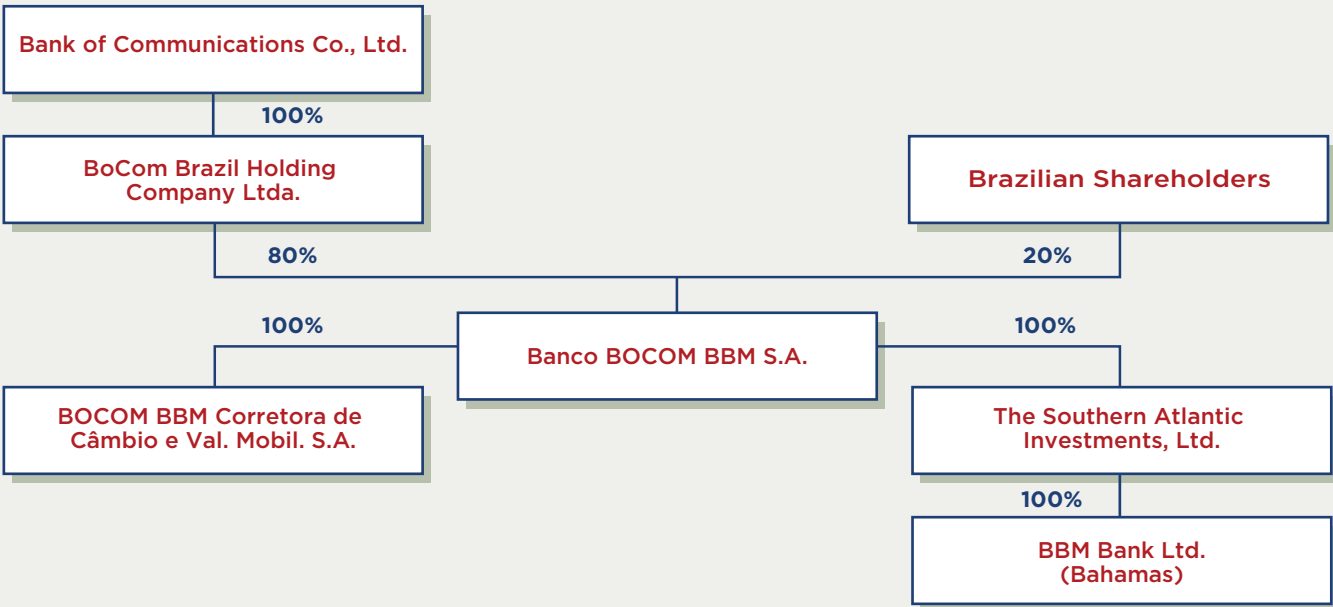
In 2019 we held the Fourth Panda Cup, a friendly soccer tournament open to all employees.

Our team also participated in the Meia do Porto Half Marathon.

In 2019 we also celebrated the first BOCOM BBM Family Day at our offices in Rio and São Paulo. We welcomed our children so that they could experience a little of our everyday work environment.

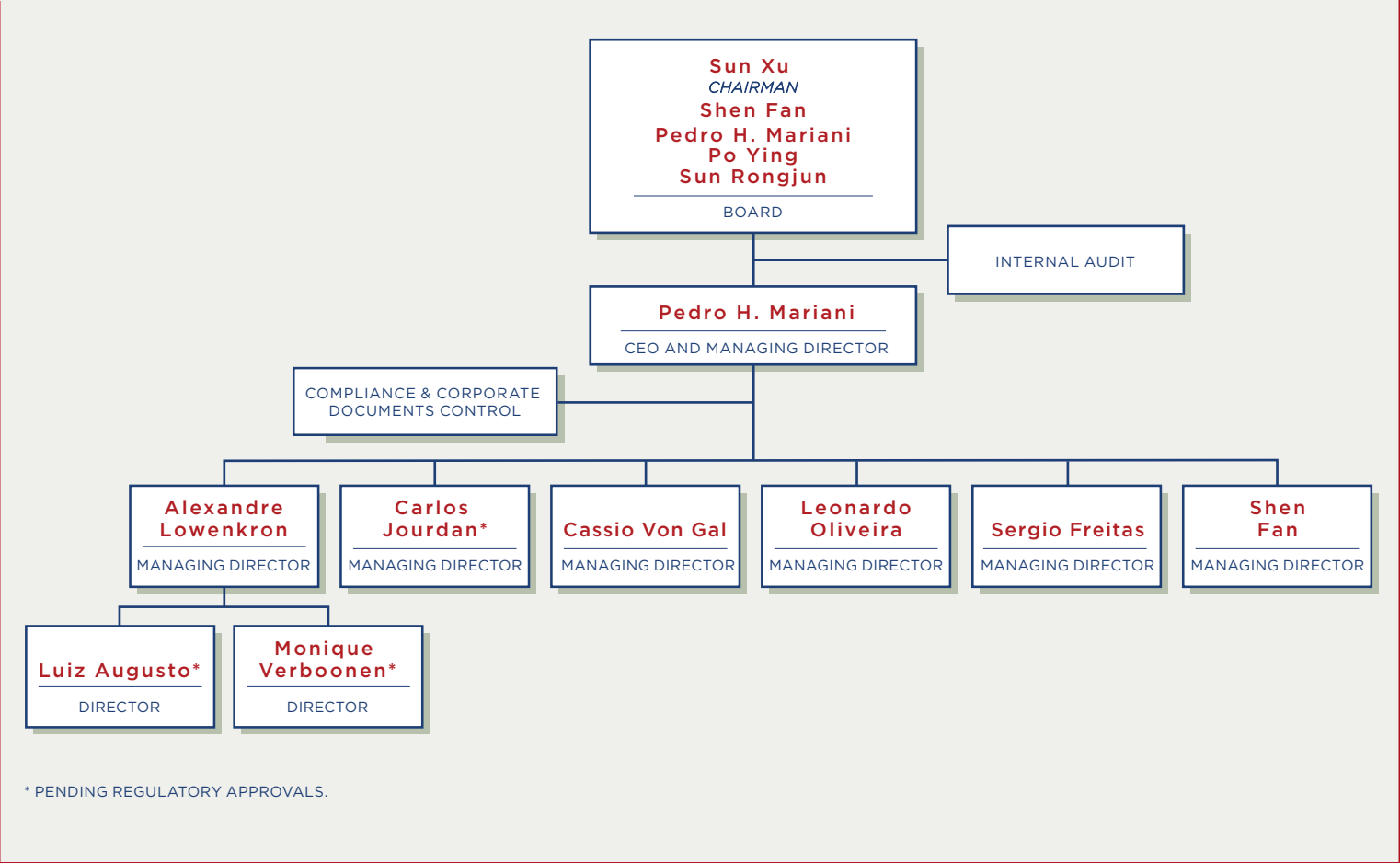
How we're organized

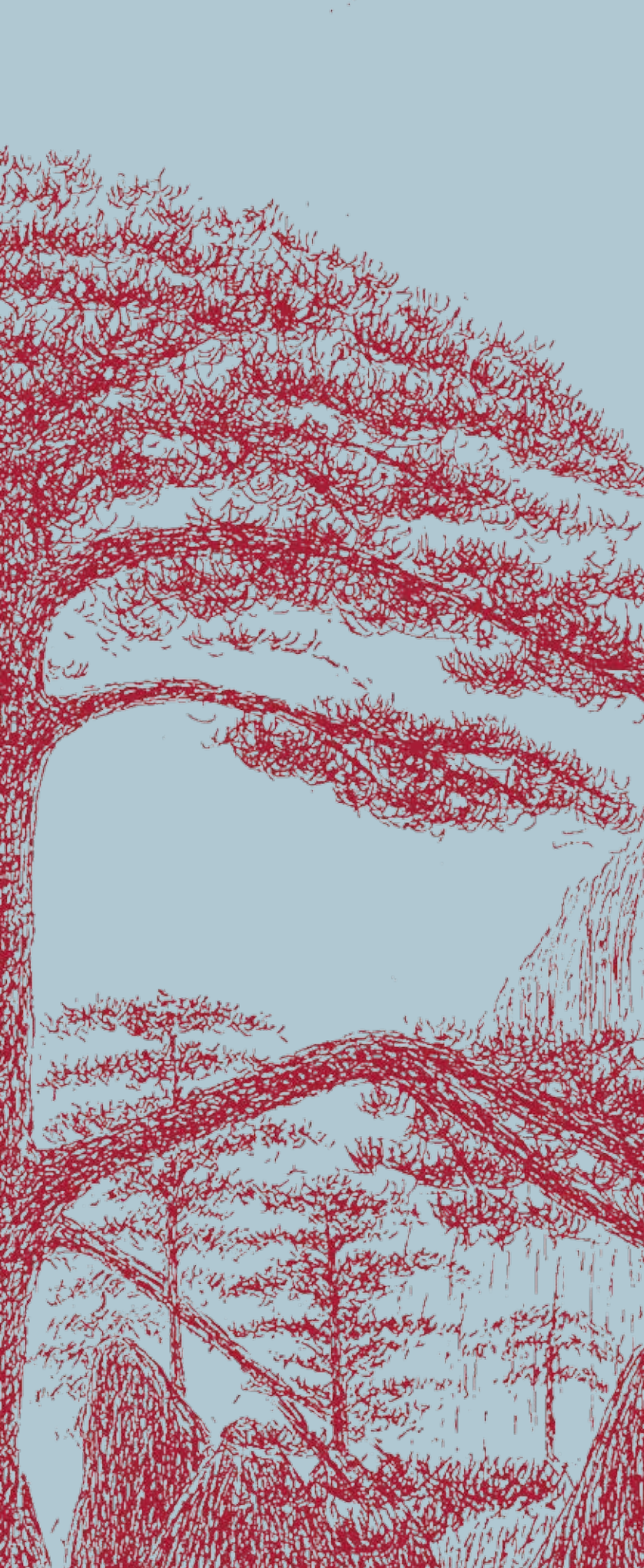
SHAREHOLDING COMPOSITION



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





1

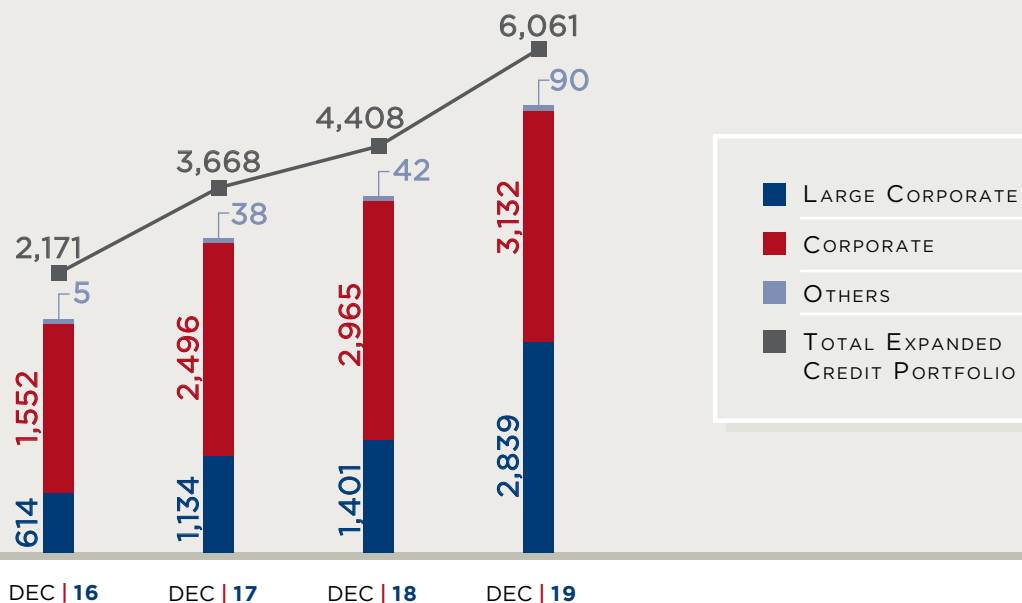
What we do

CORPORATE CREDIT

We use the best techniques to assist business organizations established in Brazil with agility and transparency by providing for their needs in terms of credit, financial services and derivatives. We offer Corporate clients (with annual revenue between R\$ 200 million and R\$ 3 billion) and Large Corporate clients (over R\$ 3 billion in annual revenue or Chinese-owned) loans secured by avals and sureties, pre-shipment export finance, and purchasing of corporate bonds. The balance of these transactions grew 37% in 12 months, reaching R\$ 6,061 million in December 2019.

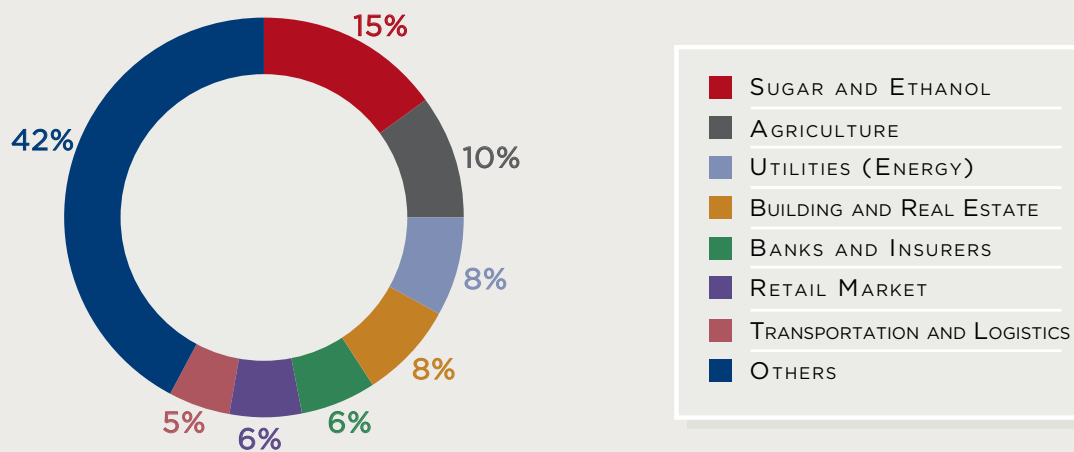
We use the best techniques to assist business organizations established in Brazil with agility and transparency by providing for their needs in terms of credit, financial services and derivatives.

