Banco Daycoval S.A.

(incorporated in the Federative Republic of Brazil with limited liability)
(acting through its principal office in the Federative Republic of Brazil or acting through its Cayman Islands Branch)

U.S.$2,000,000,000
Euro Medium-Term Note Programme

Under the Euro Medium-Term Note Programme described in this Offering Memorandum (the "Programme"), Banco Daycoval S.A. (either acting through its principal office in the Federative Republic of Brazil or acting through its Cayman Islands Branch), subject to compliance with all relevant laws, regulations and directives, may from time to time issue Euro Medium-Term Notes (the "Notes"). The aggregate nominal amount of Notes outstanding will not at any time exceed U.S.$2,000,000,000 (or the equivalent in other currencies). Payments in respect of the Notes may be subject to Brazilian foreign exchange controls and restrictions, as described in "Terms and Conditions of the Notes—Payments and Talons—Currency Constraint".

Application has been made to the Irish Stock Exchange Plc trading as Euronext Dublin ("Euronext Dublin") for the approval of this Offering Memorandum and for Notes issued under the Programme for the period of 12 months from the date of this Offering Memorandum to be admitted to the official list of Euronext Dublin and to trading on its Global Exchange Market (the "Euronext Dublin (Global Exchange Market)"). References in this Offering Memorandum to Notes being "listed" (and all related references) shall mean that such Notes have been admitted to the official list of Euronext Dublin and to trading on Euronext Dublin (Global Exchange Market).

However, Notes may be issued under the Programme which will not be listed on Euronext Dublin (Global Exchange Market) or any other stock exchange, and the Final Terms applicable to a series will specify whether or not the Notes of such series will be listed on Euronext Dublin (Global Exchange Market) or any stock exchange. With respect to any Notes which are intended to be listed on Euronext Dublin (Global Exchange Market) or any other stock exchange, there can be no assurance that a listing will be achieved prior to the issue date of such Notes or otherwise.

The Notes may be offered for sale (i) in the United States to qualified institutional buyers ("QIBs") (as defined in Rule 144A under the Securities Act of 1933, as amended (the "Securities Act")) pursuant to Rule 144A or (ii) outside the United States to non-U.S. persons in reliance on Regulation S under the Securities Act ("Regulation S") and in accordance with applicable laws. See "Selling Restrictions". Notes offered for sale pursuant to Rule 144A are referred to as restricted Notes, and Notes offered for sale in reliance on Regulation S are referred to as unrestricted Notes.

Tranches (as defined herein) of Notes issued under the Programme may be rated or unrated. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Prospective investors should have regard to the factors described under the section headed "Risk Factors" in this Offering Memorandum.

This Offering Memorandum are valid for twelve months from the date hereof.

Banco Daycoval S.A.
(acting through its Cayman Islands Branch)
As Arranger and Dealer

The date of this Offering Memorandum is July 2, 2019.

INVESTMENT IN THE NOTES IS SUBJECT TO A NUMBER OF CONSIDERATIONS WHICH SHOULD BE CAREFULLY CONSIDERED BY ANY POTENTIAL PURCHASER OF NOTES. SEE "RISK FACTORS".

THE NOTES MAY HAVE LIMITED PAYMENT OBLIGATIONS. IF NOTES OF A SERIES ARE SPECIFIED TO BE CURRENCY CONSTRAINT NOTES, IN THE EVENT OF THE IMPOSITION OF EXCHANGE CONTROLS PROHIBITING THE CONVERSION INTO, OR REMISSION FROM BRAZIL, OF THE CURRENCY IN WHICH PAYMENT IS MADE IN RESPECT OF SUCH NOTES, HOLDERS OF SUCH NOTES MAY ELECT TO EXCHANGE SUCH NOTES FOR NOTES IN RESPECT OF WHICH PAYMENTS ARE PAYABLE IN THE LAWFUL CURRENCY OF BRAZIL FOR THE TIME BEING. IF A HOLDER DOES NOT ELECT TO MAKE SUCH EXCHANGE, SUCH HOLDER SHALL HAVE NO RIGHT, WHILE SUCH EXCHANGE CONTROLS REMAIN IMPOSED, EITHER TO ACCELERATE PAYMENT OF SUCH NOTES BY CALLING A DEFAULT OR TO SUE FOR THE UNPAID SUM. SEE "TERMS AND CONDITIONS OF THE NOTES—PAYMENTS AND TALONS—CURRENCY CONSTRAINT".

In this Offering Memorandum, unless the context otherwise requires, (i) references to "we", "our", "us", the "Company", "Banco Daycoval", "Daycoval" or to the "Bank" mean Banco Daycoval S.A., a corporation (*sociedade anônima*) organised under the laws of Brazil, and its consolidated subsidiaries, (ii) references to "Cayman Islands Branch" mean Banco Daycoval S.A., acting through its Cayman Islands Branch, and (iii) with respect to any Note, references to the "Issuer" mean Banco Daycoval S.A., acting through its principal office in the Federative Republic of Brazil or acting through its Cayman Islands Branch, as indicated in the applicable Final Terms.

This Offering Memorandum comprises base listing particulars for the purposes of the Irish Stock Exchange Plc Guidelines and for the purpose of giving information with regard to the Issuer and the Notes which, according to the nature of the Issuer and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer. This Offering Memorandum does not comprise a base prospectus for the purposes of Article 5(4) of Directive 2003/71/EC (as amended, the "Prospectus Directive") and the Final Terms do not constitute final terms under Article 5(4) of the Prospectus Directive. The Euro MTF Market is not a regulated market for the purposes of Directive 2014/65/EU (as amended, "MiFID II"). The Euro MTF falls within the scope of Regulation (EU) No 596/2014 on market abuse and the related Directive 2014/57/EU on criminal sanctions for market abuse.

The Issuer accepts responsibility for the information contained in this Offering Memorandum. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Offering Memorandum is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Offering Memorandum has been and the relevant Final Terms will be prepared by us solely for use in connection with the proposed offering of the Notes described in this Offering Memorandum and in the relevant Final Terms. This Offering Memorandum does not and the relevant Final Terms will not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire securities. We and each of the Dealers for each series reserve the right to reject any offer to purchase, in whole or in part, for any reason, or to sell less than all of the Notes offered by the relevant Final Terms. Distribution of this Offering Memorandum and the relevant Final Terms to any person other than the prospective investor and any person retained to advise such prospective investor with respect to its purchase is unauthorised, and any disclosure of any of its contents, without our prior written consent, is prohibited. Each prospective investor, by accepting delivery of this Offering Memorandum and the relevant Final Terms, agrees to the foregoing and to make no photocopies of this Offering Memorandum and the relevant Final Terms or any documents referred to in this Offering Memorandum and the relevant Final Terms.

This Offering Memorandum should be read and construed together with any amendments or supplements hereto and with any other documents incorporated by reference herein and, in relation to any series of Notes, should be read and construed together with the relevant Final Terms. Each time we offer or sell Notes under the Programme, we will provide Final Terms that will contain certain specific information about the terms of that offering. If there is any inconsistency between the information in this Offering Memorandum and any Final Terms, you should rely on the information in those Final Terms.

This Offering Memorandum and the relevant Final Terms are intended solely for the purposes of soliciting expressions of interest in the Notes from qualified investors and, if applicable, the listing of the Notes on Euronext Dublin (Global Exchange Market) and does not purport to summarise all of the terms, conditions and other provisions contained in the agency agreement relating to the Notes and other transaction documents. The information provided is not all-inclusive and may not contain all the information you would desire. The market information in this Offering Memorandum has been obtained by us or derived from publicly available sources deemed by us to be reliable. The third-party market information in this Offering Memorandum has been accurately reproduced and, as far as we are aware and are able to ascertain from the market information published by those publicly available sources, no facts have been omitted which would render the market information reproduced herein inaccurate or misleading.

None of the Arranger or the Dealers (in each case, other than us in our capacity as Issuer) for any series will make any representation or warranty, express or implied, as to the accuracy or completeness of the information contained in this Offering Memorandum and the relevant Final Terms. Nothing contained in this Offering Memorandum and the relevant Final Terms is, or shall be relied upon as, a promise or representation by the Arranger or any such Dealer for any series as to the past or future. Notwithstanding any investigation that the Arranger or any such Dealer of any particular series may have conducted with respect to the information contained herein, the Arranger or such Dealer assumes no liability for the accuracy or completeness of any information contained in this Offering Memorandum or any Final Terms.

We confirm that, after having made all reasonable inquiries, this Offering Memorandum contains and the relevant Final Terms will contain all information with regard to us and the Notes that is material to the offering and sale of the Notes, that the information contained in this Offering Memorandum is and the relevant Final Terms will be true and accurate in all material respects and not misleading and that there are and there will be no omissions of any other facts from this Offering Memorandum and the relevant Final Terms which, by their absence herefrom or therefrom, make this Offering Memorandum and the relevant Final Terms misleading. We accept responsibility for the information contained in this Offering Memorandum and any Final Terms regarding us and the Notes.

This Offering Memorandum contains and the relevant Final Terms will contain summaries intended to be accurate with respect to certain terms of certain documents, but reference is and will be made to the actual documents, all of which will be made available to you, the Fiscal Agent or the relevant agents for each series for complete information with respect thereto, and all such summaries are and will be qualified in their entirety by such reference.

You should rely only on the information contained in this Offering Memorandum and the relevant Final Terms. None of the Dealers for any series will have, nor have we authorised anyone to provide you with, different information. The information contained in this Offering Memorandum is, and the relevant Final Terms will be, accurate only as of the date of this Offering Memorandum or the date of the Final Terms, regardless of the time of delivery of this Offering Memorandum, the relevant Final Terms or of any sale of the Notes. Neither the delivery of this Offering Memorandum and the relevant Final Terms nor any sale made hereunder or thereunder shall under any circumstances imply that there has been no change in our affairs and in the affairs of each of our subsidiaries or that the information set forth herein is correct as of any date subsequent to the date hereof or thereof.

By receipt of this Offering Memorandum and the relevant Final Terms, you hereby acknowledge that (i) you have been afforded an opportunity to request from us and to review, and have received, all

additional information considered by you to be necessary to verify the accuracy of, or to supplement, the information contained herein and in the relevant Final Terms, (ii) you have had the opportunity to review all of the documents described herein and in the relevant Final Terms, (iii) you have not relied on any of the Arranger, the Dealers or any person affiliated with them in connection with any investigation of the accuracy of such information or your investment decision, and (iv) no person has been authorised to give any information or to make any representation concerning us or the Notes (other than as contained herein, in the relevant Final Terms and information given by our duly authorised officers and employees, in connection with your examination of our business and the terms of each of the offerings under the Programme) and, if given or made, you should not rely upon any such other information or representation as having been authorised by us or the Dealers for each series.

Each person receiving this Offering Memorandum acknowledges that: (i) this Offering Memorandum does not contain all the information that would be included in a prospectus for this offering were this offering to be registered under the Securities Act; (ii) the unaudited and audited consolidated financial statements included in this Offering Memorandum have been prepared in accordance with Brazilian GAAP (as defined herein); and (iii) Brazilian GAAP differs in certain significant respects from U.S. GAAP (as defined herein) and from IFRS (as defined herein).

In connection with the issue of any tranche of Notes, the Dealer or Dealers (if any) named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) may over-allot Notes (provided that, in the case of any offering of Notes to be admitted to trading on an EEA trading venue as defined in Regulation (EU) No 596/2014 (as amended, the "Market Abuse Regulation"), the aggregate principal amount of Notes allotted does not exceed 105 per cent. of the aggregate principal amount of the Notes subject to the offering, or 115 per cent. of such amount where Article 8 of Commission Delegated Regulation (EU) 2016/1052 applies and there is a "greenshoe option" as defined in that Regulation) or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant tranche of Notes and 60 days after the date of the allotment of the relevant tranche of Notes. Any stabilization action or over-allotment must be conducted by the relevant Stabilizing Manager(s) (or persons acting on their behalf) in accordance with all applicable laws and rules.

In making an investment decision, you must rely on your own examination of our business and the terms of each of the offerings under the Programme, including the merits and risks involved. The Notes have not been approved or recommended by any federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this Offering Memorandum or the relevant Final Terms. Any representation to the contrary is a criminal offense.

This Offering Memorandum does not and the relevant Final Terms will not constitute an offer to sell, or a solicitation of an offer to buy, any Notes offered hereby by any person in any jurisdiction in which it is unlawful for such person to make such an offer or solicitation.

Neither we, the Dealers for any series, nor any of our or their respective affiliates or representatives, are making any representation to you regarding the legality of any investment by you under applicable legal investment or similar laws. You should consult with your own advisors as to legal, tax, business, financial and related aspects of a purchase of the Notes.

The Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States. The Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S

under the Securities Act), except in certain transactions exempt from or not subject to the registration requirements of the Securities Act. Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person (as defined in the Internal Revenue Code of 1986, as amended (the "Code")), except in certain transactions permitted by U.S. tax regulations. This Offering Memorandum has been, and the relevant Final Terms will have been, prepared by us solely for use in connection with the offer and sale of the Notes outside the United States to non-U.S. persons pursuant to Regulation S, the offer and sale of the Notes within the United States pursuant to Rule 144A under the Securities Act and, if applicable, the listing of the Notes on Euronext Dublin (Global Exchange Market). Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of the restriction on offers, sales, resales and transfers of the Notes and distribution of this Offering Memorandum and the relevant Final Terms, see "Subscription and Sale".

The Notes have not been, and will not be, registered with the CVM. Any public offering or distribution, as defined under Brazilian laws and regulations, of the Notes in Brazil is not legal without prior registration under Law No. 6,385 of December 7, 1976, as amended, and Instruction No. 400, issued by CVM on December 29, 2003, as amended. Documents relating to the offering of the Notes, as well as information contained therein, may not be supplied to the public in Brazil (as the offering of the Notes is not a public offering of securities in Brazil), nor be used in connection with any offer for subscription or sale of the Notes to the public in Brazil. The Arranger has agreed, and each of the Dealers will agree, not to offer or sell the Notes in Brazil, except in circumstances which do not constitute a public offering or distribution of securities under applicable Brazilian laws and regulations.

IMPORTANT – EEA RETAIL INVESTORS. The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in in any member state of the "EEA". For these purposes, a "retail investor" means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II); or (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the "IDD"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (the "PRIIPs Regulation") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPS Regulation.

MIFID II PRODUCT GOVERNANCE / TARGET MARKET. The relevant Final Terms in respect of any Notes may include a legend titled "MiFID II Product Governance" which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a "distributor") should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels. A determination will be made in relation to each issue of Notes about whether, for the purpose of the MiFID product governance rules under EU Delegated Directive 2017/593 (the "MiFID Product Governance Rules"), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Dealers nor any of their respective affiliates will be a manufacturer for the purposes of the MiFID Product Governance Rules.

In this Offering Memorandum, unless otherwise specified or the context otherwise requires, references to "U.S. dollars" and "U.S.$" are to United States dollars and to "*reais*", "*real*" and "R$" are to Brazilian *reais*, the Brazilian currency unit and to "euro", "EUR" and "€" are to the lawful currency of the states participating in the third stage of economic and monetary union, pursuant to the treaty establishing the European Community, as amended from time to time.

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SUPPLEMENTAL OFFERING MEMORANDUM

The Issuer has undertaken, in connection with the listing of the Notes on Euronext Dublin (Global Exchange Market), that if at any time while any Notes are listed on Euronext Dublin (Global Exchange Market) there is a significant change affecting any matter contained in this Offering Memorandum or a significant new matter arises the inclusion of information in respect of which would have been so required if it had arisen when the Offering Memorandum was prepared, the Issuer will prepare and make available an amendment or supplement to this Offering Memorandum or publish a replacement Offering Memorandum for use in connection with any subsequent issue of Notes to be listed on Euronext Dublin (Global Exchange Market). The Issuer will on an annual basis prepare further an Offering Memorandum setting out the changes in the operations and financial condition of the Issuer and will prepare a further Offering Memorandum or supplement to this Offering Memorandum if the terms and conditions set out in this Offering Memorandum are amended for all Notes issued or to be issued pursuant to the Programme.

Any Final Terms issued in respect of Notes listed on a stock exchange will be available free of charge from the office of the Listing Agent or Paying Agent with a specified office in the city of such stock exchange.

FORWARD-LOOKING STATEMENTS

This Offering Memorandum contains estimates and forward-looking statements within the meaning of the Securities Act and the Securities Exchange Act of 1934, as amended, subject to risks and uncertainties, principally in the sections entitled "Summary", "Risk Factors", "Management's Discussion and Analysis of Financial Conditions and Results of Operations", "Business of Banco Daycoval S.A." and "The Brazilian Financial System and Banking Regulation". Our estimates and forward-looking statements are mainly based on our current expectations and estimates of future events and trends that affect or may affect our business, financial condition, results of operations, liquidity, strategy, and prospects. Although we believe that these estimates and forward-looking statements are based upon reasonable assumptions, they are subject to risks, uncertainties and assumptions and are made in light of information currently available to us.

Our estimates and forward-looking statements may be affected by the following factors, among others:

- general economic, political and business conditions in Brazil and abroad;
- risks relating to the market and credit industry environment in Brazil and abroad;
- our ability to implement our business strategies successfully;
- our capitalisation level;
- the market value of Brazilian government securities;
- an increase in loan defaults by our clients, as well as an increase in our allowance for loan losses;
- credit, market and operational risks and any other risks related to our financing activities;
- competition in the Brazilian banking market;
- changes in the availability and cost of our funding;
- prevailing inflation rates;
- appreciation or depreciation of the *real* and fluctuations in interest rates;
- changes in Brazilian laws, regulations, taxation and governmental policies that relate to our activities;
- administrative and judicial proceedings involving us; and
- the other risk factors discussed under the caption "Risk Factors".

Statements that depend on or are related to events or future or uncertain conditions or that include the words "believe", "anticipate", "continue", "expect", "estimate", "intend", "may", "assume" and other variations, as well as similar words, are intended to identify forward-looking statements. Forward-looking statements include information concerning our potential or assumed future results of operations, business strategies, funding plans, competitive position, industry environment, potential growth opportunities and the effects of future regulation and of competition. Forward-looking statements and estimates speak only at the date they are made and neither we, the underwriters nor the agents undertake the obligation to update or revise any forward-looking statements after we distribute this Offering Memorandum to reflect new information, future events or other factors. In light of the risks and uncertainties described above, the

forward-looking events and circumstances discussed in this Offering Memorandum may not occur or be accurate, and our future financial condition, results of operations, liquidity and performance may differ materially from those set out for a number of reasons.

Any such forward-looking statements and estimates are not guarantees of future performance and involve risks and uncertainties. Given such limitations, you should not rely on these forward-looking statements to make a decision to invest in an issue of Notes.

PRESENTATION OF FINANCIAL INFORMATION

Financial Statements and Information

We maintain our books and records in *reais*. We prepare our consolidated financial statements in accordance with accounting principles adopted in Brazil applicable to entities authorised to operate by the Brazilian central bank (*Banco Central do Brasil*) (the "Central Bank") ("Brazilian GAAP") which are based on the accounting criteria set forth by Law No. 6,404 of December 15, 1976, as amended (the "Brazilian Corporation Law"), the changes introduced by Law No. 11,638 of December 28, 2007 ("Law No. 11,638") and Law No. 11,941 of May 27, 2009 ("Law No. 11,941") for the recording of transactions, together with, when applicable, the standards and instructions of the Brazilian national monetary council (*Conselho Monetário Nacional*) ("CMN"), the Central Bank, and the Standard Chart of Accounts for Financial Institutions (*Plano Contábil das Instituições do Sistema Financeiro Nacional*) (the "COSIF"), the Brazilian securities exchange commission (*Comissão de Valores Mobiliários*) (the "CVM"), the National Council of Private Insurance (*Conselho Nacional de Seguros Privados*) ("CNSP"), the Private Insurance Authority (*Superintendência de Seguros Privados*) (the "SUSEP") and the Brazilian Accounting Pronouncements Committee (*Comitê de Pronunciamentos Contábeis*) (the "CPC"), if applicable.

On December 28, 2007, the Brazilian Government enacted Law No. 11,638 which became effective on January 1, 2008 and which, together with Law No. 11,941, amended the Brazilian Corporation Law and introduced the process of conversion of accounting practices adopted in Brazil into International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (the "IASB"). In accordance with CMN Resolution No. 3,786 of September 24, 2009, financial institutions have been required to prepare their financial statements in accordance with IFRS beginning with the year ended December 31, 2010.

As part of the process of convergence with IFRS, the CPC issued several pronouncements related to the international convergence which have been approved by the CVM, some of which have not yet been ratified by the Central Bank. Accordingly, in preparing its financial statements, the Bank adopted the following pronouncements already ratified by the Central Bank:

- CPC 00 (R1) - Conceptual framework for the preparation and presentation of financial statements (CMN Resolution No. 4,144 of September 27, 2012);
- CPC 01 (R1) - Impairment of assets (CMN Resolution No. 3,566 of May 29, 2008);
- CPC 02 (R2) - Effects of changes in exchange rates and transactions of financial statements (CMN Resolution No. 4,524 of September 29, 2016);
- CPC 03 (R2) - Statements of cash flows (CMN Resolution No. 3,604 of August 29, 2008);
- CPC 04 (R1) - Intangible assets (CMN Resolution No. 4,534 of November 24, 2016);
- CPC 05 (R1) - Related party disclosures (CMN Resolution No. 3,750 of June 30, 2009);
- CPC 10 (R1) - Share-based payment (CMN Resolution No. 3,989 of June 30, 2011);
- CPC 23 - Accounting practices, changes in estimates and correction of errors (CMN Resolution No. 4,007 of August 25, 2011);
- CPC 24 - Events after the reporting period (CMN Resolution No. 3,973 of May 26, 2011);

- CPC 25 - Provisions, contingent liabilities and contingent assets (CMN Resolution No. 3,823 of December 6, 2009);

- CPC 27 - Property, plant and equipment (CMN Resolution No. 4,535 of November 24, 2016); and

- CPC 33 (R1) – Employee benefits (CMN Resolution No. 4,424 of June 25, 2015).

This Offering Memorandum includes our consolidated balance sheets and consolidated income statements as of and for the years ended December 31, 2018, 2017 and 2016, which are derived from our consolidated financial statements as of and for the years ended December 31, 2018, 2017 and 2016, prepared in accordance with Brazilian GAAP and audited by Deloitte Touche Tohmatsu Auditores Independentes ("Deloitte") in accordance with Brazilian and international audit standards.

Brazilian GAAP varies significantly from accounting principles generally accepted in the United States ("U.S. GAAP") and from IFRS. Accordingly, the financial statements contained herein differ from those that would be prepared based on U.S. GAAP or IFRS. We have made no attempt to identify or quantify the impact of the differences between U.S. GAAP and Brazilian GAAP or IFRS and Brazilian GAAP. No reconciliation to U.S. GAAP or IFRS of any of the financial statements presented in this Offering Memorandum has been prepared for purposes of this Offering Memorandum. There can be no assurance that such a reconciliation would not identify material quantitative differences between our financial statements as prepared in accordance with Brazilian GAAP and such financial statements as prepared on the basis of U.S. GAAP or IFRS.

Our Cayman Islands Branch produces audited financial statements on an annual basis as required by Cayman Islands law and has published financial statements as of and for the years ended December 31, 2018, 2017 and 2016. Such financial statements are not included in this Offering Memorandum. The financial statements of our Cayman Islands Branch have been included in our consolidated financial statements since June 30, 2008.

Market information

The information contained in this Offering Memorandum relating to Brazil, the Brazilian economy and the market where we operate is based on information published by the Central Bank and by other public entities and by independent sources, including the Brazilian Financial and Capital Markets Association (*Associação Brasileira das Entidades dos Mercados Financeiro e de Capitais*) (the "ANBIMA"), the Brazilian Federation of Banks (*Federação Brasileira de Bancos*) (the "FEBRABAN"), the Brazilian Geography and Statistics Institute (*Instituto Brasileiro de Geografía e Estatística*) (the "IBGE") and the Getúlio Vargas Foundation (*Fundação Getúlio Vargas*) (the "FGV"), among others. Such information has been accurately reproduced and, as far as we are aware and able to ascertain from information published by such third parties, no facts have been omitted which would render such reproduced information inaccurate or misleading. Although we do not have any reason to believe any of this information is inaccurate in any material respect, we have not independently verified any such information.

References

Solely for the convenience of the reader, we have translated certain amounts contained in "Summary Financial Information" and "Selected Financial Information" and elsewhere in this Offering Memorandum from *reais* into U.S. dollars. The rate used to translate such amounts was R$3.87 to U.S.$1.00 (subject to rounding adjustments), which was the selling exchange rate in effect as of December 31, 2018 as reported by the Central Bank. The U.S. dollar equivalent information presented in this Offering Memorandum is provided solely for your convenience and should not be construed as implying that the amounts represent, or

could have been or could be converted into, U.S. dollars at such rates or at any other rate. The *real*/U.S. dollar exchange rate may fluctuate widely and the exchange rate described in this paragraph may not be indicative of future exchange rates. See "Foreign Exchange Rates and Exchange Controls" for information regarding *real*/U.S. dollar exchange rates.

Rounding

Certain percentages and other amounts included in this Offering Memorandum have been rounded for ease of presentation. Accordingly, figures shown as totals in certain tables may not be an arithmetical aggregation of the figures that precede them.