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



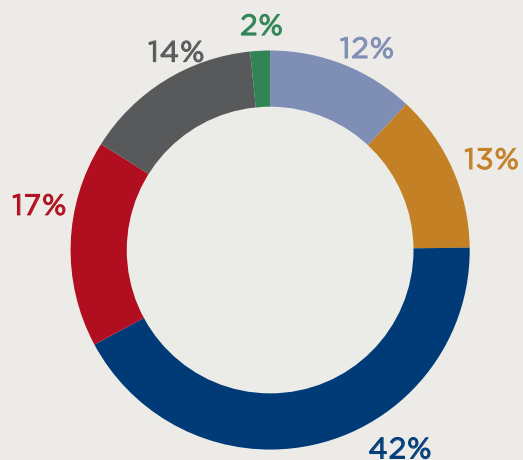
TOTAL EXPANDED CREDIT PORTFOLIO | BREAKDOWN BY SECTOR

DEC/19



TOTAL EXPANDED CREDIT PORTFOLIO | BREAKDOWN BY TRANSACTION

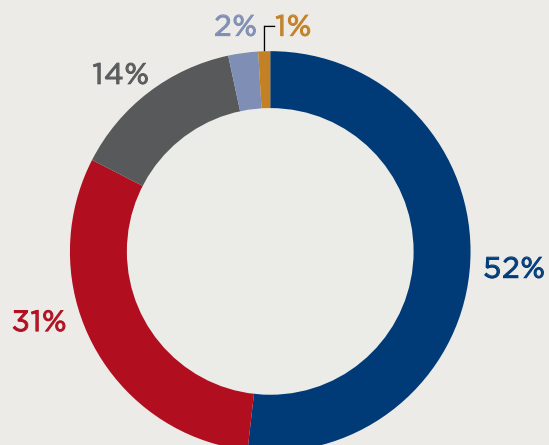
DEC/19



- TRADE FINANCE
- NCE
- WORKING CAPITAL
- GUARANTEES ISSUED
- CORPORATE SECURITIES
- OTHERS

LOANS AND GUARANTEES ISSUED PORTFOLIO* | RISK RATES

DEC/19



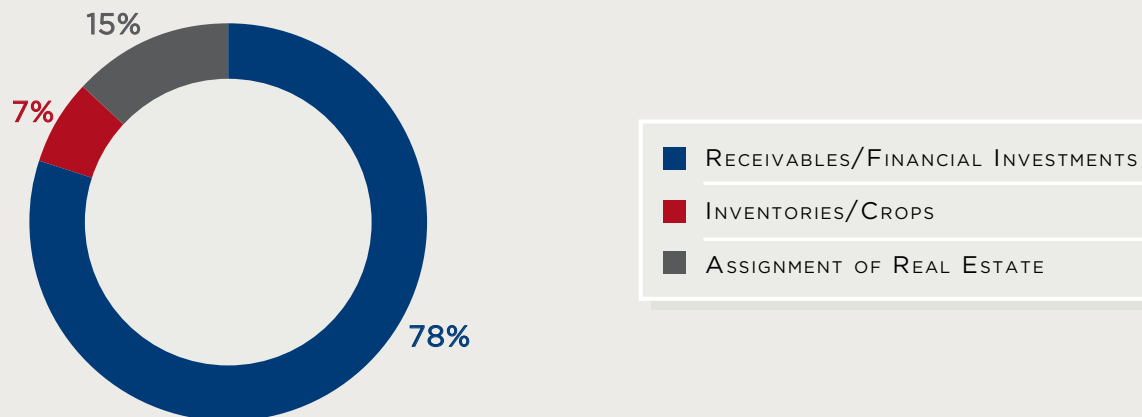
- AA
- A
- B
- C
- (E-H)

* Expanded credit operations, classified according to the Central Bank of Brazil's Resolution No. 2,682/99.

** The bank held no loans rated D on December 31, 2019.

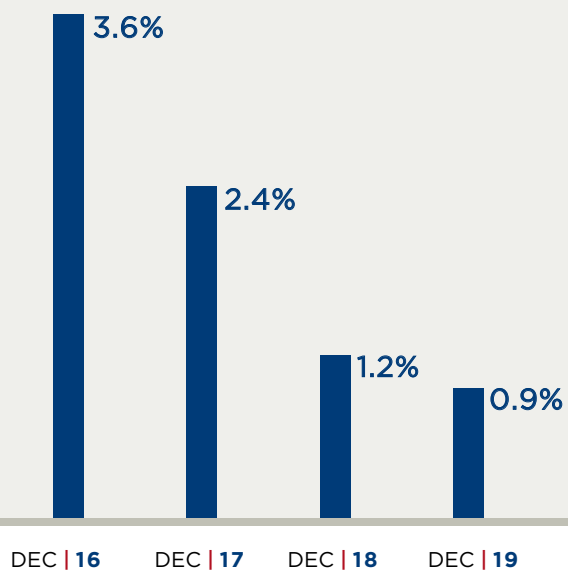
COLLATERALS* | LOANS AND GUARANTEES ISSUED

DEC/19



* In December 2019, 44.47% of the contractual balance had guarantees of some kind.

ALLOWANCES FOR LOAN LOSSES



WEALTH MANAGEMENT

We offer personalized service, seeking to understand each client's profile and optimal allocation in light of their risk tolerance, liquidity and cash generation, as well as the size of their estate.

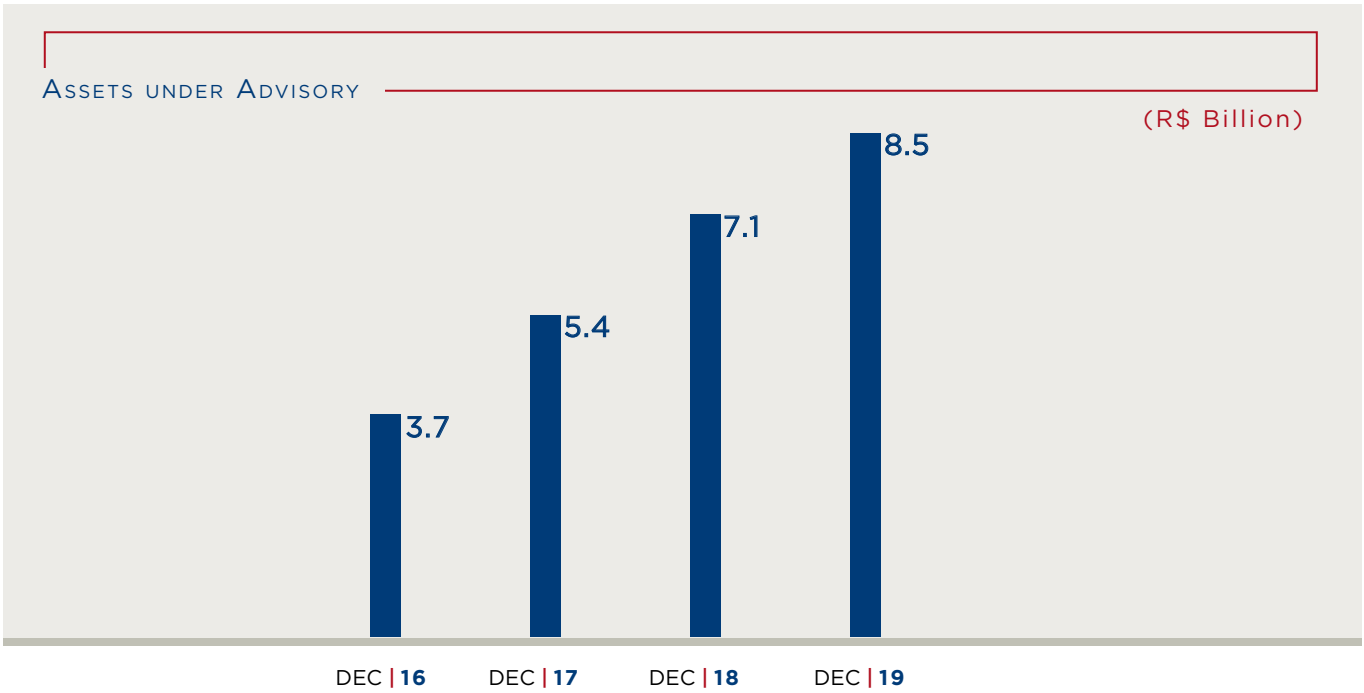
We offer financial advisory services for high net worth individuals and families, and we manage exclusive funds using tried and tested methods that have proved successful for decades. We help clients achieve their long-term investment objectives through diversified financial products based on an open-platform model. Assets under management for Brazilian and foreign clients grew 19% in the year, reaching R\$ 8.5 billion in December 2019.

We focus on individuals and families with consolidated wealth or in the process of building a strong asset base. We offer personalized service, seeking to understand each client's profile and optimal allocation in light of their risk tolerance, liquidity and cash generation, as well as the size of their estate.

Our team consists of highly trained certified professionals who prioritize excellence in service provision and have ample experience in asset allocation. Synergy with other areas of Banco BOCOM BBM assures their ability to satisfy clients' needs robustly.

We create strategies designed to promote dynamic and at the same time sustainable growth of the client's asset portfolio, managing exclusive/restricted funds or advising individuals on the best available investment opportunities. Allocations are distributed among funds, fixed-income securities, equities, and structured products. Assets are only allocated to the client's portfolio after an internal process of analysis and approval, including rigorous due diligence.

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ADVISORY

Portfolio recommendation

- Investment recommendation
- Market monitoring
- Portfolio consolidation
- Estate planning
- Succession planning

EXCLUSIVE FUNDS

Portfolio management

- Exclusive and restrict funds
- Managed portfolio
- Market monitoring

BANKER

Client's main contact with BOCOM BBM

- Understanding client's profile and requirements
- Integration with BOCOM BBM's products and services

CLIENT SUPPORT

Operational support to both the banker and the client

- Account opening
- Transactions
- Suitability control
- Client service



BOCOM BBM PLATFORM*

Use of BOCOM BBM's structure

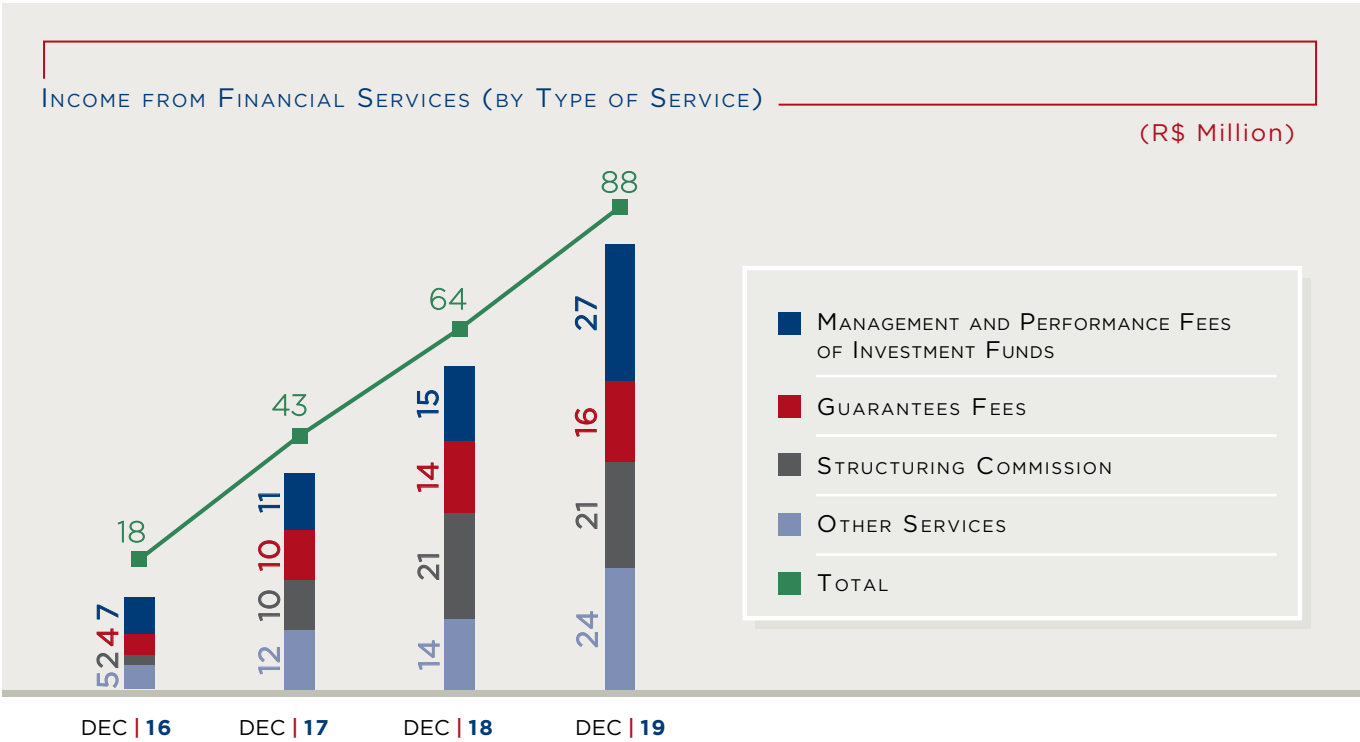
- Macroeconomic research
- Credit structuring
- Credit funds
- Products
- Credit research
- Risk analysis

*BOCOM BBM Conglomerate

FINANCIAL SERVICES

Structured Products

We offer advisory services regarding corporate debt offerings and securitization transactions in the capital markets, as well as derivatives pricing. We work with the Corporate Credit team to identify clients in a position to effect public issuance as a new way to raise funds. We assist clients with the preparation of documents, including roadshows and other investor pitching materials. We also help discuss structures, build relationships with regulators, and retain service providers such as legal advisors and mandated banks, arrangers etc.



Capital Markets

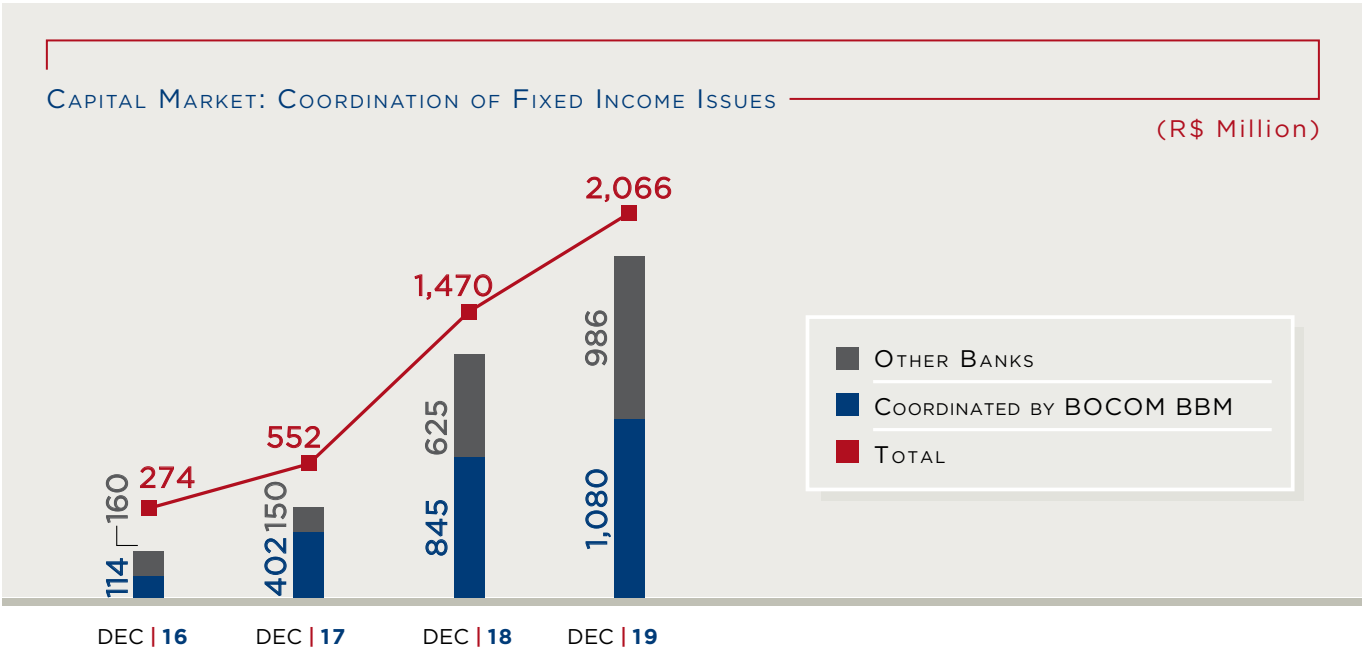
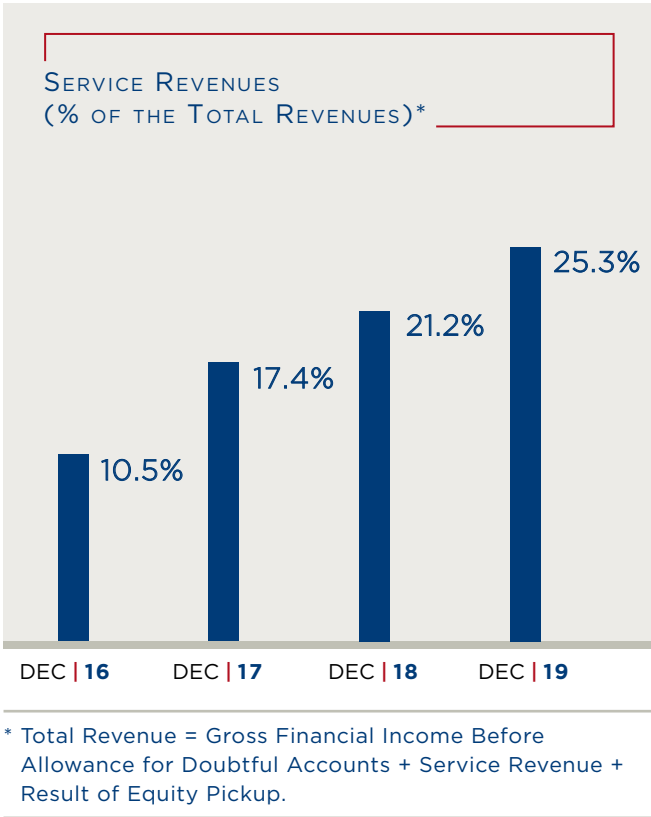
We are constantly expanding our financial service and product offering in order to meet clients' needs ever more completely. We offer securities structuring and distribution, and derivatives transactions. We ended 2019 with a total of R\$ 2,066 million in coordination of securities issues - an increase of more than 30% in revenue from these services compared to 2018.

Treasury

Treasury works with Corporate Credit on the structuring and pricing of derivatives and other products that help companies address the market risks to which their balance sheets are exposed. Our product offering includes derivatives for protection against the risks associated with:

- exchange-rate variation;
- interest rates;
- inflation.

We also offer various types of foreign-exchange service.



2

How we fund
our activities

In April and October 2019
Fitch and Moody's reaffirmed
Banco BOCOM BBM S.A.'s
ratings as AAA(bra)
and Aaa.br respectively.
These are their highest
long-term national
scale ratings.

The sustainability of our business is solid and diversified. Our activities are based on sound structuring of our assets, and on the quality and diversity of our funding sources and the products offered in accordance with the appropriate credit portfolio maturity profile. In the local market, Funding and Institutional Relationships, in conjunction with Wealth Management, works with institutional clients (banks, corporations, asset managers and insurers) as well as individual investors to offer fixed-income securities such as Certificates of Deposit (CDs), Agribusiness Credit Bills (LCAs), Real Estate Credit Bills (LCIs), and Financial Bonds (LFs).

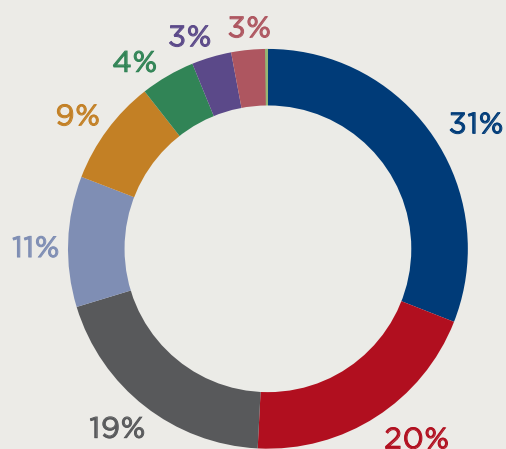
In the international market, we have relationships with the world's front-ranking financial institutions and can access competitive rates.

In April and October 2019 Fitch and Moody's reaffirmed Banco BOCOM BBM S.A.'s ratings as AAA(bra) and Aaa.br respectively. These are their highest long-term national scale ratings. Our global scale ratings from the same agencies are BB+ and Ba1.

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.

FUNDING SOURCE

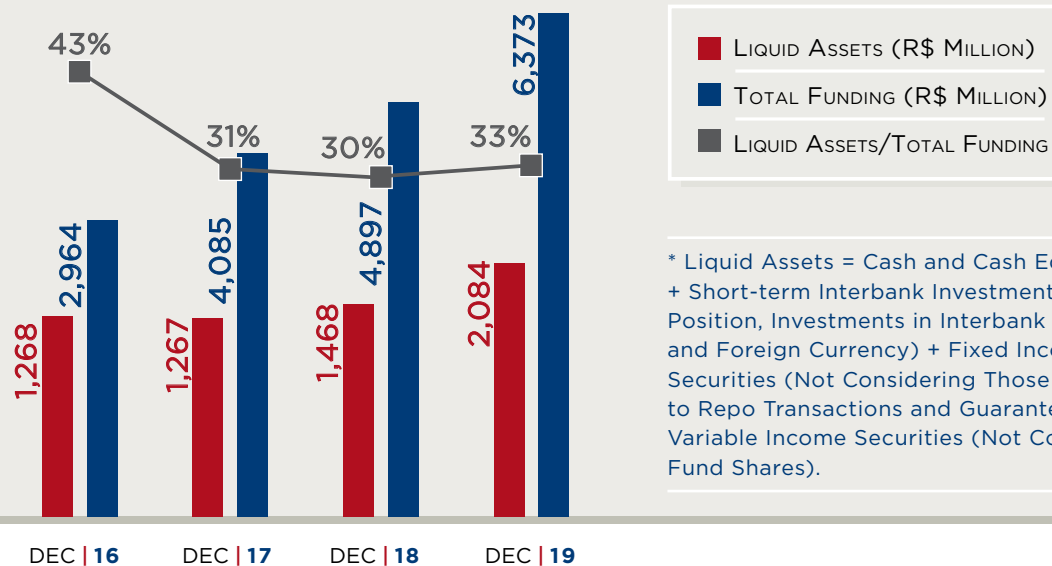
DEZ/19



- BANK OF COMMUNICATIONS
- AGRIBUSINESS CREDIT BILLS (LCAs)
REAL ESTATE CREDIT BILLS (LCIs)
- FINANCIAL BILLS (LFs)
- TERM DEPOSITS
- OTHER
- EXTERNAL LINES
- SUBORDINATED DEBT
- DEMAND DEPOSITS
- INTERBANK DEPOSITS

	DEC/16	DEC/17	DEC/18	DEC/19
FUNDING SOURCE - R\$ MILLION				
Bank of Communications	232	772	911	1,973
Agribusiness Credit Bills (LCAs) Real Estate Credit Bills (LCIs)	715	1,260	1,444	1,266
Financial Bills (LFs)	480	1,175	1,494	1,241
Term Deposits	910	418	609	673
Other	331	257	119	546
External Lines	161	96	203	281
Subordinated Debt				205
Demand Deposits	27	88	115	186
Interbank Deposits	108	19	2	2
TOTAL FUNDING	2,964	4,085	4,897	6,373