ENFORCEMENT OF JUDGMENTS

We are a corporation organised under the laws of Brazil. Most of our directors and executive officers and certain advisors named herein reside in Brazil or elsewhere outside the United States, and all or a significant portion of the assets of such persons may be, and substantially all of our assets are, located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States or other jurisdictions outside Brazil upon such persons or to enforce against them or against us any judgments obtained in such courts, including judgments predicated upon the civil liability provisions of the U.S. federal securities laws or predicated upon the laws of such other jurisdictions outside Brazil. In the Terms and Conditions of the Notes, we will agree that the courts of England shall have jurisdiction to hear and determine any suit, action or proceeding, and to settle any disputes, which may arise out of or in connection with the Notes and, for such purposes, irrevocably submit to the jurisdiction of such courts. See "Terms and Conditions of the Notes".

We have been advised by Campos Mello Advogados, our Brazilian counsel, that judgments of U.S., English and other non-Brazilian courts for civil liabilities predicated upon the securities laws of such countries, including the securities laws of the United States, subject to certain requirements described below, may be enforced in Brazil. Pursuant to Resolution No. 9 of May 4, 2005, enacted by the Brazilian Superior Court of Justice (*Superior Tribunal de Justiça*, or the "STJ") and the Brazilian Code of Civil Procedures, a judgment against either us or any other person described above obtained outside Brazil would be enforceable in Brazil against us or any such person without reconsideration of the merits, upon confirmation of that judgment by the STJ. That confirmation, generally, will occur if the foreign judgment meets certain requirements, among which:

- fulfills all formalities required for its enforceability under the laws of the country where the foreign judgment is granted;

- is issued by a competent court in the jurisdiction where the judgement took place (i) after proper service on the parties, which must be made in accordance with the law where the foreign judgment was rendered and not contrary to the applicable Brazilian law, or (ii) after sufficient evidence of the failure of the defendant to attend court has been given, as established pursuant to applicable law; or legally verified a default judgment;

- is final and not subject to appeal, has exhausted the local remedies and does not violate a final and unappealable decision issued by a Brazilian court;

- is duly apostilled (*apostilado*) by the competent authority of the place that the foreign judgment was issued or, where the country in which the foreign judgment was issued is not a party to the 1961 Hague Convention Abolishing the Requirement of Legalization for Foreign Public Documents of October 5, 1961, the foreign judgment should be legalized by a consular official of Brazil having jurisdiction over the place of issuance, and the foreign judgement should be accompanied by a translation into Portuguese of a Brazilian-registered sworn translator, unless its waiver is provided for in a treaty;

- is not contrary to Brazilian national sovereignty, public policy, good morals or public morality (as set forth in Brazilian law), and does not contain any provision which for any reason would not be upheld by the courts of Brazil; and

- does not violate the exclusive jurisdiction of the Brazilian judiciary authority.

Notwithstanding the foregoing, no assurance can be given that confirmation will be obtained, that the process described above can be conducted in a timely manner or that a Brazilian court would enforce a

monetary judgment for violation of the securities laws of countries other than Brazil with respect to the Notes. We understand that original actions predicated on the securities laws of countries other than Brazil may be brought in Brazilian courts and that, subject to Brazilian public order, public morality and national sovereignty, Brazilian courts may enforce civil liabilities in such actions against us, our directors, certain of our officers and the advisors named herein. Pursuant to Article 83 of the Brazilian Code of Civil Procedures, a plaintiff (whether Brazilian or non-Brazilian) who resides outside or leaves Brazil during the course of litigation in Brazil must provide a bond to guarantee court costs and legal fees of the opposing party in the actions filed if the plaintiff owns no real property in Brazil that may ensure such payment. This bond must have a value sufficient to satisfy the payment of court fees and defendant's attorneys' fees, as determined by the Brazilian judge based on the amount under dispute. This requirement does not apply: (i) to enforcement of foreign judgments which have been duly confirmed by the STJ; (ii) when there is an exemption established by an international agreement or treaty to which Brazil is a signatory; (iii) to the cases of collection of claims based on instruments (which does not include the Notes) that may be enforced in Brazil without the review of their merits (*titulos executivos extrajudiciais*) and in the satisfaction of the judgement; and (iv) to counterclaims (*reconvenções*) under the first paragraph of Article 83 of such code. In accordance with the second paragraph of Article 83, upon the occurrence of the embezzlement of the guarantee during the course of litigation, the interested party may demand the reinforcement of the bond, justifying the request by pointing out the depreciation of the property given as guarantee and the importance of the reinforcement sought. Any judgment obtained against us in Brazil would be expressed in an amount in *reais* equivalent on the date of remittance from Brazil to the U.S. dollar amount due and unpaid under the Notes.

SUMMARY

Overview

We are a diversified mid-sized Brazilian bank, specialized both in lending to companies and to individuals in the retail segment (payroll and auto loans), and with a significant presence in foreign currency exchange operations.

Since the late 1980s, we have offered a wide range of credit products to companies including working capital loans, receivables purchase, bank guarantees, trade finance and leasing most of which lending is secured by high quality collateral. The majority of our loans in this segment are provided to small- and medium-sized companies with annual gross revenues of up to R$300.0 million. We service our corporate client base through our network of 43 branches and 19 commercial platforms located in 29 cities across 21 Brazilian states and the Federal District (Brasília), and through a branch in the Cayman Islands. We had approximately 7,000 active corporate clients as of December 31, 2018 and our portfolio of company loans at such date was R$12,238.6 million, representing 66.8% of our total loan portfolio and an increase of 26.7% compared to December 31, 2017. We believe that a significant potential client base of Brazilian small- and medium-sized companies exists, which will allow us to continue to expand our activities in this segment.

In 2004, we started operations in the retail segment by offering payroll deduction loans under the DayCred brand. Our portfolio of payroll deduction loans as of December 31, 2018 was R$ 5,270.5 million, representing 28.8% of our total loan portfolio and an increase of 7.9% compared to December 31, 2017. Our payroll deduction loans are either term or credit card financings. The payroll credit card portfolio amounted to R$392.6 million as of December 31, 2018, an increase of 24.4% compared to December 31, 2017. Our strategy is to grow our payroll deduction loan portfolio on a basis that is broadly proportionate to the growth of our corporate loan portfolio.

The focus of our payroll loan business is origination pursuant to national agreements with the most financially solid payers, particularly INSS, the Federal Government and the armed forces, which together represented 54.7% of the portfolio as of December 31, 2018. Overall, Daycoval had 1,072,000 active contracts with individual payroll deduction clients as of such date, with an average loan ticket of R$5,400 and an average plan of 41 months. Payroll loan origination is done through independent correspondents and our subsidiary, IFP - Promotora de Serviços de Consultoria e Cadastro Ltda., which is focused on promoting payroll loan operations. IFP operates through 38 Daycred stores nationwide and accounted for approximately 11.0% of total origination and 29.2% of the Bank's INSS operations in 2018.

Our loans to individuals also include auto loans, usually for older model used passenger cars and light vehicles, and home equity loans. In addition to credit, we provide other financial services to our clients, most importantly asset management and foreign exchange services.

As of December 31, 2018, our subsidiary Daycoval Asset Management had approximately R$4.2 billion in investment portfolios and funds under management, compared to R$2.5 billion and R$1.5 billion as of December 31, 2017 and 2016, respectively.

Besides providing foreign currency exchange services to corporate clients through our network of branches and platforms, we operate six Daycoval Câmbio foreign exchange stores and Daycoval Câmbio facilities at many of our Daycred stores. We also provide foreign exchange services through partnerships with tourism operators and agencies (160 exchange correspondents and 367 tourism agencies) which provide us with broad access to clients and offer those clients flexibility and security in conducting their foreign exchange transactions. In 2018, we completed approximately 518,300 transactions using prepaid cards, cash and remittances in different currencies, with an aggregate value of R$1,431.5 million.

We seek to diversify our sources of funding to avoid mismatches between the respective interest rates and maturities of our funding and the loans that we grant, and to obtain liquidity to allow us to take advantage of growth opportunities. Our primary sources of funding are financial bills (*letras financeiras* or LFs), a type of debt instrument issued in the Brazilian domestic market, which amounted to R$7,586.5 million as of December 31, 2018 (including subordinated financial bills of R$147.3 million), representing 40.5% of our total funding, and time deposits, which amounted to R$4,129.1 million as of December 31, 2018, representing 22.0% of our total funding. Our sources of funding also include demand and interbank deposits, other debt instruments issued in the domestic market consisting of agribusiness letters of credit (*Letras de Crédito do Agronegócio* or LCA) and mortgage loan notes (*Letras de Crédito Imobiliária* or LCI), bonds issued in the international capital markets, and development bank and interbank loans. For further discussion of our funding, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Sources of Funding". Our funding denominated in U.S. dollars represented 23.0% of our total funding as of December 31, 2018, and includes the bonds we have issued in the international capital markets and certain of our development bank and interbank loans.

As of September 30, 2018, we were the 15th largest Brazilian private bank in terms of shareholders' equity and the 18th largest Brazilian private bank in terms of volume of assets, according to the Central Bank. As of December 31, 2018, we had assets of R$28,979.7 million, shareholders' equity of R$3,237.0 million and a total loan portfolio of R$18,326.8 million.

For the year ended December 31, 2018, our return on average shareholders' equity was approximately 20.2%, compared to 18.4% and 14.8% for the years ended December 31, 2017 and 2016, respectively. For the year ended December 31, 2018, our return on average assets was approximately 2.5%, compared to 2.3% and 2.0% for the years ended December 31, 2017 and 2016, respectively.

The following tables highlight certain of our financial information as of the dates and for the periods indicated:

	As of December 31,			
	2018	**2017**	**2016**	**2018**
	(R$ millions, except percentages)			**(U.S.$ millions, except percentages)[1]**
Total assets	28,979.7	23,786.3	21,774.3	7,479.0
Shareholders' equity	3,237.0	3,009.0	2,657.4	835.4
Loan portfolio	18,326.8	15,162.0	13,837.3	4,729.7
Deposits	5,395.7	5,062.6	5,228.1	1,392.5
Funds from acceptance and issuance of securities	10,922.2	8,450.8	7,200.9	2,818.8
Basel index[2]	14.7%	14.9%	15.9%	14.7%
Cash, interbank investments and securities and derivatives	8,053.2	6,253.4	5,762.7	2,078.4
Allowance for loan losses as a percentage of total loan portfolio	6.0%	6.1%	5.5%	6.0%

	For the years ended December 31,			
	2018	2017	2016	2018
	(R$ millions, except percentages)			(U.S.$ millions, except percentages)[1]
Net income	645.8	521.5	406.9	166.7
Return on average shareholders' equity[3]	20.2%	18.4%	14.8%	20.2%
Return on average assets[4]	2.5%	2.3%	2.0%	2.5%
Efficiency index[5]	28.7%	30.8%	34.0%	28.7%

Notes:

(1) Translated into U.S.$ solely for the convenience of the reader. The rate used to translate such amounts was R$3.8748 to U.S.$1.00 (subject to rounding adjustments), which was the selling exchange rate in effect as of December 31, 2018, as reported by the Central Bank. The U.S. dollar equivalent information presented in this Offering Memorandum is provided solely for the convenience of investors and should not be construed as implying that the amounts in *real* represent, or could have been or could be converted into, U.S. dollars at such rates or any other rate.

(2) Basel index corresponds to our reference shareholders' equity divided by our risk weighted assets, each as determined pursuant to the regulations of the Central Bank.

(3) Return on average shareholders' equity is calculated by dividing (a) net income by (b) average shareholders' equity that represents the sum of the shareholders' equity as of the end of each month in the fiscal year divided by 12. Return on average shareholders' equity is not a measure calculated in accordance with Brazilian GAAP or IFRS.

(4) Return on average assets is calculated by dividing (a) net income by (b) average total assets that represents the sum of total assets as of the end of each month in the fiscal year divided by 12. Return on average assets is not a measure calculated in accordance with Brazilian GAAP or IFRS.

(5) Efficiency index is calculated by dividing (a) the sum of (i) personnel expenses, (ii) other administrative expenses, excluding depreciation and amortisation, and (iii) commissions by (b) the sum of (i) gross income from financial intermediation, (ii) income from services provided , and (iii) the income from purchase of credit rights, less (iv) exchange rate variation. Efficiency index is not calculated using a standard methodology and may not be comparable to the definition of efficiency index or similarly titled measures used by other banks. Efficiency index is not a measure calculated in accordance with Brazilian GAAP or IFRS. We believe that the efficiency index provides a useful understanding of our operational performance, particularly over time.

On May 7, 2019, we published our results for the first quarter of 2019 which showed a continuation of the same trends evident in our results for the year ended December, 31, 2018 compared to the year ended December, 31, 2017 as discussed below. Our net income for the quarter ended March 31, 2019 was R$215.6 million, compared to R$159.9 million in the quarter ended December 31, 2018 and R$165.4 million in the quarter ended March 31, 2018. Our total assets as at March 31, 2019 were R$28,398.8 million compared to R$28,979.7 million at December 31, 2018 and our shareholders' equity was R$3,407.2 million as at March 31, 2019 compared to R$3,237.0 million at December 31, 2018. Our Basel III ratio was 16.0% as at March 31, 2019 compared to 14.7% at December 31, 2018, reflecting the increase in our shareholders' equity.