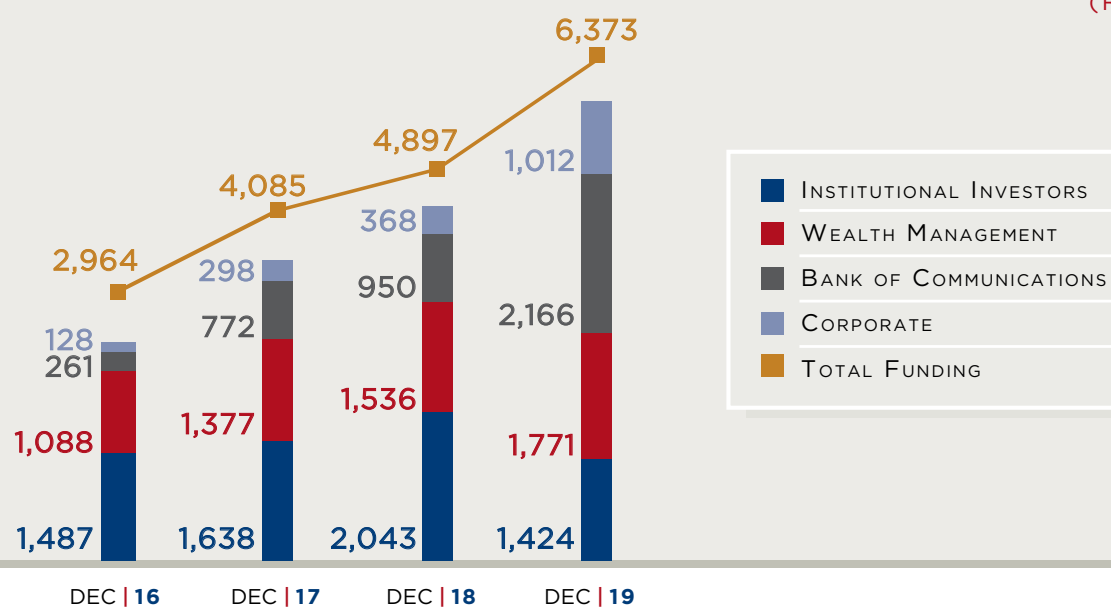
LIQUID ASSETS* & TOTAL FUNDING

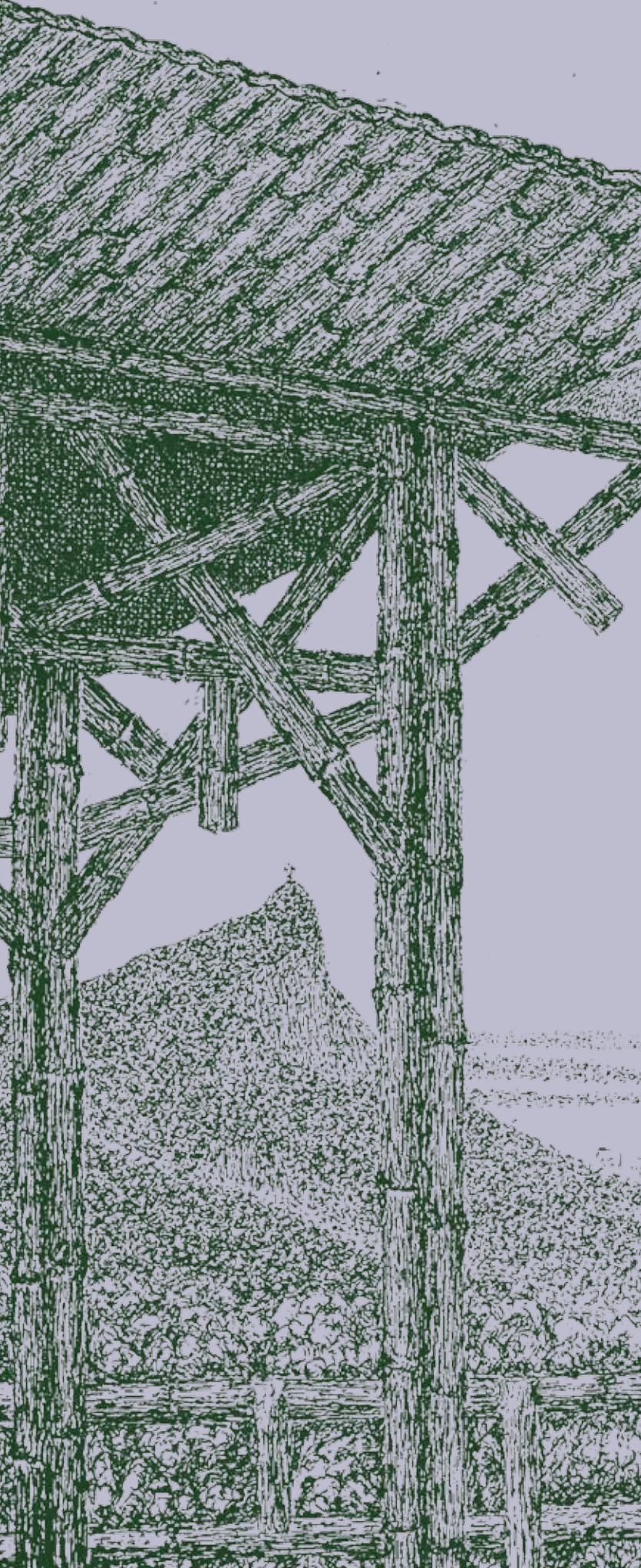


* Liquid Assets = Cash and Cash Equivalents + Short-term Interbank Investments (Funded Position, Investments in Interbank Deposits and Foreign Currency) + Fixed Income Securities (Not Considering Those Linked to Repo Transactions and Guarantees) + Variable Income Securities (Not Considering Fund Shares).

FUNDING BY TYPE OF INVESTOR

(R\$ Million)





3

How we
control risk

In decision-making, people and processes are guided by our tradition and experience in the quantified and efficient protection and allocation of capital.

The most important principle of our business philosophy is the prudence with which we structure risk control, assuming suitably quantified risks. In decision-making, people and processes are guided by our tradition and experience in the quantified and efficient protection and allocation of capital. We use proprietary models adapted to the business environment in Brazil, and the relevant tools and guidelines are integrated with our corporate governance structure so as to support business decisions such as extending credit and managing liquidity.

In the last 25 years we have continuously developed and applied proprietary risk management methodologies and models at the cutting edge of the Brazilian industry.

INTEGRATED DECISION-MAKING

Risk monitoring, assessment and control are integrated with decision-making by all departments in our day-to-day business activities. Risk models and parameters are part and parcel of governance processes and decisions such as calculations of economic capital, funding policy, origination, and credit portfolio management, for example.

Our control policies and practices are aligned with the risk appetite statement formulated by the Board of Directors, which establishes the guidelines, responsibilities and models used by management. Similarly, our capital management policies and strategies create mechanisms and procedures designed to keep our capital compatible with the risks incurred.

Credit Risk

Our credit risk management framework involves several players, as described below.

Credit Risk reports to the Chief Risk Officer (CRO) and is responsible for centralizing and evaluating information relating to individual credit risk management per transaction as well as consolidated credit portfolio risk, in order to ensure compliance with operational limits. It is also responsible for issuing reports to support decision-making on the credit limits set by the Credit Committee, and for prior analysis of new modes of operation with regard to credit risk.

The Credit Committee is responsible for setting credit limits for business groups, and for consolidated portfolio monitoring and assessment, including concentration and risk. It is also responsible for stipulating the time frame for solving problems relating to delinquent loans or credit transactions with deteriorating guarantees, including the start of judicial collection, if necessary.

The Board of Directors is responsible for approving risk policies and limits at least once a year.

Credit Analysis is responsible for assessing the credit risk of business groups with which the bank has or is planning to have credit relations.

Legal is responsible for analyzing the covenants entered into by the bank with clients, and for coordinating measures to recover debts and protect the bank's rights.

Contract Control ensures that operations comply with the parameters established in Credit Limit Proposals and that guarantees are correctly constituted, as well as writing the covenants entered into by the bank with clients.

Internal Auditing performs regular audits of the bank's business units and credit processes.

Market Risk

We pioneered market risk quantification in Brazil. In 1997 we developed a proprietary system that became a benchmark for the industry. Market Risk reports to the Chief Risk Officer (CRO) and is responsible for identifying, measuring and monitoring market risk, as well as for reporting it to the Risk Committee and to the Executive Committee.

Our market risk management framework involves several players. The Risk Committee is responsible for reviewing policies and proposing operational limits for approval by the Board of Directors at least once a year.

Among other functions, Pricing defines the pricing models and sources used in marking products to market independently of management areas.

Internal Auditing is responsible for assuring compliance with procedures and the consistency of the market risk management policies implemented.

Market risk is monitored by daily calculation of Value at Risk (VaR), a statistical tool that measures the institution's potential loss within a given confidence interval and assuming a specific investment horizon. A limit is set for VaR that can be allocated by the Chief Treasury Officer among the various risk factors.

The VaR calculation model is regularly backtested. Stress scenarios defined each quarter by the Risk Committee independently of management areas are analyzed on a daily basis.

Liquidity Risk

Our liquidity target is to ensure that cash is sufficient at all times to discharge all liabilities and other commitments.

By means of integrated risk management we ensure that the free cash position is sufficient to guarantee business continuity in a severe stress scenario, in accordance with limits and guidelines set by the Risk Committee and approved by the Board of Directors.

We manage liquidity risk on the basis of projections of cash flow under a range of scenarios for the evolution of funding, lending and treasury. These analyses take into account each client's implicit risk, any additional cash requirements to comply with reserve requirements, marking to market for derivatives, and other obligations, as well as operational losses.

Liquidity Risk reports to the CRO and is responsible for centralizing and analyzing information associated with liquidity risk management, assuring compliance with operational limits, and issuing reports to support decision-making. Internal Auditing is responsible for assuring the adequacy of procedures, and consistency between risk management policies and the structure actually implemented.

Operational Risk

Our operational risk management framework is aligned with best practices for the industry and complies with the applicable legislation. The framework is formalized in the document "Operational Risk Management Policy", which defines the management methodology and process, roles, responsibilities and categories, documentation and information storage procedures, and disclosure to guarantee the transparency of risk management activities. Operational Risk is segregated from Internal Auditing as an organizational unit and reports to the CRO.

The background of the slide features a traditional Chinese landscape. On the left, a multi-tiered pavilion with dark, curved roofs sits on a rocky outcrop. In the foreground, a stone bridge with several arches spans a body of water. The background is filled with dense, misty mountains. The entire scene is rendered in a soft, painterly style with a muted color palette.

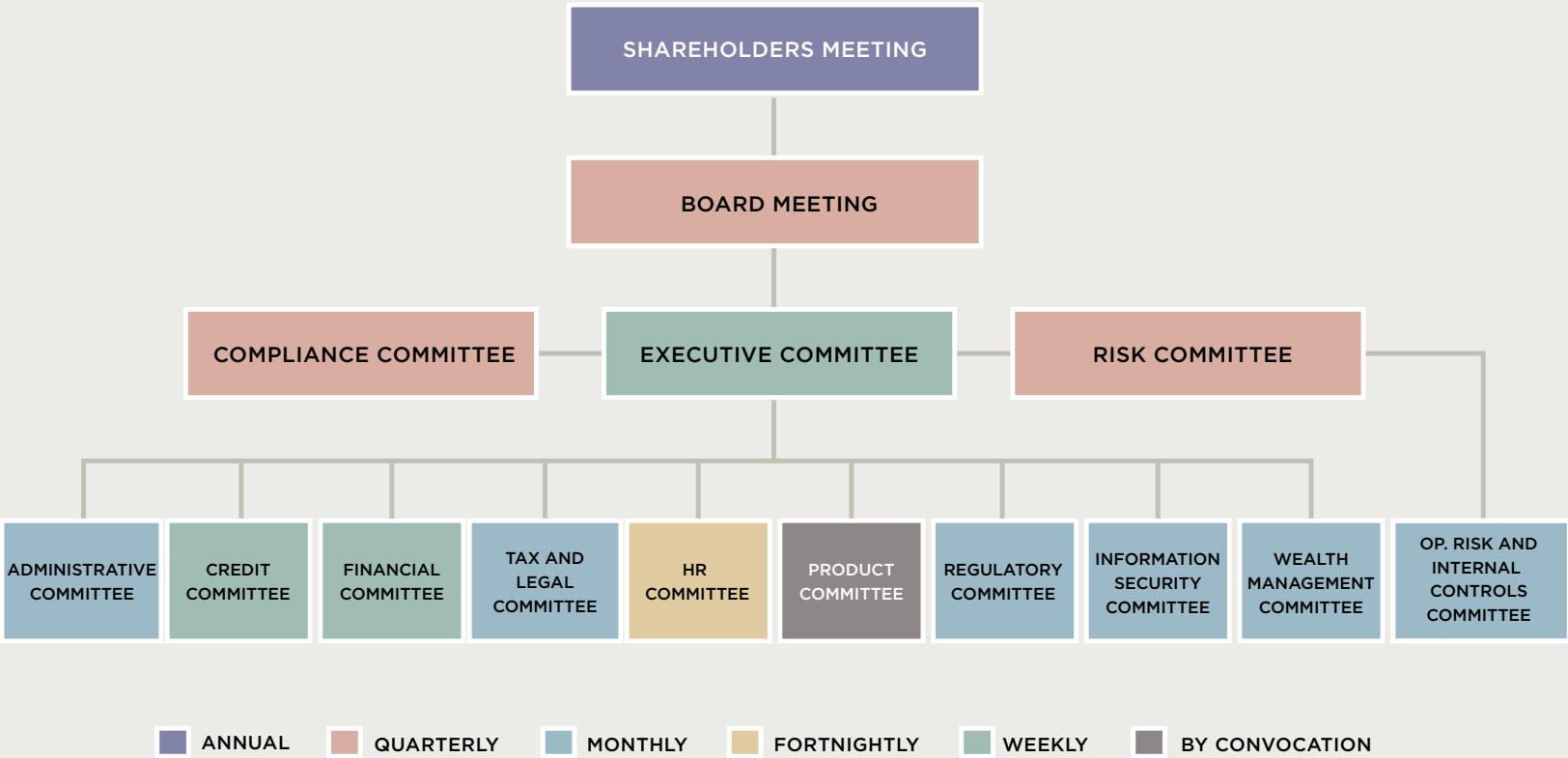
4

How we
decide

CORPORATE GOVERNANCE

The committees described below are the core of our governance model. We are committed to transparent, ethical, agile, effective and secure decision-making in line with best practices in our industry and based on constantly updated information.

The governance framework comprises the following bodies:



SHAREHOLDERS MEETING

This is the highest decision-making body. Made up of representatives of our shareholders, it meets once a year in an AGM or more often if necessary.

BOARD OF DIRECTORS

The Board of Directors comprises four representatives of the controlling shareholder and one representative of the minority shareholders. It makes strategic decisions and analyzes proposals submitted by the Executive Committee, approving them or if necessary asking the AGM to approve them. The Board meets at least twice a year.

Executive Committee

This committee comprises the C-suite officers of the company. It meets weekly to make key business decisions, oversee the bank's activities, and analyze proposals submitted by the specialized committees. The Risk Committee and Compliance Committee report to the Board of Directors via the Executive Committee.

Specialized Committees

These committees specialize in specific businesses or operational activities. They have substantial autonomy, and their decisions are reported to the Executive Committee or in some cases submitted to it for approval.

Risk Committee

The Risk Committee discusses and monitors the main sources of market risk, credit risk, liquidity risk and operational risk. It analyzes and defines stress scenarios to protect the bank against sudden market fluctuations. It also validates the quantitative models used to calculate risk metrics.

Its members are the Chair of the Board of Directors, the Chair of the Executive Committee, the Chief Financial Officer (CFO), the Chief Risk Officer (CRO), the Chief Information Officer (CIO), and the heads of Corporate Credit, Wealth Management, Financial Institutions, Macroeconomic Research, Integration, Corporate Treasury, and Compliance. It holds regular quarterly meetings but can also hold extraordinary meetings whenever warranted by significant changes in the business environment.

Compliance Committee

The Compliance Committee approves the annual compliance program, examines and responds to regulatory requirements from the Central Bank of Brazil, the Securities and Exchange Commission of Brazil (CVM) and self-regulatory agencies, and establishes guidelines and procedures for Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT).