Our Strengths

We believe that our position as one of the leading medium-sized Brazilian banks is a result of the following strengths:

Conservative and Solid Financial Position

We have maintained a solid financial position over time through the adoption of conservative credit and investment policies and the maintenance of comparatively high levels of liquidity and shareholders' equity. We seek to maintain our liquidity by investing at least 30.0% of our deposits in cash and cash equivalents and other readily available funds. To minimise liquidity risks, we also seek to avoid mismatches between our credit portfolio and our sources of funds by diversifying and extending the maturity of our funding. As of December 31, 2018, our funding was composed of (i) financial bills (LFs), (ii) time deposits,

demand deposits, interbank deposits and other deposits, (iii) other debt instruments (LCA and LCI) issued in the Brazilian market, (iv) borrowings and onlendings and (v) bonds issued abroad.

Our Basel index as of December 31, 2018 was 14.7%, which was significantly higher than the 8.625% rate required as of that date, and the 8.00% rate required as of the date of this Offering Memorandum, by the Central Bank.

We believe that our financial strength is evident in our ratings: (i) Ba2 on a global scale by Moody's with a "stable" outlook; ii) BB- by Fitch Ratings with a "stable" outlook; (iii) BB- by Standard & Poor's with a "stable" outlook. We note however that according to the reports published, the ratings reflect the opinion of the agencies regarding Banco Daycoval and should not be taken as an investment recommendation.

Significant and Solid Corporate Lending Operations

We have developed a significant presence in the Brazilian corporate lending segment in which we have operated since 1989. We understand our corporate client base and have developed solid and close relationships with our clients by offering high-quality services and a broad range of credit products. Our range of services and credit products has broadened over time in anticipation of and response to the needs of our clients and, as required, may be specifically tailored to their individual requirements. We believe that our network of branches and other distribution channels, together with our team of specialised sales managers, allow us to efficiently respond to our clients' needs, including by rapidly approving loans without compromising our conservative risk policies.

Quality of Loan Portfolio

We believe that the quality of our loan portfolio and the low level of loan defaults that we have experienced are principally a result of our ability to select clients with an acceptable risk profile and to closely monitor the collateral that they grant us with respect to the loans that we provide them. As of December 31, 2018, the percentage of our loan portfolio represented by AA to C credits, according to the risk classification system established by the Central Bank, was 93.1%, compared to 92.9% and 92.5%, as of December 31, 2017 and 2016, respectively. In addition, our allowance for loan losses represented 6.0% of our total loan portfolio as of December 31, 2018, compared to 6.1% and 5.5% as of December 31, 2017 and 2016, respectively. Commencing in 2018, as a matter of prudence, we have taken an additional provision in respect of risk category A-C loans above the provision required for such loans by the Central Bank.

In order to mitigate the risks that could result from a concentrated client base, our credit policy establishes limits on the percentages that each industry or client may represent in our total loan portfolio. As of December 31, 2018, our ten largest clients represented 7.2% of our total loan portfolio, compared to 9.3% and 8.7% as of December 31, 2017 and 2016, respectively.

In addition, the nature of the segments in which we operate contributes to the quality of our loan portfolio. Most of our loans to companies are secured by what we believe to be high-quality collateral. In addition, we believe that our payroll deduction loans have a reduced risk profile compared to other credit products since the instalments on such loans are directly deducted from the salary of the public sector employees or the pension paid to beneficiaries and retirees of the INSS, as the case may be, who are the borrowers under such loans. We also have strict internal credit analysis rules in relation to the auto and home equity loans that we grant.

Growth Potential with Low Marginal Costs

We believe that the segments in which we operate are among those with the greatest potential for growth in the Brazilian credit industry. We believe that we have the capacity to grow our operations with low marginal costs due to the combination of the following factors:

- we have developed a national network of bank branches, stores and outlets in key locations where we have identified significant customer demand;

- we have a state-of-the-art technology platform with differentiated proprietary systems to evaluate and monitor loans, facilitate origination and the capacity to support a significant increase in our client base; and

- we have expertise in the development of efficient distribution channels for our products, which we believe will allow us to further expand the market share of our products and the range of products that we offer at reduced marginal costs, allowing us to compete with larger banks.

Flexible Operating Structure and Agility and Developing New Products

We believe that our solid and flexible operating structure, together with the expertise of our management team, have allowed us to develop new products and to quickly explore market opportunities at relatively low cost and in compliance with our stringent return and risk exposure criteria. For example, in 2014, after the acquisition of the Brazilian operations of the U.S. bank CIT (Commercial Investment Trust) we started to offer leasing operations to companies from a wide range of industries, most significantly in the information technology (IT) and telecommunications sectors. Since 2010, having noted a demand arising from the significant increase in international travel, we have operated Daycoval Câmbio foreign exchange bureaus in Brazil and in addition work with an extensive network of currency exchange correspondents and travel agents to offer customers a range of options for a fast and secure service when buying or selling foreign currency. In 2004, we identified the substantial growth potential of the individual lending segment and started to offer payroll deduction loans. We rapidly implemented an efficient operating structure for offering such loans through an extensive network of banking correspondents and, more recently, through our own Daycred stores.

Experienced Management Committed to High Standards of Corporate Governance

Our directors and executives have substantial experience in the Brazilian financial markets and are fully committed to our interests and goals. Our chairman, and each of our other board of directors and senior executives, have more than 50 years and 25 years, respectively, of experience in the Brazilian banking industry and extensive knowledge of our business. They are themselves among our controlling shareholder group, but are complemented by other directors and executives with extensive experience at other financial institutions. We believe that our management is capable of identifying potential growth opportunities that arise in the market and establishing competitive strategies that increase our profitability while reducing our costs and the risks in our portfolio. Our administrative structure is based on the strict definition of activities for each of our areas of operation, which enhances our efficient decision-making process. We seek to stimulate and retain our employees by offering competitive compensation and a positive work atmosphere which have contributed to our low employee turnover. We have also implemented high standards of corporate governance, such as the inclusion of two independent directors with large experience in the financial markets.

Our Strategy

We seek to continue to grow on a sustainable and consistent basis and to create value for our shareholders through the following strategies:

Customer Focus in the Corporate Lending Segment

Our main strategy will be to focus on the maintenance and development of our corporate client base in Brazil. We believe that there are numerous potential clients in the regions in which we operate, and we intend to take advantage of the growth opportunities of this segment by:

- increasing our selected customer base while continuing to apply our stringent credit and collateral quality criteria;

- growing and diversifying our distribution structure through the opening of new branches in attractive locations. As of December 31, 2018, we had 43 branches and 19 commercial platforms located in 29 cities across 21 states and the Federal District, and another branch in the Cayman Islands, which is an essential instrument both for fundraising and for the opening of commercial and relationship lines with corresponding banks. In 2018, we opened four branches: Barra da Tijuca (RJ), Joinville (SC), Piracicaba (SP) and São José dos Campos (SP);

- further increasing the size of our specialized team in the companies segment which consisted of 325 employees as of December 31, 2018, including our executive officers, superintendents, regional managers, account officers and assistants, with in-depth market and client specific knowledge;

- continually broadening and differentiating the range of services and credit products that we offer our corporate clients; and

- distinguishing ourselves from our competitors, by our knowledge of our clients and their businesses, our personalized services, our flexibility, and our ability to tailor products and services specifically to their individual requirements.

Continue to Take Advantage of Opportunities in the Individual Lending Segment

We intend to improve our market share in the individual lending segment by taking advantage of our experience in the lending market and our existing operating structure, as well as by offering new products that we deem attractive, by:

- increasing the volume of our payroll deduction loans through (i) the execution of new agreements with public sector entities, including primarily solid federal agencies, (ii) the use of exclusive and innovative information technology tools to reach to new clients, and (iii) the strengthening of our relationships with banking correspondents through “loyalty” programs such as incentive and training initiatives;

- continuing to offer vehicle financing products through the national coverage of our correspondents and a focus on older model used passenger cars and light vehicles, which have good loan to value ratios and attractive margins;

- using our existing distribution channels to develop and offer new products in order to realise economies of scale and reduce our marginal costs; and

- continuing to expand our foreign currency exchange business by opening new Daycoval Câmbio bureaus and expanding the network of currency exchange correspondents and travel agents with whom we work.

In addition, we expect to further extend our client offerings through our:

- credit cards – corporate cards in association with Mastercard;

- payroll deduction credit cards;

- home equity loans; and

- asset management services.

Diversify our Sources of Funding

Historically, the principal source of our funding has been our deposit base, complemented by loans and on-lendings from development banks and other financial institutions, and notes issued in the international market under our medium term note programme. More recently, we have issued financial bills (LFs) and other debt instruments in the Brazilian capital markets which, as of December 31, 2018, represented our largest source of funding. This has not only diversified our funding base, but, since such instruments are denominated in *reais* and have maturities that are typically longer than time deposits, has assisted the bank in managing mismatches between its funding and assets.

We intend to continue to maintain a diversified funding base and to further expand out funding sources and instruments as opportunities arise. We further expect that we will continue to fund ourselves domestically in Brazil principally through our deposit base and local issuances of debt instruments, and abroad, principally through the issuance of bonds by our head office or Cayman Islands branch, as market conditions permit, and borrowings from development banks and other financial institutions.

Additionally, in order to offer an array of investment opportunities to our clients and to optimize our own sources of funding we launched in 2014 an on-line investment platform named Daycovalinveste. Through this platform we make available a wide range of products (LF, LCI, LCA, CDB (time deposits), funds and automatic credit), where our clients have a direct channel to communicate with one of our investment specialists via phone, e-mail or *Whatsapp.*

Maintain our Solid Financial Base

We strive to maintain the high quality of our assets by applying our conservative credit and risk management policies, which we believe have been critical for maintaining relatively low default levels of our clients in recent years. In addition, we believe that our high liquidity level and strong shareholders' equity base as evidenced by our Basel index have contributed to high levels of confidence in our financial condition and have also allowed us take advantage of growth opportunities. Our strategy is to continue to maintain liquidity that is adequate and compatible with market standards and a strong capital base.

History

We were originally incorporated on August 5, 1968 as Daycoval Distribuidora de Títulos e Valores Mobiliários Ltda. In 1989, our name was changed to Banco Daycoval S.A. after we were authorised to operate as a multiple-service bank by the Central Bank. Since then, we have offered financing to companies.

In 1994, we were authorised by the Central Bank to operate commercial portfolios and in 1995, to conduct foreign exchange transactions to support our corporate lending operations.

In 2004, we started operations in the retail segment by offering payroll deduction loans under the DayCred brand and also expanded our activities to fund management with the creation of Daycoval Asset Management.

In 2006, we expanded our operations in the retail segment to include vehicle finance.

In March 2007, we created Dayprev to operate in the insurance business. In addition, in March 2007, we and our shareholders completed a corporate restructuring that resulted in the creation of Daycoval Holding Financeira S.A., which held the majority of our capital stock and was controlled by the Dayan family.

In June 2007, we completed our IPO and raised approximately R$1.0 billion in capital. We listed our preferred shares on the BM&FBOVESPA (now B3 S.A. – Brasil, Bolsa, Balcão) and adhered to the Level 2 regulation of the exchange. Daycoval Holding Financeira S.A. subsequently sold all of its shares of our capital stock to members of the Dayan family.

In 2008, we received authorization from Brazil's Central Bank to set up a branch bank abroad, in Grand Cayman, Cayman Islands.

In 2009, we concluded an agreement with a group of investors (the "Pioneer Investors") pursuant to which the Pioneer Investors subscribed debt instruments in a private placement and acquired warrants convertible into ordinary shares and preferred shares of the Bank. On exercise of the warrants over the next several years, the Pioneer Investors became significant shareholders of the Bank.