Its members are the Chair of the Board of Directors, the Chair of the Executive Committee, the head of Risk, the CFO, and the head of Compliance. It meets every quarter or on demand.

Credit Committee

The Credit Committee analyzes potential corporate borrowers to assess their financial capacity and decide on the requisite guarantees. To this end it uses qualitative and quantitative methods based on a database built during our long experience in the credit market. As a result we maintain a good credit portfolio risk/return ratio, which is tracked by the committee.

Its members are the Chair of the Board of Directors, the Chair of the Executive Committee, the CRO, the CFO, and the heads of Macroeconomic Research, Legal, Credit, Credit Control, and Financial Institutions. It meets once a week.

Financial counterparties are assessed by specific meetings of this committee held at least semiannually to determine the maximum exposures permitted.

Wealth Management Committee

The Wealth Management Committee discusses and oversees the advisory services provided to individual clients in this area, and keeps participants informed on relevant matters relating to the financial and capital markets that may affect our business.

Its members are the Chair of the Executive Committee, the Chief Operating Officer (COO), the CRO, and the heads of Compliance and Wealth Management.

Product Committee

The Product Committee analyzes opportunities for new products and their economic feasibility, appraising risks and legal and operational aspects, as well as potential changes to existing products.

Its members are the CRO and the heads of Products and Macroeconomic Research. The committee meets on demand, whenever product approval is necessary.

People Committee

The People Committee discusses and decides on matters relating to selection, recruitment, training and pay, as well as more subjective matters relating to the well-being of the entire workforce.

Its members are the Chair of the Executive Committee, the CIO, and the head of Human Resources. It meets fortnightly.

Regulatory Committee

The Regulatory Committee monitors changes in regulation of the financial and capital markets, analyzing their impacts on our activities and proposing any adaptations to processes required to assure compliance.

Its members are the CRO, the CIO, and the head of Credit Control. It meets monthly.

Financial Committee

The Financial Committee discusses the economic outlook and oversees allocation operations as well as the cash flow relating to our assets and liabilities.

Its members are the Chair of the Board of Directors, the Chair of the Executive Committee, and all other C-suite officers. It meets weekly.

Administrative Committee


The Administrative Committee oversees management of the budget and administrative costs.

Its members are the CIO, CRO, and the head of Credit Control. It meets once a month.

Operational Risk and Internal Control Committee

This committee reports to the Risk Committee. Its remit is to oversee compliance with the guidelines governing the management of operational risk.

Its members are the CIO, the CRO, and the head of Credit Control. It meets monthly.



We are committed to transparent,
ethical, agile, effective
and secure decision-making
in line with best practices in our
industry and based on constantly
updated information.

OUR PEOPLE

We systematically pursue cutting-edge knowledge and select people who are determined to achieve their material and intellectual goals with the support of practical and academic experience.

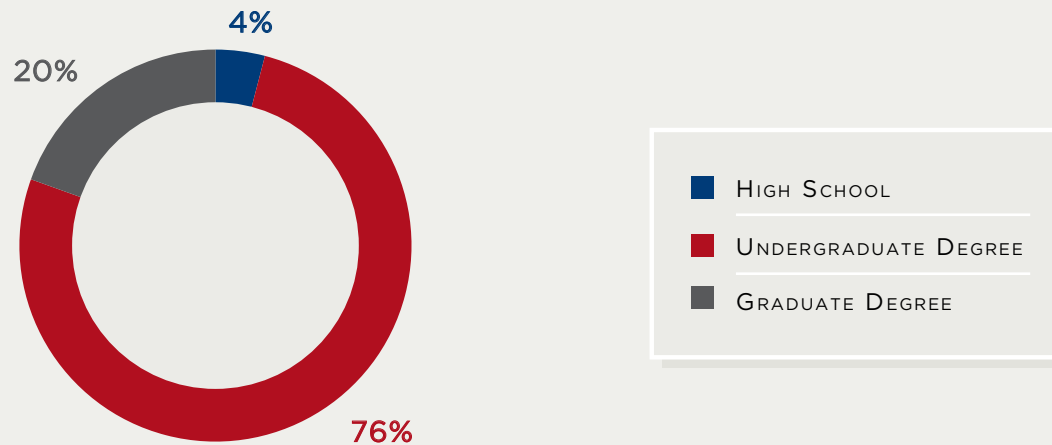
Identifying and developing talent is a fundamental part of our strategy. We systematically pursue cutting-edge knowledge and select people who are determined to achieve their material and intellectual goals with the support of practical and academic experience. We know how important the accumulated experience of our team is, and we know that teaching and motivating those who work with us helps us continually discover new ways of performing better. Our value is the value of the people we motivate to work for the sustainable growth of our business. In order to prosper, we are committed to maintaining a meritocratic, dynamic, transparent and diverse work environment, in accordance with our Code of Conduct and Ethics.

Professional Growth

Managers closely watch the development of our professionals. Growth potential is one of the key drivers of our team's motivation and commitment.

The performance of our professionals is analyzed on the basis of a policy that aligns professional growth with the organization's long-term performance. Compensation includes a semiannual variable bonus tied to individual performance.

ACADEMIC PROFILE

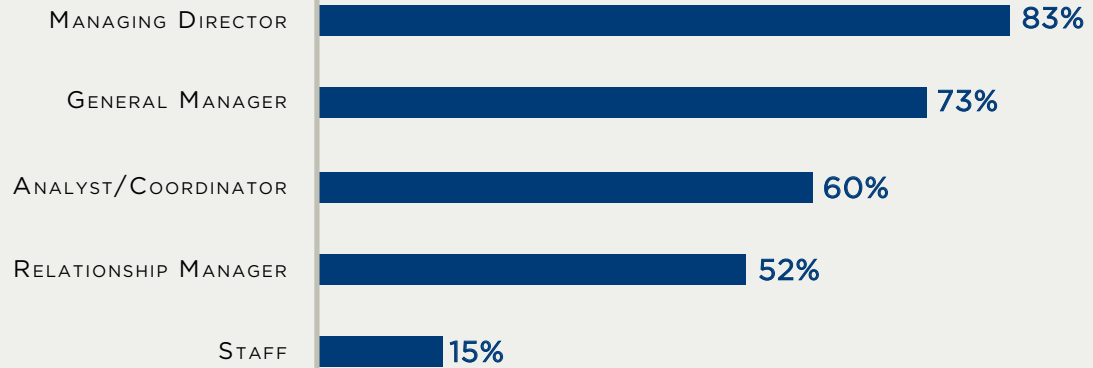


Attracting Highly Qualified Professionals

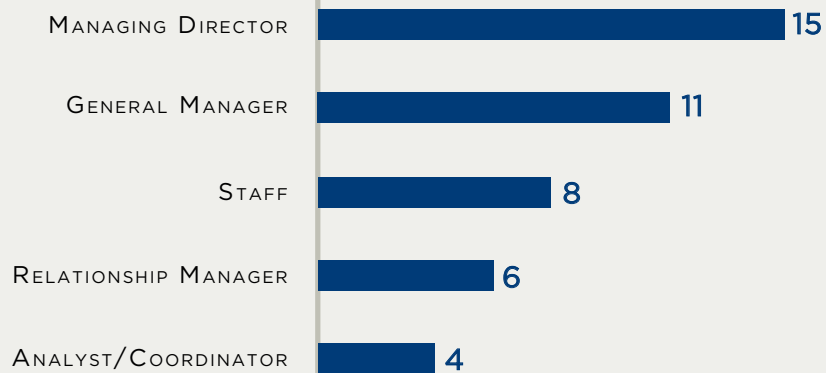
Always in search of the most talented people, we maintain close contact with the academic community, conducting activities in the best Brazilian universities and investing in the identification and training of talent.

We encourage and support projects through partnerships with top-tier universities, awarding scholarships to monitors, undergraduates, graduates and master's candidates, as well as prizes for dissertations and theses.

BEGINNING OF CAREER IN THE FINANCIAL SECTOR AT BOCOM BBM



TIME IN BOCOM BBM (YEARS)



Glossary

AGRIBUSINESS CREDIT BILLS (LCA)

Fixed-income debt instruments issued by financial institutions to fund loans to agribusiness.

ALLOCATION

Distribution of resources available for investment in different assets in order to obtain the highest possible return with the lowest possible risk.

BACKTESTING

Procedure to validate financial models on the basis of their past performance. In this manner it is possible to determine how well a given model would have performed in the past as a basis for predicting its future performance.

BANK BONDS (LF)

LFs are designed to extend the maturity of financial institutions' funding profiles. They can be issued for at least two years by universal banks, commercial banks, development banks, investment banks, credit and investment societies, savings banks, mortgage companies, home loan societies, and BNDES, the national development bank. They can be linked to inflation or pay a fixed interest rate at least semiannually.

BASEL INDEX

Index that measures the degree of leverage of a financial institution.

CASH AND CASH EQUIVALENTS

Cash equivalents/Investments that can be readily converted to cash such as commercial paper, marketable securities, money market holdings and other highly liquid assets.

CERTIFICATES OF DEPOSIT (CD)

Short-term negotiable debt instruments issued by financial institutions that promise to pay the bearer or registered owner a fixed or floating rate of interest.

CFO

Chief financial officer.

COMPLIANCE

Being in compliance means acting in conformity with laws, regulations, policies and guidelines, thus guaranteeing ethical and transparent conduct.

DERIVATIVES

Financial instruments whose value derives from an underlying asset, reference rate or market index.

Type 1

Forwards: over-the-counter contracts between two parties to buy or sell a specified quantity of a commodity or financial asset at a price agreed in the present but for settlement on a future date. May entail periodic adjustments.

Type 2

Futures: exchange-traded contracts that obligate the parties to transact an asset at a future date and price. Settlement may be by physical delivery or in cash. Both parties must post margin throughout the life of the contract as the price varies.

Type 3

Options: exchange-traded contracts giving the buyer the right but not the obligation to buy or sell an asset or instrument at a fixed price prior to or on a specified date. The option buyer pays the writer (seller) a premium.

Type 4

Swaps: over-the-counter contracts between two parties to exchange financial instruments, yields, rates or payments for a certain time.

DUE DILIGENCE

Risk analysis of a potential investment opportunity (securities, mutual funds etc.) undertaken before deciding whether to invest.

EXPANDED CREDIT PORTFOLIO

Loans and securities with credit risk such as debentures, promissory notes or farm produce bonds (CPRs).

INTERBANK DEPOSITS

Private fixed-income instruments bought and sold solely by financial institutions. Typically used by banks to raise funds or invest surplus funds.

INVESTMENT SECURITIES PORTFOLIO

A) Held for trading, own portfolio: securities available for sale, originating in definitive purchase or repurchase, booked as fixed-income securities;

B) Held to maturity, own portfolio: securities purchased under repurchase agreements not linked to resales, i.e. open market securities owned by the institution and booked as fixed-income securities linked to repurchases;

C) Held for trading, third-party portfolio: securities originating in resale agreements and not resold, i.e. not sold as repos, booked as outstanding resales – held for trading;

D) Held to maturity, third-party portfolio: securities purchased under resale agreements and resold, i.e. sold as repos, booked as outstanding resales – held to maturity.

LIABILITIES

Debts and obligations of the business recorded on the right side of the balance sheet, including accounts payable, deferred revenues and accrued expenses, for example.

LIQUID ASSETS

Cash and cash equivalents, repos, interbank deposits, foreign exchange and marketable government bonds.

LLP

Loan loss provision is a balance sheet account that represents a bank's best estimate of future loan losses due to customer delinquency and default.

OPEN-END FUND

A type of mutual fund with no restriction on the number of shares it can issue, and in which investors can redeem shares at any time.

OPERATIONAL LIMITS

All limits to which the institution is subject in order to comply with regulatory requirements and internal policies.

REAL ESTATE CREDIT BILLS (LCI)

Fixed-income debt instruments issued by financial institutions to fund loans to the real estate, housing and construction industry.

REPOS

Repurchasing agreements structured as bond sales, with an agreement to repurchase the debt security in a future date at a higher price to factor in the dealer's interest expense. Equivalent to a secured deposit.

RETURN ON AVERAGE EQUITY (ROAE)

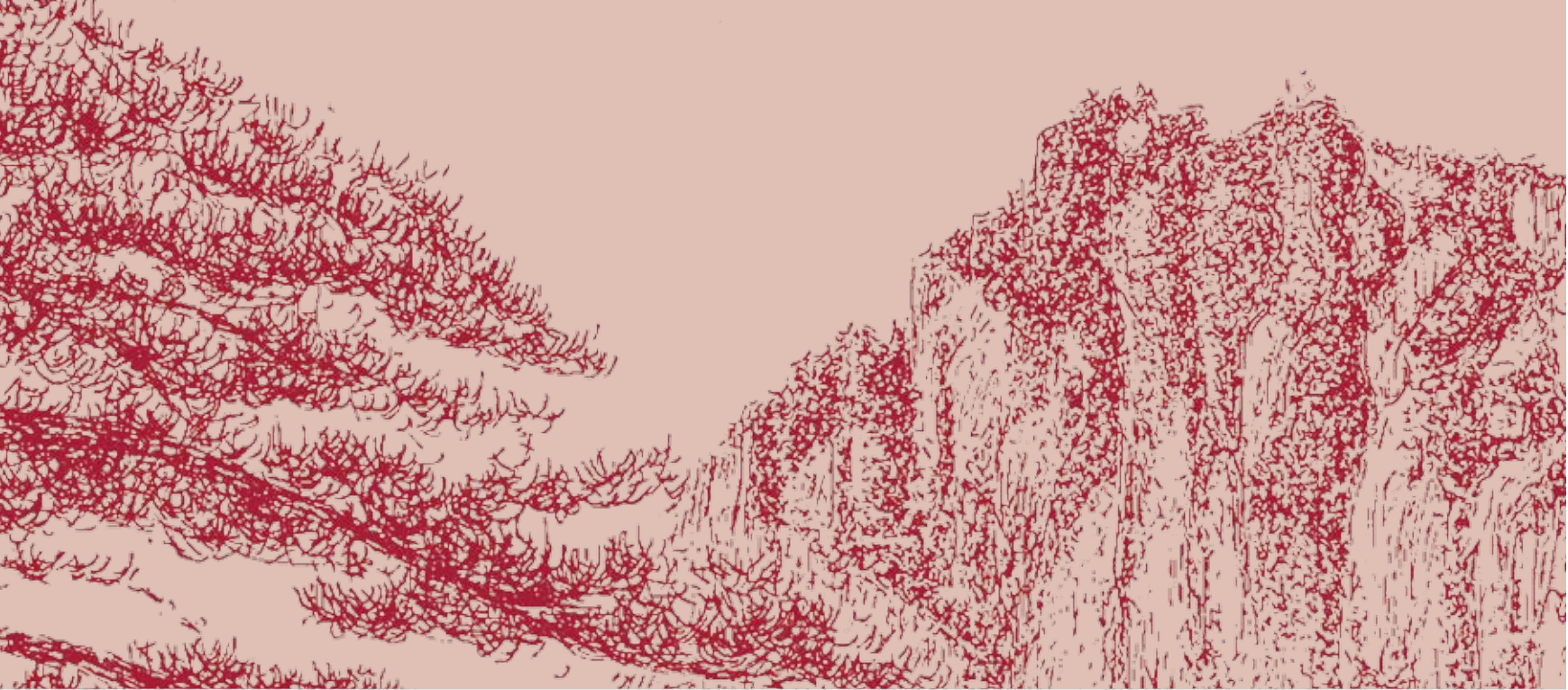
This is an indicator that measures a firm's capacity to add value from its own resources and investor funds, based on net income as a percentage of average shareholders' equity over a period (typically two years).

SUITABILITY CONTROL

Control of investors' profiles to ensure that requested investments in financial assets are compatible with their objectives and risk tolerance.

TOTAL FUNDING

Demand and time deposits, interbank deposits, bank bonds (LFs), agribusiness credit bills (LCAs), real estate credit bills (LCIs), foreign borrowings, and pre-export finance.



6

Financial statements

CREDIT RATING

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

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

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

ASSETS

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

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

ASSETS

ASSETS

		In R\$ thousand	
	Note	Prudential Conglomerate	
		12/31/2019	12/31/2018
Noncurrent assets			
Long-term assets		4,197,052	2,935,282
Marketable securities and derivative financial instruments	6	2,029,729	1,251,243
Bank portfolio		542,365	426,135
Linked to repurchase agreements		1,190,562	606,326
Linked to guarantees given		255,193	207,833
Derivative financial instruments	20	41,728	10,949
Provisions for marketable securities		(119)	-
Loan transactions	7	2,069,895	1,594,420
Discounted securities and loans		1,202,559	910,100
Financing		485,905	396,968
Rural and agroindustrial financing		400,071	305,080
Allowance for loans		(18,640)	(17,728)
Other receivables		97,130	89,620
Unearned income		7,472	2,329
Sundry	13	60,243	55,267
Tax credits	23	29,415	32,732
Allowance for other receivables	7	-	(708)
Other assets	14	298	-
Permanent assets		30,383	16,895
Investments		300	172
Other investments		2,928	2,800
Provision for losses		(2,628)	(2,629)
Property and equipment in use		10,937	5,557
Intangible assets		19,146	11,166
Total assets		8,658,400	6,297,562

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

LIABILITIES

	Note	In R\$ thousand	
		Prudential Conglomerate	
		12/31/2019	12/31/2018
Current liabilities		5,600,344	3,503,090
Deposits	9	483,901	404,395
Demand deposits		185,588	115,372
Time deposits	2.1	296,682	286,758
Interbank deposits		1,631	2,265
Repurchase agreements	10	1,696,479	596,084
Bank portfolio		1,196,479	596,084
Third-party portfolio		500,000	-
Funds from acceptance and issue of securities	11	1,345,045	1,697,665
Liabilities from issue of agribusiness credit bills - LCA		659,643	998,810
Liabilities from issue of real estate credit bills - LCI		70,641	57,024
Liabilities from issue of credit bills - LF		614,761	641,831
Interbranch accounts		86,517	79,540
Third-party funds in transit		86,517	79,540
Borrowings	12 and 2.1	1,711,403	609,120
Loans abroad		1,711,403	609,120
Lending obligations - official institutions	12	-	21,040
Other institutions		-	21,040
Derivative financial instruments	6 and 20	39,107	12,266
Derivative financial instruments		39,107	12,266
Other liabilities		237,892	82,980
Collection of similar taxes		457	429
Foreign exchange portfolio	8	81,086	1,750
Social		48,410	-
Statutory		27,507	27,995
Tax and social security		47,569	19,602
Securities trading		11,948	3,694
Allowance for financial guarantees	7 and 25	789	1,030
Sundry		20,126	28,480

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

LIABILITIES

LIABILITIES		In R\$ thousand	
		Prudential Conglomerate	
		12/31/2019	12/31/2018
Noncurrent liabilities			
Long-term payables		2,388,962	2,183,103
Deposits	9	376,408	322,530
Time deposits	2.1	376,408	322,435
Interbank deposits		-	95
Funds from acceptance and issue of securities	11	1,367,680	1,240,394
Liabilities from issue of agribusiness credit bills - LCA		454,358	349,176
Liabilities from issue of real estate credit bills - LCI		81,618	38,929
Liabilities from issue of credit bills - LF		626,744	852,289
Liabilities from issue of credit bills subordinated debts		204,960	-
Borrowings	12 and 2.1	542,754	522,103
Loans abroad		542,754	522,103
Derivative financial instruments	6 and 20	52,705	41,001
Derivative financial instruments		52,705	41,001
Other liabilities		49,415	57,075
Social		-	16,802
Statutory		20,645	8,381
Tax and social security		11,532	14,924
Sundry		16,939	16,837
Allowance for financial guarantees	7 and 25	299	131
Deferred income	26b	15,911	10,122
Equity	15	653,183	601,247
Share Capital		469,300	469,300
Domiciled in Brazil		469,300	469,300
Income reserves		365,072	313,738
Market value adjustment of securities and derivative financial instruments		650	48
Securities held for sale		650	48
Treasury stock		(181,839)	(181,839)
Total liabilities and equity		8,658,400	6,297,562

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

		In R\$ thousand		
		Prudential Conglomerate		
	Note	Second half of 2019	12/31/2019	12/31/2018
Financial income		315,394	570,067	583,246
Loan transactions		163,222	321,544	286,497
Income from marketable securities transactions	5 and 6	99,881	185,280	93,455
Result of exchange operations	16	46,525	57,627	148,470
Gain on derivative financial instruments	20	5,766	5,616	54,824
Financial expenses		(178,766)	(324,587)	(372,232)
Market funding operations	16 and 2.1	(124,409)	(241,483)	(251,813)
Loans, assignments and onlending operations	16 and 2.1	(53,207)	(71,024)	(92,056)
Set up of allowance doubtful accounts	7	(1,150)	(11,719)	(28,363)
(Provisions) for marketable securities	6	-	(362)	-
Gross financial income		136,628	245,480	211,014
Other operating income (expenses)		(36,837)	(69,525)	(77,977)
Service revenues	17	44,374	87,859	64,496
Personnel expenses		(38,124)	(75,043)	(70,852)
Other administrative expenses	18	(33,475)	(63,136)	(57,237)
Tax expenses		(11,712)	(22,188)	(15,766)
Other operating income		2,159	3,094	1,678
Other operating expenses		(59)	(111)	(296)
Operating income		99,791	175,955	133,037
Non-operating expenses		(6,110)	(6,422)	(3,860)
Income before income taxes and profit sharing		93,681	169,533	129,177
Income and social contributions taxes	23	(17,003)	(32,651)	(26,323)
Provision for income tax		(5,056)	(16,365)	(10,814)
Provision for social contribution tax		(6,153)	(12,560)	(6,033)
Deferred tax asset/(liabilities)		(5,794)	(3,726)	(9,476)
Profit sharing - management and employees		(26,292)	(48,361)	(39,194)
Net income		50,386	88,521	63,660
Earnings per outstanding share		0.24	0.43	0.31

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

	In R\$ thousand						
	Capital	Income reserves		Market value adjustment of securities and derivative instruments	Treasury shares	Retained earnings	Total
		Legal	Statutory	Bank			
Year ended December 31, 2018							
Balances at January 1, 2018	469,300	28,489	260,319	(1,356)	(181,839)	-	574,913
Market value adjustments – marketable securities				1,404			1,404
Net income for the year						63,660	63,660
Allocations:							
- Reserves		3,183	21,747			(24,930)	-
- Interest on equity (R\$ 0.19 per share)						(38,730)	(38,730)
Balances at December 31, 2018	469,300	31,672	282,066	48	(181,839)	-	601,247
Changes in the year	-	3,183	21,747	1,404	-	-	26,334
Year ended December 31, 2019							
Balances at January 1, 2019	469,300	31,672	282,066	48	(181,839)	-	601,247
Market value adjustments – marketable securities				602			602
Net income for the year						88,521	88,521
Allocations:							
- Reserves		4,426	46,908			(51,334)	-
- Interest on equity (R\$ 0.18 per share)						(37,187)	(37,187)
Balances at December 31, 2019	469,300	36,098	328,974	650	(181,839)	-	653,183
Changes in the year	-	4,426	46,908	602	-	-	51,936
Balances at July 1, 2019							
Balances at July 1, 2019	469,300	33,579	299,063	58	(181,839)	-	620,161
Market value adjustments – marketable securities				592			592
Net income for the semester						50,386	50,386
Allocations:							
- Reserves		2,519	29,911			(32,430)	-
- Interest on equity (R\$ 0.09 per share)						(17,956)	(17,956)
Balances at December 31, 2019	469,300	36,098	328,974	650	(181,839)	-	653,183
Changes in the period	-	2,519	29,911	592	-	-	33,022

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

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

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

1. Operations

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

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

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

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

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

On February 20, 2017, the transfer of the shareholding control was published in the Federal Government's Official Journal by the Central Bank of Brazil.

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

2. Presentation of the financial statements and consolidation criteria

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

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

2.1. Reclassification of compared balances

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

- In December 31, 2018 the amount of R\$ 389,261 thousand from the “Time deposits” account to the “Loans abroad” account, both in current liabilities, and R\$ 126,614 thousand from the “Time deposits” account under noncurrent liabilities to the “Loans abroad” account also under noncurrent liabilities. The total amount of R\$ 515,875 affected the respective lines of “Deposits” and “Borrowings and onlendings” in the statements of cash flow from operating activities on December 31, 2018. Additionally, in the statements of income for the year 2018, the amount of R\$ 10,678 thousand was reclassified from the “Market funding operations” account to “Loan, assignments and onlendings operations” account.
- In June 30, 2019, the amount of R\$ 1,000,226 thousand from the “Time Deposits” account to the “Loans abroad” account, both in current liabilities, and R\$ 125,176 thousand from the “Time deposits” account under noncurrent liabilities to the “Loans abroad” account also noncurrent liabilities. The total amount of R\$ 1,125,402 affected the respective lines of “Deposits” and “Borrowings and onlendings” in the statements of cash flow of operating activities on June 30, 2019. Additionally, in the statements of income for the semester ended June 30, 2019, the amount of R\$ 10,768 thousand was reclassified from the “Market funding operations” account to “Loan, assignments and onlendings operations” account.

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

2.2. Consolidation

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

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

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

The Prudential Conglomerate financial statements comprise the financial statements at December 31, 2019 and 2018 of the following institutions:

Banco BOCOM BBM S.A. and Nassau Branch

BBM Bank Ltd. (a)

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

Bahia Fund (a)

The Southern Atlantic Investments (b)

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

Haitan Fund (a)

Tai Yang Fund (a)

- (a) The indirect participation of 100% of Banco BOCOM BBM in the social capital of BBM Bank Ltd., Bahia Fund, Haitan Fund and Tai Yang Fund was eliminated from the Prudential Conglomerate.
- (b) Banco BOCOM BBM directly holds 100% of the capital of these entities. The consolidation of Jiang FIM CPIE occurred as from March 2018.
- (c) On February 22, 2018, the change of the corporate name of Bacor Corretora de Câmbio e Valores Mobiliários S.A. to BOCOM BBM Corretora de Câmbio e Valores Mobiliários S.A. was approved by the Trade Board of the State of São Paulo ("JUCESP - Junta Comercial do Estado de São Paulo").

3. Significant accounting practices

(a) Results of operations

Calculated on an accrual basis.

(b) Marketable securities and derivative financial instruments

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

I – Trading securities;

II – Securities held for sale;

III – Securities held up to maturity.

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

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

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

(c) Current and noncurrent assets

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

(d) Permanent assets

These are stated at cost, plus the following aspects:

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

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

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

(e) Current liabilities and long-term liabilities

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

(f) Income tax and social contribution

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

The deferred tax assets and liabilities arising from temporary differences were recognized in accordance with CMN Resolutions No. 3,059, issued on December 20, 2002, and No. 3,355, issued on March 31, 2006, and take into account the history of profitability and the expected generation of future taxable income supported by technical feasibility studies. The deferred taxes were constituted based on the expected income tax of 25% and social contribution rates of 15% and 20%, since used while the rate is effective.