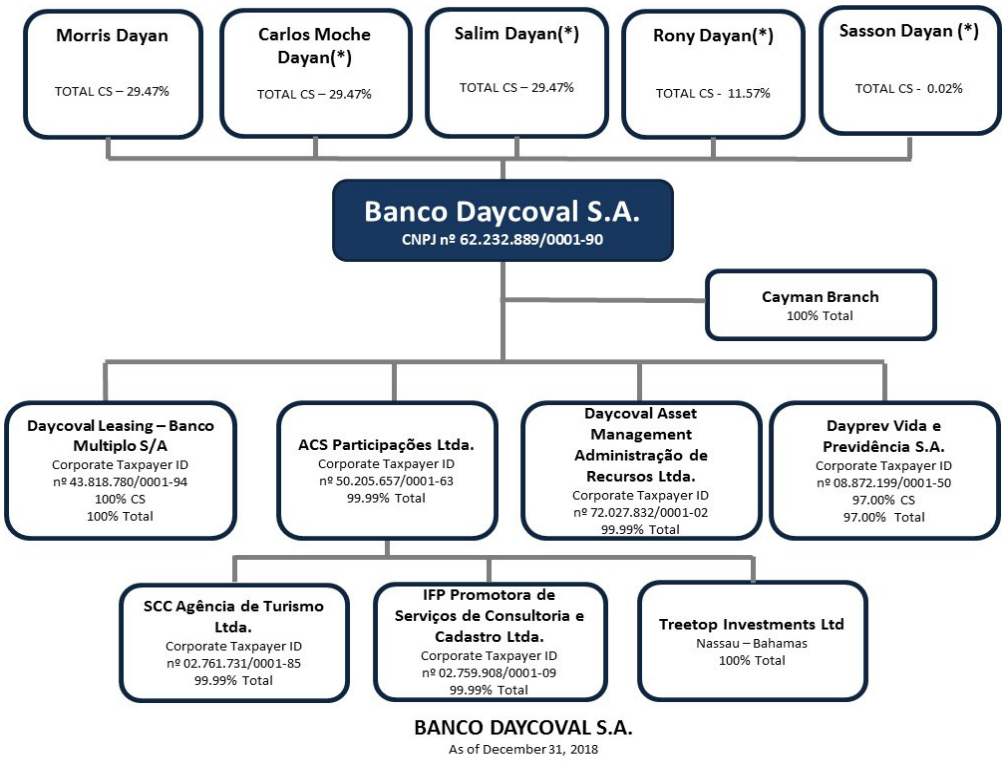
In 2014, we acquired Banco Commercial Investment Trust do Brasil S.A. (Banco CIT Brasil), a subsidiary of CIT Group Inc., specialized in providing credit to small and medium-sized companies with a focus on the leasing of equipment, particularly in the IT segment.

In 2016, we and our controlling shareholders made a joint tender offer to acquire all of our preferred shares not owned by our controlling shareholders. Following the successful tender offer, we redeemed those of our preferred shares not tendered by non-controlling shareholders in the tender offer.

In 2018, we converted all of the preferred shares issued by the Bank into common shares at the ratio of one common share for each preferred share; and we supplemented our capital base through our first issue of subordinated debt, recognized as Tier 2 capital by the Central Bank.

Structure of Banco Daycoval S.A.

The following chart indicates our corporate structure as of December 31, 2018:



Note: CS indicates Common Shares

(*) By a Contract of Gift of Participation with Reservation of Usufruct and Other Covenants, dated December 14, 2015, Mr. Sasson Dayan gave, free of charge, the total of 55,581,891 ON to his heirs: Salim Dayan, Carlos Moche Dayan and Rony Dayan, granting to them the exclusive usufruct of all the voting rights of each of their respective donated ON shares.

Our executive offices and headquarters are located at Avenida Paulista, 1793, in the City of São Paulo, in the State of São Paulo, CEP 01311-200, Brazil. Our investor relations email is ri@bancodaycoval.com.br. We are registered with the State of São Paulo Commercial Registry under NIRE (Número de Identificação de Registro de Empresas) 35300524110.

In addition to the Bank's headquarters, we have three other administrative and business centers in São Paulo: (i) our IT, control and CDC vehicle operations are located at Avenida Paulista, 1842, a facility we inaugurated at the end of 2018, (ii) the departments involved in our foreign exchange operations are located at Avenida Paulista, 1,776 and (iii) our customer service unit (SAC), the collection, control and back office of IFP (our subsidiary involved in payroll operations) and our HelpDesk (providing assistance and information to employees resolving technical issues related to telephony, computer systems and IT) are located at Rua Boa Vista 186.

The Cayman Islands Branch

The Cayman Islands Branch is registered as a foreign company under Part IX of the Companies Law (as amended) of the Cayman Islands. On May 12, 2008 the Cayman Islands Branch was granted a Category "B" banking licence by the Cayman Islands Monetary Authority to operate in the Cayman Islands under the Banks and Trust Companies Law (as amended) of the Cayman Islands, which allows the Cayman Islands Branch to conduct all types of banking business in any part of the world, but does not allow the Cayman Islands Branch to take deposits from residents of the Cayman Islands or to invest in any asset representing a claim on any person resident in the Cayman Islands, subject to certain exceptions in respect of, inter alia, exempted or ordinary resident companies and other licensees. Our Cayman Islands Branch is an essential instrument both for fundraising and for the opening of commercial and relationship lines with correspondent banks.

The registered office of the Cayman Islands Branch is Intertrust Corporate Services (Cayman) Limited, 190 Elgin Avenue, George Town, Grand Cayman, KY1-9005, Cayman Islands and the telephone number is +1 345 914 3248.

OVERVIEW OF THE PROGRAMME

The following summary is qualified in its entirety by the remainder of this document.

Issuer:	Banco Daycoval S.A., acting through its principal office in Brazil or its Cayman Islands Branch, as specified in the applicable Final Terms.
Description:	Euro Medium-Term Note Programme
Size:	Up to U.S.$2,000,000,000 (or the equivalent in other currencies at the date of issue) aggregate nominal amount of Notes outstanding at any one time.
Arranger:	Banco Daycoval S.A., acting through its Cayman Islands Branch.
Dealer:	Banco Daycoval S.A., acting through its Cayman Islands Branch. The Issuer may from time to time terminate the appointment of any dealer under the Programme or appoint additional dealers either in respect of one or more Tranches or in respect of the whole Programme. References in this Offering Memorandum to "Permanent Dealers" are to Banco Daycoval S.A. (acting through its Cayman Branch.) as Dealer and to such additional persons that are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and to "Dealers" are to all Permanent Dealers and all persons appointed as a dealer in respect of one or more Tranches.
Fiscal Agent:	The Bank of New York Mellon
Registrar	The Bank of New York Mellon
Paying Agents and Transfer Agents	The Bank of New York Mellon and The Bank of New York Mellon, London Branch.
Principal Paying Agent:	The Bank of New York Mellon Trust (Japan), Ltd.
Method of Issue:	The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each a "Series") having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches (each a "Tranche") on the same or different issue dates. The specific terms of each Tranche (which will be completed, where necessary, with the relevant terms and conditions and, save in respect of the issue date, issue price, first payment of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be completed in the final terms document to this Offering Memorandum (the "Final Terms"). Such Final Terms do not constitute final terms under Article 5(4) of the Prospectus Directive.

Currency Constraint:	Bearer Notes may have limited payment obligations. If specified in the relevant Final Terms that a Currency Constraint provision applies, in the event of the imposition of exchange controls prohibiting the conversion into, or remission from Brazil of, the currency in which payment is made in respect of a Series of Notes, holders of such Notes may elect to exchange such Notes for Notes in respect of which payments are payable in the lawful currency of Brazil for the time being. If a holder does not elect to make such exchange, such holder shall have no right, while such exchange controls remain imposed, either to accelerate payment of such Notes by calling a default or to sue for the unpaid sum. See "Terms and Conditions of the Notes—Payments and Talons—Currency Constraint". In the event of the occurrence of a Relevant Currency Constraint in Brazil and the election by a Noteholder not to exchange Notes but to continue to receive amounts due under the Notes in the Specified Currency in which payments are due, interest will accrue on any unpaid principal amounts of the Notes of such Noteholder at the interest rate on such Notes from the date payment was due until the date of payment, subject to limitations in the event that payments are held by financial institutions to comply with certain requirements of the Brazilian federal government (the "Federal Government") or the Central Bank. Interest will not accrue on overdue payments of interest or additional amounts, if any. See "Terms and Conditions of the Notes—Foreign Currency Constraint".
Issue Price:	Notes may be issued at their nominal amount or at a discount or premium to their nominal amount. Partly Paid Notes may be issued, the issue price of which will be payable in two or more instalments.
Form of Notes:	Each Tranche of Notes to be issued in bearer form will be represented on issue by a temporary Global Note if (i) definitive Notes are to be made available to Noteholders following the expiry of 40 days after their issue date, (ii) the Notes are treated as issued in registered form for U.S. federal income tax purposes or (iii) such Notes have an initial maturity of more than one year and are being issued in compliance with the D Rules (as defined in "—Selling Restrictions" below), otherwise such Tranche will be represented by a permanent Global Note. Each Tranche of Notes in registered form sold in an "offshore transaction" within the meaning of Regulation S will initially be represented by an Unrestricted Global Certificate (as defined in the Agency Agreement). Each Tranche of Notes in registered form sold in the United States to QIBs within the meaning of Rule 144A will initially be represented by a Restricted Global Certificate (as defined in the Agency Agreement). In respect of a Series of Notes where the applicable Final Terms specify that a Currency Constraint provision is applicable, such Series of Notes shall include a second permanent Global Note which will represent the Exchanged Notes (as defined herein) for which interests in the original permanent Global Note of such Series of Notes may be exchanged in accordance with the Conditions.

Clearing Systems:	Clearstream, Luxembourg, Euroclear and/or The Depositary Trust Company ("DTC") and, in relation to any Tranche, such other clearing system as may be agreed between the Issuer, the Fiscal Agent and the relevant Dealer.
Initial Delivery of Notes:	On or before the issue date for each Tranche, the Global Note or Global Certificate representing Notes may (or, in the case of Notes listed on Euronext Dublin Ltd (Global Exchange Market), shall) be deposited with a common depositary for Euroclear and Clearstream, Luxembourg or DTC, as the case may be. Global Notes or Global Certificates relating to Notes that are not listed on Euronext Dublin (Global Exchange Market) may also be deposited with any other clearing system or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the Issuer, the Fiscal Agent and the relevant Dealer. Each Tranche of Notes in registered form that is to be credited to one or more clearing systems on issue will be registered in the name of nominees or a common nominee for such clearing systems.
Currencies:	Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in any currency agreed between the Issuer and the relevant Dealer(s).
Denomination:	Each Series of Notes will be in such denominations as may be specified in the relevant Final Terms, save that (i) in the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive (2003/71/EC), the minimum denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the Notes); (ii) unless otherwise permitted by then current laws and regulations, Notes (including Notes denominated in sterling) which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the Financial Services and Markets Act 2000 will have a minimum denomination of £100,000 (or its equivalent in other currencies); and (iii) in the case of any Notes to be sold in the United States to QIBs, the minimum specified denomination shall be U.S.$100,000.
Fixed Rate Notes:	Fixed interest will be payable in arrear on the date or dates in each year specified in the relevant Final Terms.
Floating Rate Notes:	Floating Rate Notes will bear interest determined separately for each Series as follows: (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2000 ISDA Definitions, as published by the International Swaps and Derivatives

	Association, Inc., or (ii) by reference to LIBOR, LIBID, LIMEAN or EURIBOR (or such other benchmark as may be specified in the relevant Final Terms) as adjusted for any applicable margin. Interest periods will be specified in the relevant Final Terms.
Zero Coupon Notes:	Zero Coupon Notes may be issued at their nominal amount or at a discount to it and will not bear interest.
Dual Currency Notes:	Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange as may be specified in the relevant Final Terms.
Index Linked Notes:	Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula as may be specified in the relevant Final Terms.
Interest Periods and Interest Rates:	The length of the interest periods for the Notes and the applicable interest rate or its method of calculation may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate, or both. The use of interest accrual periods permits the Notes to bear interest at different rates in the same interest period. All such information will be set out in the relevant Final Terms.
Redemption:	The relevant Final Terms will specify the basis for calculating the redemption amounts payable. Unless permitted by then current laws and regulations, Notes (including Notes denominated in sterling) which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the Financial Services and Markets Act 2000 must have a minimum aggregate redemption amount of £100,000 (or its equivalent in other currencies).
Redemption by Instalments:	The Final Terms issued in respect of each issue of Notes that are redeemable in two or more instalments will set out the dates on which, and the amounts in which, such Notes may be redeemed.
Other Notes:	Terms applicable to high interest Notes, low interest Notes, step-up Notes, step-down Notes, reverse dual currency Notes, optional dual currency Notes, partly paid Notes and any other type of Note that the Issuer, and any Dealer or Dealers may agree to issue under the Programme will be set out in the relevant Final Terms and Supplemental Offering Memorandum.
Optional Redemption:	The Final Terms issued in respect of each issue of Notes will state whether such Notes may be redeemed prior to their stated maturity at the option of the Issuer (either in whole or in part) and/or the holders,

	and if so the terms applicable to such redemption.
Status and Ranking of Notes:	The Notes will constitute unsecured and unsubordinated obligations of the Issuer and will at all times rank pari passu and without any preference among themselves. See "Terms and Conditions of the Notes—Status".
Negative Pledge:	So long as any Notes, Receipts or Coupons remain outstanding (as defined in the Agency Agreement) the Issuer will not create any lien, pledge or other charge upon any of its present or future property, rights and assets as security for any notes or bonds denominated in a currency other than the lawful currency of Brazil which are either listed on a stock exchange or capable of being so listed unless the Notes are secured rateably by such lien, pledge or charge. See "Terms and Conditions of the Notes—Negative Pledge".
Cross-Default:	It shall be an Event of Default (as defined under "Terms and Conditions of the Notes—Events of Default") if: (i) any other present or future indebtedness of the Issuer or any of its Subsidiaries (as defined in the Agency Agreement) for or in respect of monies borrowed or raised becomes (or becomes capable of being declared) due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described), or (ii) any such indebtedness is not paid when due or, as the case may be, within any applicable grace period, or (iii) the Issuer or any of its Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any monies borrowed or raised, provided that the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above have occurred equals or exceeds U.S.$20,000,000 or its equivalent (on the basis of the middle spot rate for the relevant currency against the U.S. dollar as quoted by any leading bank on the day on which this paragraph operates). See "Terms and Conditions of the Notes—Events of Default".
Early Redemption:	Except as provided in "Optional Redemption" above, Notes will be redeemable: (i) at the option of the Issuer prior to maturity if the Issuer has or will become obliged to pay additional amounts (i) in excess of the additional amounts the Issuer would be obliged to pay if payments were subject to withholding or deduction at a rate of 15% as a result of any change in, or amendment to, the laws or regulations of Brazil or any political subdivision or any authority thereof or therein having power to tax, or (ii) as a result of any change in, or amendment to, the laws or regulation of the

	Cayman Islands or any political subdivision or any authority thereof or therein having power to tax, or, in either case, any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date for the relevant Notes, and (ii) at the option of the Noteholders prior to maturity if the Issuer ceases to be directly or indirectly owned and controlled by the Members of the Dayan Family (as defined in the Agency Agreement) as to at least 51% of both its voting and total share capital. See "Terms and Conditions of the Notes—Redemption, Purchase and Options".
Withholding Tax:	All payments of principal and interest in respect of the Notes will be made free and clear of withholding taxes of Brazil or the Cayman Islands subject to customary exceptions, all as described in "Terms and Conditions of the Notes—Taxation".
Governing Law:	English law.
Listing:	Euronext Dublin (Global Exchange Market) or as otherwise specified in the relevant Final Terms. As specified in the relevant Final Terms, a Series of Notes may be unlisted.
Ratings:	Tranches of Notes issued under the Programme may be rated or unrated. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.
Selling Restrictions:	United States, European Economic Area (in respect of Notes having a denomination of less than €100,000 (or its equivalent in any other currency as at the date of issue of the Notes)), United Kingdom, Brazil, Ireland, the Cayman Islands and certain other jurisdictions. See "Subscription and Sale". The Notes will be treated as Category 2 for the purposes of Regulation S under the United States Securities Act of 1933, as amended. Each Tranche of Notes issued in bearer form will be issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(D) or such successor regulations intended to be issued under Section 4701 of the Code, in accordance with U.S. Internal Revenue Service ("IRS") Notice 2012-20 (the "D Rules") unless (i) the relevant Final Terms state that Notes are issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(C) or any successor regulations under Section 4701 of the Code (the "C Rules") or (ii) the Notes are issued other than in compliance with the D Rules or the C Rules but in circumstances in which the Notes will not constitute "registration required obligations" under the United States Tax Equity and Fiscal Responsibility Act of 1982 ("TEFRA") or Section 4701 of the Code, which circumstances

	will be referred to in the relevant Final Terms as a transaction to which neither TEFRA nor Section 4701 of the Code is applicable.
Transfer Restrictions:	There are restrictions on the transfer of Notes sold pursuant to Regulation S under the Securities Act prior to the expiration of the relevant distribution compliance period and on the transfer of Registered Notes sold pursuant to Rule 144A under the Securities Act. See "Transfer Restrictions".
ERISA Considerations	Except as otherwise provided in the relevant Final Terms, Notes may be acquired by an "employee benefit plan" (as defined in Section 3(3) of the U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA")) that is subject to Title I of ERISA, a "plan" as defined in and that is subject to Section 4975 of the Code, any entity whose underlying assets include, or are deemed for purposes of ERISA or the Code to include, "plan assets" by reason of such employee benefit plan's or plan's investment in the entity, or a governmental or other employee benefit plan which is subject to any U.S. federal, state or local law, or non-U.S. law, that is substantially similar to Section 406 of ERISA or Section 4975 of the Code, provided that such purchase and holding of Notes will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of such a governmental or other employee benefit plan, a violation of any such substantially similar U.S. federal, state or local law, or non-U.S. law). Each purchaser and/or holder of Notes and each transferee thereof will be deemed to have made certain representations as to its status under ERISA and the Code. Potential purchasers should read the sections entitled "Certain United States ERISA Considerations" and "Transfer Restrictions".

SUMMARY FINANCIAL INFORMATION

The tables below contain a summary of our financial information as of and for the years ended December 31, 2018, 2017and 2016 and are based on and should be read in conjunction with our audited consolidated financial statements as of and for the years ended December 31, 2018, 2017 and 2016 and accompanying notes included in this Offering Memorandum, as well as with sections "Presentation of Financial Information" and "Management's Discussion and Analysis of Financial Condition and Results of Operation".

For your convenience, the following tables also contain U.S. dollar translations of the amounts in *reais*, translated using the rate of R$3.87 to U.S.$1.00, which was the exchange rate in effect as of December 31, 2018 as reported by the Central Bank.

Income Statement Data

	For the years ended December 31,			
	2018	**2017**	**2016**	**2018**
		(R$ millions)		**(U.S.$ millions)**
Income from financial intermediation	**4,459.6**	**3,845.4**	**3,235.0**	**1,152.4**
Lending operations	3,020.4	2,781.0	2,898.1	780.5
Leasing operations	376.6	313.7	285.7	97.4
Securities transactions	491.9	673.3	695.1	127.1
Derivatives	372.9	(59.4)	(713.2)	46.4
Foreign exchange transactions	191.5	136.9	69.3	49.5
Financial assets sale or transfer	6.2	-	-	1.6
Expenses on financial intermediation	**(2,710.1)**	**(2,367.6)**	**(2,617.7)**	**(700.3)**
Funding operations	(1,347.9)	(1,358.8)	(1,638.5)	(348.3)
Borrowings and onlendings	(399.7)	(191.7)	(105.1)	(103.3)
Leasing operations	(245.8)	(214.7)	(191.0)	(63.6)
Financial assets sale or transfer	(17.8)	(48.8)	(60.7)	(4.6)
Allowance for loan losses	(698.9)	(553.6)	(622.4)	(180.6)
Gross profit from financial intermediation	**1,749.5**	**1,477.9**	**617.3**	**452.07**
Other operating income (expenses)	**(628.4)**	**(631.4)**	**21.9**	**(162.4)**
Income from services provided	160.2	134.3	101.7	41.4
Results of insurance operations	4.0	3.9	4.3	1.04
Personnel expenses	(329.7)	(304.6)	(286.6)	(85.2)
Other administrative expenses	(506.8)	(455.3)	(464.0)	(130.95)
Tax expenses	(148.5)	(123.1)	(115.0)	(38.4)
Other operating income	429.5	391.9	1,091.3	110.98
Other operating expenses	(237.2)	(278.5)	(309.8)	(61.3)
Operating income	**1,127.1**	**(846.5)**	**(639.2)**	**291.3**
Non-operating income	**5.2**	**16.0**	**1.7**	**1.4**
Income before income taxes	**1,126.3**	**862.5**	**640.9**	**291.03**
Income tax and social contribution	**(402.0)**	**(279.2)**	**(187.4)**	**(103.9)**
Provision for income tax	(245.6)	(159.1)	(185.2)	(63.5)
Provision for social contribution	(199.1)	(128.4)	(153.5)	(51.5)
Deferred tax assets	42.6	8.3	151.2	11,007
Profit sharing	**(78.5)**	**(61.7)**	**(46.6)**	**(20.3)**
Noncontrolling interests	**(0.1)**	**(0.1)**	**(0.1)**	**(0.025)**
Net income	**645.8**	**521.5**	**406.9**	**166.9**

	As of December 31,			
	2018	2017	2016	2018
Assets		(R$ millions)		(U.S.$ millions)
Current assets	**18,977.1**	**15,395.6**	**12,735.5**	**4,903.7**
Cash	153.2	117.1	136.6	39.6
Interbank investments	5,190.9	4,460.5	3,002.2	1,341.4
Money market investments	4,702.4	3,973.1	2,731.8	1,215.09
Interbank deposits	320.4	339.2	189.9	82.8
Foreign currency investments	168.2	148.2	80.5	43.5
Securities and derivatives	742.9	288.4	230.0	191.96
Own portfolio	228.5	198.7	161.8	59.04
Linked to repurchase commitments	139.5	23.3	-	36.04
Derivatives	304.9	5.5	9.0	78.8
Asset backed technical reserves	70.1	60.9	59.3	18.2
Interbank accounts	42.5	148.7	151.0	11.8
Restricted deposits—Central Bank	42.5	148.6	150.7	11.8
Correspondents	0.1	0.2	0.3	0.025
Lending operations	7,474.8	6,409.6	5,871.5	1,931.5
Lending operations—public sector	38.2	19.8	29.0	9.9
Lending operations—private sector	7,980.4	6,804.6	6,176.8	2,062.2
(Allowance for loan losses)	(543.8)	(414.8)	(334.4)	(140.6)
Leasing operations	351.0	276.0	222.2	90.7
Leases receivable	357.3	283.6	233.8	92.4
(Allowance for lease losses)	(6.3)	(7.6)	(11.6)	(1.62)
Other receivables	4,917.2	3,563.5	3,003.7	1,270.6
Guarantees and collateral	**-**	34.7	-	-
Foreign exchange portfolio	1,064.6	591.0	515.8	275.09
Income receivable	10.8	8.6	4.2	2.8
Insurance premiums	2.0	0.4	0.7	0.51
Trading account	1.8	2.4	4.1	0.46
Other	3,977.2	3,166.9	2,636.9	1,027.8
(Allowance for other loan losses)	(139.1)	(240.4)	(158.0)	(35.94)
Other assets	104.5	131.8	118.3	27,002
Repossessed assets	92.9	104.4	104.5	24,005
(Allowance for repossessed assets losses)	(8.5)	(10.5)	(13.2)	(2.19)
Prepaid expenses	20.0	38.0	27.1	5.2
Noncurrent long-term assets	**9,922.9**	**8,304.8**	**9,9019.2**	**2,564.05**
Interbank investments	6.7	16.5	40.4	1.8
Securities and derivatives	1,957.6	1,368.4	2,349.2	505.9
Own portfolio	1,646.3	1,026.5	2,094.0	425.5
Linked to repurchase commitments	-	129.7	44.2	-
Derivatives	95.7	88.3	83.4	24.8
Linked to guarantees	215.5	122.0	127.6	55.7
Asset backed technical reserves	**-**	2.1	-	-

	As of December 31,			
	2018	2017	2016	2018
Lending operations	5,189.5	4,530.2	4,476.6	1,340.95
Lending operations—public sector	72.0	98.0	21.7	18.60
Lending operations—private sector	5,521.5	4,694.1	4,703.1	1,426.8
(Allowance for loan losses)	(404.0)	(261.8)	(248.2)	(104.4)
Leasing operations	424.0	237.1	164.1	109.6
Leases receivable	430.1	242.6	169.4	111.13
(Allowance for lease losses)	(6.1)	(5.5)	(5.3)	(1.57)
Other receivables	2,342.9	2,104.3	1,828.7	605.40
Foreign exchange portfolio	-	-	7.6	-
Other	2,343.4	2,104.5	1,828.7	605.52
(Allowance for other loan losses)	(0.5)	(0.2)	(7.7)	(0.12)
Other assets	2.2	48.5	160.2	0.56
Prepaid expenses	2.2	48.5	160.2	0.56
Permanent assets	**79.7**	**85.9**	**19.7**	**20.6**
Investments	1.3	0.6	0.6	0.3
Property and equipment in use	78.3	85.1	18.9	20.23
Other property and equipment in use	109.0	106.4	46.3	28.2
(Accumulated depreciation)	(30.6)	(21.3)	(27.4)	(7.90)
Intangible assets	0.1	0.1	0.1	0.025
Total Assets	**28,979.7**	**23,786.3**	**21,774.3**	**7,488.3**

	As of December 31,			
	2018	2017	2016	2018
Liabilities and shareholders' equity		**(R$ millions)**		**(U.S.$ millions)**
Current liabilities	**15,379.7**	**10,860.2**	**10,077.7**	**3,974.08**
Deposits	3,218.4	3,582.4	3,501.0	831.7
Demand deposits	863.8	735.5	598.6	223.20
Interbank deposits	373.7	337.4	339.9	96.6
Time deposits	1,973.6	2,504.8	2,554.8	509.97
Foreign currency deposits	7.3	4.7	7.6	1.88
Money market fundings	2,992.3	1,860.1	1,802.5	773.20
Own portfolio	136.3	152.6	44.2	35.21
Third parties	2,856.0	1,674.8	1,758.3	737.98
Free portfolio	-	32.7	-	-
Funds from acceptance and issuance of securities	5,833.0	3,545.1	2,654.4	1,507.23
Mortgage loan notes	648.7	415.5	452.8	167.62
Agribusiness letters of credit	617.7	462.3	372.5	159.61
Financial bills	2,689.3	2,636.2	1,798.5	694.90
Securities issued abroad	1,877.4	31.1	30.6	485.11
Interbank accounts	1.2	1.9	1.7	0.31
Interbranch accounts	107.5	63.8	63.9	27.77
Borrowings	1,675.2	759.3	1,104.2	432.9
Foreign borrowings	1,675.2	759.3	1,104.2	432.9