In May 2015, Provisional Measure No. 675 was issued, amending the rate of Social Contribution on Net Income (CSLL) of financial institutions from 15% to 20%. According to the Provisional Measure, this rate increase became effective as from September 2015 and it remained in force up to December 2018. For 2019, the current rate for CSLL was 15%, however, the deferred active and passive taxes have already been recognized considering the definitive increase in this rate to 20%, after the publication of the Proposal for Amendment to Constitution No. 6, June 2019, which later became the Amendment to Constitution No. 103. It should also be noted that according to the Amendment,, this increase is definitive and exclusive for banks.

(g) Swaps, futures, forwards and options

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

(h) Earnings per share

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

(i) Impairment of assets

In accordance with CPC 1, as approved by CMN Resolution No. 3,566/08 of May 29, 2008, and based on management analysis, if the book value of the assets of the Bank and of others institutions of the Prudential Conglomerate exceed their recoverable value, an impairment is recognized in the income statement.

(j) Contingent assets and liabilities and legal obligations

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

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

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

(k) Short-term interbank investments

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

(l) Loan transactions

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

Credit assignments without risk retention result in the write-off of the financial assets that are the object of the operation, which are then kept in an offsetting account. The result of the assignment is fully recognized when it is realized. As of January 2012, as determined by CMN Resolutions No. 3,533/2008 and No. 3,895/2010, all credit assignments with risk retention are recognized in the remaining terms of operations, and the financial assets subject to assignment are recorded as credit operations and the amount received as obligations for sales or transfer of financial assets.

(m) Cash and cash equivalents

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

(n) Other values and assets

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

(o) Hedge accounting

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

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

- (a) Market risk hedge: the financial instruments classified under this category, as well as their related financial assets and liabilities, which are the hedge objects, are recorded at fair value and have their gains/losses, whether realized or not, reflected in the result; and

(b) Cash flow hedge: the financial instruments classified in this category are marked at fair value, being the effective parcel of appreciation or depreciation registered, net of tax effects, in a specific account on equity. The ineffective portion of the respective hedge is recognized directly in the result.

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

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

Derivative instruments used for hedging purposes, as well as the marked-to-market value of the hedged object are disclosed in Note 20.

(p) Deposits and funding in the open market

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

4. Cash and cash equivalents

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

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

5. Short-term interbank investments

Short-term interbank investments are as follows:

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

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

At December 31, 2019 and 2018, the collateral received through repurchase agreements amounted R\$ 1,571,177 thousand and R\$ 949,518 thousand respectively, in the Prudential Conglomerate. The collateral provided amounted R\$ 1,164,526 thousand and R\$ 525,935 thousand during the same periods.

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

	In R\$ thousand		
	Prudential Conglomerate		
	Second half of 2019	12/31/2019	12/31/2018
Open market investments	12,672	23,361	15,394
Investments in foreign currencies	2,935	5,161	5,246
Interbank deposits	94	200	208
Income from marketable securities transactions	15,701	28,722	20,848

6. Marketable securities and derivative financial instruments

	In R\$ thousand			
	Prudential Conglomerate			
	Cost	Market	Cost	Market
	12/31/2019		12/31/2018	
I - Marketable securities	2,141,343	2,142,234	1,407,320	1,407,447
Securities for trading (*)	88,013	88,090	115,086	115,112
Own portfolio	4,227	4,303	36,755	36,781
Fixed income securities	4,227	4,303	36,755	36,781
Financial Treasury Bills	1,853	1,853	2,352	2,352
National Treasury Notes – B series	2,374	2,450	34,403	34,429
Subject to repurchase agreements	94	94	-	-
Financial Treasury Bills	94	94		
Linked to guarantees given	83,692	83,693	78,331	78,331
Financial Treasury Bills	63,860	63,861	60,261	60,261
Fund quotas given as guarantee	19,832	19,832	18,070	18,070
Securities held for sale (*)	1,347,596	1,348,410	689,750	689,851
Bank portfolio	406,385	406,566	335,060	335,102
Fixed-income securities	385,776	385,955	335,060	335,102
Financial Treasury Bills	36,147	36,149	164,609	164,645
National Treasury Bills	934	927		
National Treasury Notes – B series	1,851	1,908	6,357	6,357
Promissory note	101,662	101,686	-	-
Debentures	129,026	129,127	164,094	164,100
CRA	15,441	15,442	-	-
Rural product note	100,715	100,716		
Marketable securities abroad	20,609	20,611		
Other marketable securities abroad	20,609	20,611		
Subject to repurchase agreements	696,432	697,043	181,456	181,511
Financial Treasury Bills	150,022	150,045	85,138	85,166
Debentures	546,410	546,998	96,318	96,345
Linked to guarantees given	244,779	244,801	173,234	173,238
Financial Treasury Bills	244,779	244,801	173,234	173,238

continued

	In R\$ thousand			
	Prudential Conglomerate			
	Cost	Market	Cost	Market
	12/31/2019		12/31/2018	
Securities held up to maturity	705,734	705,734	602,484	602,484
Bank portfolio	150,260	150,260	111,630	111,630
Fixed-income securities	68,596	68,596	111,630	111,630
National Treasury Notes – F series	68,596	68,596	111,630	111,630
Marketable securities abroad	81,664	81,664		
Other marketable securities abroad	81,664	81,664		
Subject to repurchase agreements	497,878	497,878	426,390	426,390
National Treasury Notes – F series	497,878	497,878	426,390	426,390
Linked to guarantees given	57,715	57,715	64,464	64,464
National Treasury Notes – F series	57,715	57,715	64,464	64,464
Provision for marketable securities	(119)	(119)		
Other marketable securities abroad	(119)	(119)		
II - Derivative financial instruments	34,804	53,256	27,303	32,772
Swap operations	23,707	41,585	16,196	20,475
Term	9,778	10,352	3,283	4,473
Futures	1,319	1,319	7,824	7,824
Total marketable securities and derivative financial instruments	2,176,147	2,195,490	1,434,623	1,440,219
Segregation of portfolio by maturity range				
No maturity				
Up to 3 months	138,889	139,722	162,660	162,977
From 3 to 12 months	25,187	26,039	25,070	25,999
Over 12 months	2,012,073	2,029,729	1,246,893	1,251,243
Total	2,176,149	2,195,490	1,434,623	1,440,219

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

The results of marketable securities in the Prudential Conglomerate are as follows:

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

	In R\$ thousand		
	Prudential Conglomerate		
	Second half of 2019	12/31/2019	12/31/2018
Provision for marketable securities		(362)	
Result of provision for marketable securities	-	(362)	-

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

(*) Securities classified as “Securities for trading” maturing in more than 12 months and which, on December 31, 2019, amount to R\$ 65,484 thousand in the Prudential Conglomerate (December 31, 2018 – R\$ 64,872 thousand), are stated in current assets, according to BACEN Circular Letter No. 3,068/01. Securities classified as “Held for sale”, maturing in more than 12 months, in the amount of R\$ 1,198,619 thousand on December 31, 2019 (December 31, 2018 – R\$ 637,810 thousand), in the Prudential Conglomerate, are stated as long-term receivable assets, according to BACEN Circular Letter No. 3,068/01, regardless its liquidity level. The effect of this classification in net current capital is shown in Note 21 – Liquidity risk.

There were no transfers between securities categories on December 31, 2019

7. Loan transactions, sureties and honored guarantees

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

	In R\$ thousand			
	Prudential Conglomerate			
	12/31/2019		12/31/2018	
Sugar and ethanol	900,887	17.38%	670,063	16.16%
Agriculture	522,318	10.08%	428,289	10.33%
Building and real state	444,732	8.58%	307,580	7.42%
Banks and insurers	304,096	5.87%		
Specialized services	249,701	4.82%	208,005	5.02%
Civil aviation	248,655	4.80%	85,423	2.06%
Retail market	203,305	3.92%	243,640	5.87%
Utilities energy	162,198	3.13%	197,149	4.75%
Foods – sundry	153,641	2.96%	247,571	5.97%
Pharmaceutics	142,395	2.75%	106,495	2.57%
Vehicles and parts	136,199	2.63%		
Heavy construction	125,454	2.42%		
Diversified holdings	121,531	2.35%	78,769	1.90%
Meat industry	121,169	2.34%	56,595	1.36%
Transportation and logistics	120,726	2.33%	144,437	3.48%
Construction material	103,425	2.00%	95,035	2.29%
Capital goods	102,571	1.98%	152,127	3.67%
Chemical and petrochemical	77,595	1.50%	98,508	2.38%
Textile and leathers	67,504	1.30%	124,401	3.00%
Others (*)	289,326	5.58%	358,448	8.64%
Private sector	4,597,428	89%	3,602,535	87%
Utilities energy	279,122	5.39%	109,483	2.64%
Oil & gas	158,247	3.05%	135,808	3.27%
Banks and insurers	75,050	1.45%	-	0.00%
Public	72,506	1.40%	216,097	5.21%
Water and sanitation concessions	-	-	50,201	1.21%
Others (*)	-	-	32,973	0.80%
Public sector	584,925	11%	544,562	13%
Total	5,182,353	100%	4,147,097	100%

(*) The activities classified within Others include all economic sectors that individually represent less than 1% of the total active loan portfolio at the base date of December 31, 2019 and 2018.

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

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

(a) The advances on exchange contracts are classified as reduction accounts of other liabilities – exchange portfolio and as other receivables – exchange portfolio, respectively, as shown in Note 8.

(b) Refers to the honorable guarantee portfolio. Registered in “Other credits” accounts.

(c) These refer to guarantees granted through sureties and guarantees. The granted guarantees are recorded in offsetting accounts and the respective earnings are classified as results for future years and appropriated to the result according to the guarantees’ contractual terms. The Bank also includes guarantees provided for BBM Bank Ltd.’s credit operations, which are eliminated in the Prudential Conglomerate.

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

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

In R\$ thousand													
12/31/2019												12/31/2018	
Risk level	Overdue - days					Falling due - days							
	Within 14	15 to 60	61 to 90	91 to 180	181 to 360	Within 90	From 91 to 180	From 181 to 360	Over 360	Total	Allowance	Total	Allowance
AA	11,910					570,833	459,659	584,890	1,052,285	2,679,577		1,720,326	
A	3,621					202,232	169,188	399,473	815,191	1,589,705	7,949	1,547,894	7,739
B	319					86,105	182,121	177,195	282,721	728,461	7,285	711,440	7,114
C	1,193	1,156				17,459	15,389	44,322	55,354	134,873	4,046	129,585	3,888
D													
E		9,789						3,105	16,111	29,005	8,701	4,722	1,417
F													
G		4,144				98			6,520	10,762	9,562	20,814	15,637
H					9,970					9,970	9,970	12,316	12,316
Total	17,043	15,089	-	-	9,970	876,727	826,357	1,208,985	2,228,182	5,182,353	47,513	4,147,097	48,111

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

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

Changes in allowances are as follows:

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

For the year ended December 31, 2019, loan transactions were renegotiated in the Prudential Conglomerate in the amount of R\$ 27,684 thousand (for the year ended December 31, 2018 - R\$ 13,691).

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

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

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

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

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

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

	In R\$ thousand	
	12/31/2019	12/31/2018
Working capital	2,565,758	1,718,898
Co-obligations and risks in guarantees provided	1.015.878	562.825
Export credit notes	778,891	740,750
Trade finance	724.838	379.239
Others	96,988	745,385
Total	5,182,353	4,147,097

8. Foreign exchange portfolio

	In R\$ thousand	
	12/31/2019	12/31/2018
Other receivables – Foreign exchange portfolio		
Foreign exchange purchases pending settlement	384,562	322,914
Income receivable from advances granted (a)	9,254	9,537
Rights on foreign exchange sales	627	1,074
(-) Advances in national currency received	(197)	-
Total	394,246	333,525
Other payables – Foreign exchange portfolio		
Exchange purchase obligations	384,136	307,689
Foreign exchange sales pending settlement	620	1,070
Advances on foreign exchange contracts granted (a)	(303,670)	(307,009)
Total	81,086	1,750

(a) See Note 7.

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

9. Deposits

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

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

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

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

In R\$ thousand										
Demand deposits		Time deposits		Interbank deposits		Total				
12/31/2019	12/31/2018	12/31/2019	12/31/2018	12/31/2019	12/31/2018	12/31/2019	12/31/2018	12/31/2019	12/31/2018	12/31/2018
			See note 2.1						See note 2.1	
Legal entities	164,741	97,085	421,297	255,201		-	586,038	68.12%	352,286	48.46%
Institutional customers	8	4	-		1,528	1,619	1,536	0.18%	1,623	0.22%
Group	1,392	397	169,060	201,462		-	170,452	19.81%	201,859	27.77%
Financial institutions	-	-	80,877	151,600	103	741	80,980	9.41%	152,341	20.96%
Individuals	19,447	17,886	1,856	930		-	21,303	2.48%	18,816	2.59%
Total	185,588	115,372	673,090	609,193	1,631	2,360	860,309	100%	726,925	100%

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

10. Repurchase agreements

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

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

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

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

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

(a) Agribusiness Credit Bills (LCA) are issued by the Bank and registered with the B3, according to Laws No. 11,076/2004 and No. 11,311/2006 and subsequent amendments.

(b) Housing Credit Bills (LCI) are nominative securities created by Provisional Measure No. 2,223 on September 4, 2011, which resulted in Law No. 10,931 of August 2, 2004.

(c) Financial Bills (LF) are issued by the Bank and registered with the B3 – according to the Law No. 12,249/10 (Section II, articles 37 to 43), and ruled by CMN (Law No. 3,836).