	As of December 31,			
	2018	2017	2016	2018
Liabilities and shareholders' equity		**(R$ millions)**		**(U.S.$ millions)**
Domestic onlendings	193.5	264.8	128.3	50.0
BNDES	151.4	214.6	73.1	39.12
FINAME	42.1	50.2	55.3	10.9
Derivatives	29.7	8.8	34.1	7.7
Technical reserves - insurance	67.9	60.8	57.4	17.54
Other payables	1,261.0	713.1	730.1	325.9
Collected taxes and other	8.6	8.4	6.9	2.22
Foreign exchange portfolio	501.5	142.7	60.9	129.6
Social and statutory	119.7	74.1	61.3	30.93
Tax and social security	380.4	245.9	279.8	98.3
Trading account	3.0	1.7	1.3	0.77
Other	247.8	240.4	319.8	64.03
Noncurrent long-term liabilities	**10,243.8**	**9,820.3**	**8,949.9**	**2,646.9**
Deposits	2,177.3	1,480.3	1,727.1	556.95
Interbank deposits	21.8	-	13.7	5.6
Time deposits	2,155.4	1,480.3	1,713.3	556.9
Funds from acceptance and issuance of securities	4,941.9	4,905.7	4,546.6	1,276.9
Mortgage loan notes	125.2	91.3	89.9	32.35
Agribusiness letters of credit	46.2	20.2	42.0	11.93
Financial bills	4,749.9	3,136.9	2,759.6	1,227.36
Securities issued abroad	20.6	1,657.3	1,655.2	5.32
Borrowings	371.8	973.2	299.4	96.07
Foreign borrowings	371.8	973.2	299.4	96.07
Domestic onlendings	173.1	207.3	200.9	44.8
BNDES	108.2	140.0	122.7	27.95
FINAME	64.9	67.3	78.2	16.77
Derivatives	-	0.6	2.2	-
Other payables	2,579.7	2,253.2	2,173.7	666.6
Tax and social security	262.8	223.0	167.7	67.9
Other	2,169.6	2,030.2	2,006.0	560.6
Subordinated debt	147.3	-	-	38.06
Deferred income	**118.2**	**95.9**	**88.4**	**30.54**
Non-controlling interests	**1.0**	**0.9**	**0.9**	**0.25**
Shareholders' equity	**3,237.0**	**3,009.0**	**2,657.4**	**836.5**
Capital	2,253.6	1,892.1	1,892.1	582.3
Brazilian residents	2,253.6	1,892.1	1,892.1	582.3
Earnings reserves	979.4	1,111.8	778.6	253.07
Valuation adjustment to equity – available-for-sale marketable securities	4.0	5.1	(13.3)	1.0
Total liabilities and shareholders' equity	**28,979.7**	**23,786.3**	**21,774.3**	**7,488.29**

RISK FACTORS

As a general matter, investing in the securities of Brazilian issuers, such as Banco Daycoval, involves risks not normally associated with investing in securities issued by United States, European or other similar companies or financial institutions. In addition, prospective purchasers of the Notes should consider carefully certain factors associated with any investment in the Notes, our business and the industry in which we operate. Accordingly, prospective purchasers of the Notes offered hereby should consider carefully, in light of their financial circumstances and investment objectives, all of the information in this Offering Memorandum and, in particular, the Risk Factors set forth below.

Prospective investors should further note that the Risk Factors described below are not the only risks Banco Daycoval faces. Rather, these are the risks Banco Daycoval currently considers material. There may be additional risks that Banco Daycoval currently considers immaterial or of which it is currently unaware, and any of these risks could have similar effects to those set forth below. The occurrence of one or more of such circumstances could cause a material adverse effect in Banco Daycoval's business, financial condition and results of operations. Additionally, those circumstances could lead to a material and long-term decline in the price of the Notes or, in extreme cases, to a loss of the value of the Noteholders' entire investment or part of it.

Risks Relating to Brazil

The Brazilian Government has exercised, and continues to exercise, significant influence over the Brazilian economy. This influence as well as Brazilian political and economic conditions could adversely affect us and the market price of the Notes.

The Brazilian economy has been marked by frequent and sometimes significant interventions by the Brazilian Government on monetary, credit, tax and other policies and regulations to influence Brazil's economy. The Brazilian Government's actions to control inflation and implement other policies have in the past involved, among other measures, control over wages and prices, devaluation of the currency, controls on foreign capital and certain limits on imported merchandise and services. We have no control over, and cannot predict the effects of any measures or policies that the Brazilian Government might adopt in the future. Our business, financial condition and results of operation, as well as the market price of the Notes could be adversely affected by changes in public policy at the federal, state and municipal level relative to interest rates and exchange controls, as well as other factors, including, but not limited to:

- political, economic and social instability;
- monetary policies;
- banking regulations;
- variation in exchange rates;
- exchange rate control policies and restrictions on remittance abroad;
- inflation;
- interest rates;
- liquidity in the domestic financial and stock markets and in the credit markets;

- tax policy and regulation; and

- measures of a political, diplomatic, social and economic nature that occur or that might affect Brazil.

More recently, Brazil has experienced a severe political crisis and the Brazilian markets have been experiencing heightened volatility due to the uncertainties derived from the ongoing Car Wash *(Lava Jato*) investigation, which is being conducted by the Office of the Brazilian Federal Prosecutor, and its impact on the Brazilian economy and political environment. As a result of the ongoing Car Wash investigation, a number of senior politicians, including congressmen and officers of some of the major state-owned companies in Brazil have resigned or been arrested. Other senior elected officials and other public officials in Brazil are being investigated for allegations of unethical and illegal conduct identified during the Car Wash investigation. Further, in 2015, Brazilian prosecutors announced Operation *Zelotes*, an investigation into large corporations and banks that are alleged to have bribed tax officials to reduce their assessments. The matters that have come, and may continue to come, to light as a result of, or in connection with, the Car Wash or *Zelotes* investigations and related anti-corruption inquiries have adversely affected, and we expect that they may continue to adversely affect, the Brazilian markets and trading prices of securities issued by Brazilian issuers.

The Brazilian Congress also opened impeachment proceedings against President Dilma Rousseff on December 2, 2015 for allegedly breaking budget laws as she increased economic stimulus during her reelection campaign. On April 17, 2016, the Brazilian Lower House of Representatives voted in favor of the admissibility of the impeachment proceedings and the Brazilian Senate voted in favor of commencing the impeachment process on May 12, 2016, removing Ms. Rousseff from the presidency for up to 180 days to defend herself in her impeachment trial. Brazil's Vice President at the time, Michel Temer, was named Acting President of Brazil on May 12, 2016, in response to Ms. Rousseff's temporary removal from office. On August 31, 2016, the Brazilian Senate voted in favor of the impeachment, thereby definitively removing Ms. Rousseff from office, and Mr. Temer was sworn in as the country's new President. The impeachment proceedings resulted in volatility in the Brazilian markets, affecting the trading prices of securities issued by Brazilian issuers. Mr. Temer himself had corruption charges levied against him with the Supreme Court on June 26, 2017 by then-Prosecutor-General Rodrigo Janot. On August 2, 2017, the Brazilian House of Representatives voted to temporarily interrupt the investigation of such corruption charges against the President while he held office. Following a contentious general election in 2018, Jair Bolsonaro, a retired military officer and member of congress, was elected President of Brazil. He was sworn in January 1, 2019. President Bolsonaro is currently a member of the conservative Social Liberal Party. He appointed what is generally regarded as a conservative cabinet, and has, since he assumed government, proposed elements of what is generally viewed as a liberal economic agenda and a forceful campaign against corruption and organized crime. One of President Bolsonaro's stated economic priorities is the enactment of some variation of the pension reform that President Temer had prioritized but was unable to implement. We cannot predict the effects of these recent developments or what policies or reforms will be implemented by the Brazil Government or what impact the current ongoing political uncertainties will have on the Brazilian economy.

Further, the Brazilian economy has experienced a sharp downturn in recent years due, in part, to the interventionist economic and monetary policies of the Brazilian Government. As of this date, the Brazilian Government has proposed to loosen its budget targets for all years through 2020, but it is uncertain whether the acting government will be able to gather the required support in the Brazilian Congress to pass the reform. Citing political challenges and primary deficits, on September 9, 2015, S&P downgraded Brazil to non-investment grade status with a negative outlook. Furthermore, on September 10, 2015, as a result of the downgrade of Brazil, S&P downgraded the ratings of more than 30 Brazilian companies. On February 17, 2016, S&P further downgraded Brazil's credit ratings. On August 15, 2017, S&P removed Brazil from CreditWatch and affirmed its 'BB' rating and 'negative' outlook. On January 11, 2018, S&P reduced its rating of Brazil from BB to BB-, and, on February 23, 2018, Fitch reduced its rating of Brazil from BB to BB-. Any

further downgrade of Brazil's sovereign credit ratings could heighten investors' perception of risk and, as a result, increase the future cost of debt issuance and adversely affect the trading price of the Notes. These and other future developments in the Brazilian economy and governmental policies may materially adversely affect us.

Uncertainty over whether the Brazilian Government will implement changes in policy or regulation affecting these or other factors in the future may contribute to economic uncertainty in Brazil and to heightened volatility in the securities issued abroad by Brazilian companies, including the Notes. The Brazilian political environment has historically influenced, and continues to influence, Brazilian economic performance. Political crises have affected, and continue to affect, the confidence of investors and the public in general, resulting in an economic downturn and heightened volatility of securities issued by Brazilian companies. We cannot predict whether Brazilian governmental actions will result in adverse consequences to the Brazilian economy, our business, results of operations or financial condition or prospects, or impact our ability to satisfy payment obligations under the Notes.

Deterioration in economic and market conditions in other countries, especially emerging market countries, may adversely affect the Brazilian economy and our business.

The market for securities issued by Brazilian companies is influenced by economic and market conditions in Brazil and, to varying degrees, market conditions in other Latin American and emerging countries and in the United States and Europe. Although economic conditions are different in each country, investors' reactions to developments in one country may affect the capital markets in other countries, which may adversely affect the market value of securities issues by Brazilian companies.

These conditions have included the crisis experienced in the global financial markets, which had its roots in the subprime mortgage crisis in the United States in 2008, and the ongoing debt crisis affecting certain countries in the European Union since 2009. Crises in other countries, especially in emerging markets, may decrease investments in securities issued by Brazilian companies, including securities issued by us. This could affect the market price of our securities and make our access to capital markets and financings on acceptable terms in the future difficult or impossible. We cannot assure you that international capital and debt markets will remain available to Brazilian companies or that the financing costs in these markets will be favorable to us.

Conditions in the Brazilian economy may limit the ability of our clients to repay their loan obligations.

The Brazilian economy has been subject to several disruptions and conditions that have materially adversely affected the availability of credit to Brazilian companies. Disruptions in the Brazilian economy may adversely affect our ability to grow our loan portfolio and the ability of certain of our clients to timely repay their obligations to us or may otherwise adversely affect our financial condition or results of operations.

Inflation, and the Brazilian Government's measures to combat inflation, may contribute to economic uncertainty in Brazil, adversely affecting us.

In the past, Brazil has experienced high rates of inflation. Certain actions taken by the Brazilian Government to combat inflation have had negative effects on the Brazilian economy. Annual inflation rates were 3.75% in 2018, 2.95% in 2017 and 6.29% in 2016, as measured by the National Consumer Price Index (*Índice Nacional de Preços ao Consumidor* or IPCA) and 7.55% in 2018, -0.53% in 2017 and 7.19% in 2016, as measured by the General Price Index - Internal Availability (*Índice Geral de Preços do Mercado* or IGP-M). The Brazilian Government's measures to control inflation have often included maintaining a tight monetary policy with high interest rates, thereby restricting the availability of credit and reducing economic growth. Inflation, along with government measures to combat inflation and public speculation about possible

future government measures, has had significant negative effects on the Brazilian economy, and contributed to economic uncertainty in Brazil and heightened volatility in the Brazilian securities market, which may have an adverse effect on us.

If Brazil experiences substantial inflation in the future, our results of operations may be adversely affected, negatively impacting our ability to comply with our obligations. Inflationary pressures could also reduce our ability to access foreign financial markets and lead to further government intervention in the economy, including the introduction of policies that adversely affect the performance of the Brazilian economy as a whole, and consequently, our own operations.

Exchange rate instability may adversely affect us.