(d) Financial Bill (LF) – Subordinated Debt has a perpetual term and a repurchase option starting within 5 with semiannual windows. The Bank uses the amount raised as complementary capital in order to compose the institution's Level I capital. The issue was private and carried out with the Bank's shareholder base.

12. Borrowings and onlendings

(a) Borrowings abroad

Borrowings abroad in the Prudential Conglomerate are as follows:

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

(*) The amount of R\$ 1,972,882 thousand on December 31, 2019 (December 31, 2018 - R\$ 911,364 thousand) classified as "Borrowings abroad", refers to the fundraising in U.S. dollars with Bank of Communications with final maturity until September 2022.

(b) Onlendings in the country

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

	In R\$ thousand						
	12/31/2019						12/31/2018
	Within 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 12 months	Total	Total
Funcafé – FAC	-	-	-	-	-	-	1,512
Funcafé – working capital	-	-	-	-	-	-	19,528
Total	-	-	-	-	-	-	21,040

13. Other receivables/sundry

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

(*) Refers to advances on foreign exchange contracts written off in the year.

14. Other values and assets

	In R\$ thousand	
	Prudential Conglomerate	
	12/31/2019	12/31/2018
Other values and goods		
Properties	37,743	40,020
Others	1,725	104
	39,468	40,124
Current asset (a)	39,169	40,124
Long-term assets	298	-
	39,468	40,124

(a) In December 31, 2019 the amount of R\$ 37,743 thousand, classified as current assets, refers mainly to the execution of guarantee of properties, recorded as properties not for own use (BNDU), according to independent appraisal report, limited to the value of debt.

15. Equity

(a) **Capital – Banco BOCOM BBM S.A.**

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

(b) **Legal reserve**

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

(c) **Statutory reserve**

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

(d) **Treasury stock**

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

(e) **Interest on capital**

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

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

(f) **Carrying value adjustments**

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

(g) Dividends

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

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

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

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

16. Financial intermediation expenses, result of foreign exchange operations, loans, assignments and transfer

	In R\$ thousand		
	Prudential Conglomerate		
	Second half of 2019	12/31/2019	12/31/2018 See note 2.1
Open market funding			
Financial bills	(52,577)	(115,000)	(105,263)
Agriculture credit bills	(36,327)	(76,590)	(77,031)
Time deposits	(12,273)	(27,068)	(25,835)
Expenses with securities abroad	(21,292)	(21,292)	(41,068)
Repurchase agreements	(8,558)	(12,116)	(6,880)
Real estate credit bills	(2,158)	(4,490)	(4,931)
Credit guarantee fund	(1,447)	(2,463)	(2,437)
Interbank deposits	(41)	(113)	(504)
Deposits previous notice	(23)	(52)	(169)
Foreign exchange variation (a)	10,287	17,701	12,305
	(124,409)	(241,483)	(251,813)
Loans, assignments and onlending operations			
Loan expenses abroad	(27,665)	(54,563)	(22,860)
Foreign exchange variation (a)	(25,415)	(15,997)	(68,817)
Other expenses	(127)	(464)	(379)
	(53,207)	(71,024)	(92,056)
Foreign exchange transactions			
Foreign exchange variations and interest differences	30,992	27,995	109,493
Revenue from advances on exchange contracts (ACC)	15,787	30,061	39,578
Other expenses	(254)	(429)	(601)
	46,525	57,627	148,470

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

17. Service revenue

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

18. Other Administrative Expenses

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

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

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

19. Related-parties significant transactions

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

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

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

(b) Key management compensation

The total compensation will be calculated as follows:

I - Fixed and variable compensation

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

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

The minimum and maximum amounts of the variable compensation of the participants will be fixed by the Administrative Council of Banco BOCOM BBM.

II - Deferred compensation

The payment of the deferred compensation will be carried out on a scaled basis, every six months, in shares proportional to the deferral period ("Deferred compensation shares"), and all the deferred shares should be updated by the ROE of the Banco BOCOM BBM. It is currently under analysis the adoption of repurchased agreements with sovereign bonds to formalize the payment of deferred compensation as of next semester (ending in June 30th, 2020).

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

In R\$ thousand	
Prudential Conglomerate	
12/31/2019	12/31/2018

Liabilities

Statutory	21,814	14,329
Management variable compensation - short-term	7,952	5,103
Deferred management variable compensation - long-term	13,862	9,226

	In R\$ thousand		
	Prudential Conglomerate		
	Second half of 2019	12/31/2019	12/31/2018
Result	(15,396)	(27,912)	(22,911)
Fixed compensation	(4,604)	(9,235)	(10,031)
Variable compensation	(10,792)	(18,677)	(12,880)

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

20. Derivative financial instruments

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

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

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

These transactions are traded, recorded or held on B3. In the Prudential Conglomerate, international derivatives transactions are traded and recorded in the OTC market, at the Chicago Board of Trade (CBOT) or Chicago Mercantile Exchange (CME).

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

- Futures: value of daily adjustments to the transactions;
- Swap and term transactions: cash flow is estimated for each part discounted to present value according to the corresponding interest rate curves, obtained based on B3 prices or on the assets' prices;
- Options: average trading price on the calculation date or, when not available, estimated price based on pricing models, such as Black & Scholes.

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

(a) Recorded in offsetting and equity accounts

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

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

(b) At cost and market value

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

(c) Notional value per counterparty

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

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

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

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

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

d.) Hedge accounting

Fundraising hedge (I)

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

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

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

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

Fundraising hedge (II)

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

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

Credit operations hedge

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

Due to the fact that there is a matching of hedge object flows and the results of hedge derivatives, the effectiveness of the operation remains close to 87.46%.

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

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

Investment hedge abroad

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

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

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

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

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

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

Liquidity risk

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

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

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

	In R\$ thousand	
	Prudential Conglomerate	
	12/31/2019	12/31/2018
Current assets	4,430,964	3,345,385
Current liabilities	(5,600,344)	(3,503,090)
Working capital, net	(1,169,380)	(157,705)
Short-term securities available for sale presented in long-term receivables	1,198,619	637,810
	29,239	480,105

Credit risk

Banco BOCOM BBM has a credit risk management structure comprised of the following elements and respective duties: a) the Credit Committee, responsible for defining credit limits of the economic groups and for monitoring and evaluating the consolidated portfolio position, its concentration and risk level. It is also responsible for establishing the terms for solving default on credit operations or with a certain level of deterioration of the guarantees and deciding whether or not to initiate judicial collection proceedings, as applicable; b) Board of Directors, responsible for approving the risk policies and limits, at least once a year; c) Credit Risk area, subordinated to the Risk Director, is responsible for centralizing and evaluating information related to the individual and consolidated credit risk management, per operation, ensuring that operating limits are complied with, disclosing reports facilitating decision making related to credit limits approved by the Credit Committee. It is also the responsibility of the risk area to previously evaluate

new operational genres related to credit risk; d) Credit Analysis area, responsible for assessing the credit risk of economic groups with which the Bank maintains or intends to maintain credit relationships; e) Internal Audit, which carries out periodic audits of the business units and of the Credit processes of the Group; f) Legal Department, responsible for analyzing the contracts entered into by Banco BOCOM BBM and its clients, as well as coordinating measures to recover credits or protect the Bank's rights; and g) Contracts Department, responsible for checking the adherence of operations to the parameters established in the Credit Limit Proposal ("PLC"), as well as the making of adequate guarantees. It is also responsible for issuing contracts to be entered into by Banco BOCOM BBM and the client. A full description of the credit risk management structure is available on the website of Banco BOCOM BBM (www.bocombbm.com.br).

Operational risk

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

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

Capital management

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

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

22. Operating limits

In October 2013, the new rules related to capital measurement became effective. The financial institutions and similar entities have to maintain minimum equity of 8.0% of their assets, weighted by grades of risk to expositions in gold, foreign exchange and operations subject to the operating risk and to the variations in: foreign exchange, interest rate, price of commodities and price of shares classified as held in portfolio for trade, according to BACEN's rules and instructions. The Prudential Conglomerate of Banco BOCOM BBM is within this operational limit on December 31, 2019.

	In R\$ thousand	
	Prudential Conglomerate	
	12/31/2019	12/31/2018
Reference equity level I	836,998	576,753
Ajusted equity (*)	858,131	601,253
Decrease in intangible/deferred assets according to CMN Resolution No. 4,192	21,133	24,500
Reference equity (PR)	836,998	576,753
Risk-weighted assets (RWA)	443,442	344,288
Portion referring to:		
Credit risk (RWACPAD)	391,703	304,769
Foreign exchange risk (PCAM)	11,520	7,563
Interest rate risk (RWAMPAD)	60	1,378
Operating risk (RWAOPAD)	40,159	30,578
Margin or insufficiency value (PR - RWA)	393,557	232,465
Risk factor - 8.00% of PR	66,960	49,745
Basel rate (risk factor/RWA)	15.10%	14.45%
Fixed asset ratio		
RBAN	127,480	80,255
ACP required	138,576	74,845
Reference equity margin + RBAN	127,501	77,365

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

23. Income tax and social contribution

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

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

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

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

	In R\$ thousand	
	Prudential Conglomerate	
	12/31/2019	12/31/2018
Asset tax credit		
Temporary differences (a)		
- Provision for loan transactions	26,742	37,171
- Market value adjustment - marketable securities and derivatives	21,765	8,623
- Provisions for contingencies (Note 25a)	4,338	3,595
- Others	13,460	7,617
Social contribution negative basis	785	3,958
Tax loss	1,202	9,376
Total	68,292	70,340
Current	38,877	37,608
Noncurrent	29,415	32,732
Provision for deferred taxes (*)		
Temporary differences (a)		
- Market adjustment of securities and derivatives	7,778	7,880
- Interest rate over deposit in court	11,470	13,046
Total	19,248	20,926
Current	7,778	7,880
Noncurrent	11,470	13,046

(a) It is expected that these tax credits will be realized up to the end of 2023 for income tax and social contribution, with a present value of R\$ 18 million and R\$ 12 million, respectively. The Social Contribution on tax credits was calculated considering a new rate in force of 20%, after publication of PEC No. 6, 2019, for the additions and exclusions as of March 1, 2020.

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

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

- (a) In May 2015, Provisional Measure No. 675 was issued, amending the rate of Social Contribution on Net Income (CSLL) of financial institutions from 15% to 20%. According to the Provisional Measure, this rate increase became effective as from September 2015 and it remained in force up to December 2018. For the year 2019, the effective tax rate for CSLL was 15%, however, deferred tax assets and liabilities have already been recognized considering the definitive increase of said rate to 20%, after the publication of the Proposed Amendment to Constitution No. 6, June 2019, subsequently transformed into Amendment to Constitution No. 103. It should also be noted that, according to the Amendment, this increase is definitive and exclusive for banks.

24. Provisions and liabilities for legal obligation

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

(a) Breakdown of provisions

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

	In R\$ thousand	
	Prudential Conglomerate	
	12/31/2019	12/31/2018
Labor	8,804	8,325
Civil	633	633
Total – Provisions for contingencies	9,437	8,958

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

(b) Liabilities for legal obligations

Based on the preliminary injunction obtained, Banco BOCOM BBM and BOCOM BBM Corretora de Câmbio e Valores Mobiliários S.A. ensured the suspension of the requirement for tax credits of PIS/Pasep and COFINS that are determined, with the incidence of ISS in their calculation bases, as well as their respective bookkeeping for timely and future compensation, if applicable, with the respective ISS deductibility of the calculation bases

of the mentioned contributions. Based on that preliminary injunction, Banco BOCOM BBM and BOCOM BBM Corretora de Valores Mobiliários S.A. started to collect, as of November 2018, PIS/Pasep and COFINS disregarding the municipal tax in their respective calculation bases, having been constituted a liability for the remaining balance until December 2019, included in the item “Other sundry liabilities” in long-term liabilities, as follows:

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

c) Others

On December 5, 2016, Banco BOCOM BBM S.A. was named by the Brazilian Administrative Council for Economic Defense (CADE) in an administrative proceeding investigating alleged anticompetitive practices in relation to the onshore foreign exchange market between 2008 and 2012. The Bank, together with its legal advisors, has already presented its administrative defense, still pending judgment.

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

25. Allowance for financial guarantees

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

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

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

26. Other information

(a) Compensatory and settlement of obligations arrangement

Banco BOCOM BBM has a compensatory and settlement of obligations arrangement within the scope of the National Financial System, according to CMN Resolution No. 3,263/05, resulting in more guarantee to settle its debits with financial institutions with which it has this kind of arrangement. On December 31, 2018, the total assets mitigated by compensatory arrangement was of R\$ 801,302 thousand (December 31, 2018 - R\$ 810,442 thousand).

(b) Result for future years

Result for future years refers mainly to the earnings of guarantees granted (Note 7b) and its increase in the period ended December 31, 2019 is aligned with the variation of the guarantees.

(c) Marketable securities portfolio

In the year of 2019, based on the Resolution No. 3,181 of the Central Bank of Brazil, considering the positive incline of the government bonds nominal rates, mainly that the nominal rate of NTN-F 01/2025 was above the rate of NTN-F 01/2023, and that for the budget and business plan of the coming years, it is important to have predictability and to avoid decrease in revenues, the Bank's Executive Committee unanimously approved to continue the process of extending the portfolio of nominal securities held to maturity, selling R\$ 288,630 thousand in NTN-F 01/2023 and buying R\$ 288,668 thousand in NTN-F 01/2025, which generated an effect in the result of R\$ 24,009 thousand.

At the end of the period, Banco BOCOM BBM had R\$ 705,734 thousand in marketable securities classified as "held to maturity", according to Circular Letter No. 3,068/01 of Central Bank of Brazil. Banco BOCOM BBM has financial capacity and intention to hold them to maturity.

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