As a result of several pressures, the Brazilian currency has been devalued periodically in relation to the U.S. dollar and other foreign currencies during the last four decades. Throughout this period, the Brazilian Government has implemented various economic plans and utilised a number of exchange rate policies, including sudden devaluations, periodic mini-devaluations during which the frequency of adjustments has ranged from daily to monthly, floating exchange rate systems, exchange controls and dual exchange rate markets. More recently, the effects of the floating exchange rate regime have led to significant exchange volatility in relation to the dollar and other currencies. Although long-term devaluation of the *real* is generally related to the rate of inflation in Brazil compared to other countries, significant fluctuations over shorter periods arise from then prevailing economic, political and social uncertainties in Brazil and abroad. The *real* appreciated against the U.S. dollar by 17.0% in 2007. In 2008, due to the global financial crisis, the *real* depreciated against the U.S. dollar by 31.9%. However, in 2009 and 2010, the *real* appreciated by 25.5% and 4.3%, respectively, against the U.S. dollar. In 2011, 2012, 2013 and 2014, the *real* depreciated 12.6%, 8.9%, 14.6% and 13.4%, respectively against the U.S. dollar. In 2015, amid the Brazilian political and economic crisis and corruption investigations, the *real* depreciated 47.0% from a rate of R$2.66 per U.S. dollar at the end of 2014 to a rate of R$3.90 per U.S. dollar at the end of 2015. In 2016, the *real* appreciated 16.5% to a rate of R$3.26 per U.S. dollar at the end of 2016. In 2017, the *real* depreciated 1.5% to a rate of R$3.31 per U.S. dollar at the end of 2017. On December 31, 2018, the exchange rate between the *real* and the U.S. dollar was R$3.87 to U.S.$1.00, a depreciation of 16.9% over the course of 2018, and we cannot be certain whether the *real* will fluctuate substantially against the U.S. dollar in the future.

As of December 31, 2018, R$3,945.1 million of our funding was denominated in or linked to foreign currencies, principally the U.S. dollar. A depreciation of the *real* against the U.S. dollar would increase the amounts in *reais* that we are required to pay under our U.S. dollar obligations. In addition, this depreciation could also increase loan defaults by our clients since they would be required to pay higher amounts in *reais* to service their debt obligations with us denominated in or linked to the U.S. dollar.

We enter into derivatives transactions to manage our exposure to exchange rate risk. Such derivatives transactions are designed to protect us against increases in exchange rates or against decreases in such rates, but not both. For example, if we have entered into derivatives transactions to protect against decreases in the value of the *real* and the *real* instead increases in value, we may incur financial losses. Such losses could adversely affect our future net income unless fully compensated by gains in other accounts.

Depreciation of the *real* relative to the U.S. dollar could create inflationary pressures in Brazil, which may negatively affect us. Also, depreciation of the *real* may restrict our ability to access foreign financial markets or cause government intervention in the market. This intervention could involve restrictive monetary or other policies. In addition, a strong appreciation of the *real* relative to the U.S. dollar could adversely affect Brazil's balance of payments and may hinder exports. Any of these situations could have an adverse effect on us

Brazil's economy remains vulnerable to external factors, which could have an adverse effect on Brazil's economic growth and on our business and results of operations.

The globalisation of the economy has increased the vulnerabilities of participating countries to each other's adverse events. Brazil could be negatively affected by negative financial and economic developments in other countries. The global financial crisis that occurred in mid-2008 led to reduced liquidity, crashes in credit markets and economic recessions in developed countries, which in turn negatively affected emerging markets. Financial losses and cash deficiencies, bankruptcies of financial and non-financial institutions and a decrease in confidence in economic agents increased risk aversion and led to more cautious lending. Financial institutions, such as us, that are located in emerging markets were susceptible to these events, which negatively affected supply for loans and terms and conditions for borrowers, such as available interest rates and maturities.

The continuation of the economic crisis in Europe, particularly in Greece, Spain, Italy and Portugal, intensified concerns regarding the sustainability of those countries and caused significant volatility in the global financial markets and reduced foreign investor confidence globally, as did the earthquake in Japan and the downgrade of the U.S. long-term sovereign credit rating by Standard & Poor's Rating Services ("Standard & Poor's") in 2011. Repercussions from these events or the occurrence of similar events in the future could negatively affect our ability and the ability of other Brazilian financial institutions to obtain financing in the global capital markets, as well as weaken the recovery and growth of the Brazilian and/or foreign economies and cause volatility in the Brazilian capital markets.

Adverse external factors, such as those triggered or aggravated by the global financial crisis, can cause a deterioration in Brazil's economic condition and the ability of customers in the banking system to make payments, which could adversely affect our results of operations and hinder the implementation of our strategies. See "— Deterioration in economic and market conditions in other countries, especially emerging market countries, may adversely affect the Brazilian economy and our business" for more information on risks arising from foreign markets.

Risks Relating to the Bank and the Brazilian Banking Industry

Interest rate changes by the Central Bank could adversely affect us.

The Central Bank's Committee for Monetary Policy (*Comitê de Política Monetária*) (the "COPOM") periodically establishes the special overnight clearance and custodial rate (*Sistema Especial de Liquidação e Custódia*) (the "SELIC rate"), which is the base interest rate for the Brazilian Financial System (*Sistema Financeiro Nacional*) and an important policy instrument for the achievement of inflation targets. The COPOM has frequently adjusted the target SELIC rate in response to economic uncertainties and to achieve the goals of the Brazilian Government's economic policies. The target SELIC rate has fluctuated historically. As of December 31, 2018, 2017 and 2016, the target SELIC rate was 6.50%, 7.00% and 13.75%, respectively. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Principal Factors Affecting Our Financial Condition and Results of Operations—Brazilian Macroeconomic Conditions".

Increases in the SELIC rate could adversely affect us by reducing demand for credit, increasing our cost of funding and increasing the risk of default by our clients. Decreases in the SELIC rate could also adversely affect us by decreasing the interest income we earn on our interest-earning assets and lowering our margins. We enter into derivatives transactions to manage our exposure to interest rate risk, however, such derivatives transactions are designed to protect us against increases in interest rates or against decreases in such rates, but not both. For example, if we have entered into derivatives transactions to protect against decreases in interest rates and interest rates increase, we may incur financial losses. Such losses could adversely affect our future net income unless fully compensated by gains in other accounts.

The Brazilian Government regulates the operations of Brazilian banks, and changes in existing laws and regulations or the imposition of new laws and regulations may adversely affect us.

Brazilian banks, including us, are subject to extensive and continuous regulatory review by the Brazilian Government, mainly by the Central Bank and the CVM, and self-regulatory organizations. We cannot predict when the Brazilian Government, through the CMN or the Central Bank, will modify or create new regulations applicable to all or part of our operations, including regulations that impose:

- minimum capital requirements;
- compulsory deposit and/or reserve requirements;
- lending limits and other credit restrictions;
- foreign currency risk limits; and
- accounting and statistical requirements.

The regulatory structure governing Brazilian financial institutions is continuously evolving. Existing laws and regulations could be amended, the manner in which laws and regulations are enforced or interpreted could change, and new laws or regulations could be adopted. Any of these changes could adversely affect us.

In particular, the Brazilian Government has historically enacted regulations affecting banks in an effort to implement economic policies. These regulations are intended to control the availability of credit and reduce or increase consumption in Brazil (including by increasing compulsory deposit requirements and reducing the amount of resources available for financings and investments). There can be no assurance that the Central Bank will not increase or impose new reserve or compulsory deposit requirements. These changes may adversely affect us because our returns on compulsory deposits are lower than those we obtain on our other investments.

Minimum capital adequacy requirements imposed on the banking system following the implementation of the Basel II Accord and Basel III Accord may negatively affect our results of operations and financial condition.

In June 2004, the Basel Committee on Banking Regulations and Supervisory Practices approved a new framework for risk-based capital adequacy, commonly referred to as the "Basel II Accord". The Basel II Accord sets out the details for adopting more risk-sensitive minimum capital requirements for financial institutions. As part of its implementation of the Basel II Accord, the Central Bank has proposed new capital adequacy regulations, which among other provisions contain changes to the risk weighting for different categories of loans.

The implementation timetable of the Basel II Accord in Brazil was made official by the Central Bank on December 9, 2004 through Communication No. 12,746, amended later on September 27, 2007 by Communication No. 16,137. The timetable provided for different steps, initiated with the use of a standardised approach with respect to capital requirements, as determined by the Central Bank, and finalised with the use of advanced models.

Furthermore, pursuant to CMN Resolution No. 4,193 dated March 1, 2013 and Central Bank Circular No. 3,640 dated March 4, 2013, the Central Bank required banks to set aside a portion of their equity to cover operational risks (i.e., losses arising from failures, deficiency or inadequacy of internal proceedings, personnel or systems, including those due to external events). The risk-weighted capital ratio required by the Central Bank is currently 8.0% of risk-based exposure.

On March 1, 2013, the CMN and the Central Bank enacted four Resolutions and 15 Circulars in order to implement the recommendations of the Basel III regulations (the "Basel III Regulations") in Brazil: CMN Resolution No. 4,192, as amended, CMN Resolution No. 4,193, as amended, CMN Resolution No. 4,194, which has been revoked by CMN Resolution No. 4,606 dated October 19, 2017, and CMN Resolution 4,195, which has also been revoked, as from January 1, 2014, by CMN Resolution No. 4,280 dated October 31, 2013. CMN Resolution No. 4,192 repealed CMN Resolution No. 3,444, CMN Resolution No. 3,532 and CMN Resolution No. 3,655, as well as articles 2, 3 and 4 of CMN Resolution No. 3,059 and article 6 of CMN Resolution No. 2,723.

Under the new rules, regulatory capital will continue to consist of two tiers. Tier 1 Capital will have a 6.0% floor (as from January 1, 2015), divided into two portions: common equity or *capital principal* (corporate capital and profit reserves, among other inclusions and deductions) of at least 4.5% and additional capital or *capital complementar* (hybrid debt and capital instruments authorised by the Central Bank, with certain deductions). Tier 2 capital will consist mostly of subordinated debt instruments authorised by the Central Bank, with certain deductions. Current hybrid instruments and subordinated debt approved by the Central Bank as additional capital or Tier 2 Capital are expected to be maintained as such if they also comply with Basel III Regulations, including mandatory conversion into equity or mandatory write-off as directed by the Basel Committee. If such instruments do not comply with Basel III Regulations, there will be a yearly deduction of 10.0% on the nominal value of such instruments, as from October 1, 2013 (90%) and continuing on an annual basis as from January 1, 2014 (80%) thereafter, until 0% or until January 1, 2022.

Due to changes in the rules concerning capital adequacy or in the performance of the Brazilian economy as a whole, the Bank's capital reserves may be negatively affected. The Bank may also be compelled to limit its credit operations, dispose of some of its assets and/or take other measures that may adversely affect the Bank's results of operations and financial condition.

If, as a result of the Basel III Regulations' capital limits, we increase our capital limits, it could negatively affect our results of operations and may make it more difficult for us to comply with such limits.

Changes in regulations regarding compulsory deposits may adversely affect us.

Compulsory deposits are resources that financial institutions in Brazil are required to maintain with the Central Bank in relation to demand deposits, saving deposits and time deposits. The Central Bank has periodically changed the level of compulsory deposits that financial institutions in Brazil are required to maintain with the Central Bank. Since 2008, the Central Bank revoked and changed several compulsory deposit requirements to reduce the impact of the global financial market crisis, and, in the past year, the Central Bank increased and restated the compulsory deposit requirements. The Central Bank may increase its compulsory deposit requirements in the future or impose new compulsory deposit requirements.

Compulsory deposits generally yield lower returns than our other investments and deposits because:

- a portion of our compulsory deposits do not bear interest;
- a portion of our compulsory deposits must be held in Brazilian Government securities; and
- a portion of our compulsory deposits must finance the Brazilian rural sector and, for certain banks, the Brazilian housing sector.

Compulsory deposits have traditionally been used by the Central Bank to control liquidity as part of monetary policy, but now such compulsory deposits are an instrument by which the Central Bank pursues stability in the financial system. We have no control over the policy applicable to compulsory deposits. Any

increase in the compulsory deposit requirements may reduce our ability to lend funds and to make other investments and, as a result, may adversely affect us. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Principal Factors Affecting our Financial Condition and Results of Operations—Compulsory Deposit Requirements".

The increasingly competitive environment in the Brazilian banking industry may adversely affect us.

Traditionally, our competitors in the corporate and the individual lending segments have been specialised medium-sized banks. However, in recent years large domestic and foreign banks and financial institutions have started to operate in these segments. This has occurred simultaneously with a further period of consolidation in the Brazilian banking sector. Of particular significance in recent years, Itaú Unibanco acquired the retail banking operations of Citibank and significant operations from Banco BMG, Bradesco acquired the domestic banking operations of HSBC, Banco do Brasil acquired Banco Nossa Caixa and a 50% interest in Banco Votorantim, and BTG Pactual and Caixa Econômica Federal S.A. acquired Banco Panamericano. These acquisitions may be followed by other domestic or international acquisitions and result in additional consolidation in the corporate lending and the individual lending segments, which could significantly change the competitive landscape in which we operate. We cannot guarantee that we will compete successfully with these banks, primarily because they have more resources than we do and have an extensive network of branch offices and distribution channels.

Besides traditional commercial bank competition, the financial services industry is undergoing rapid technological changes, with frequent introductions of new technology-driven products and services and the establishment of financial institutions that are wholly virtual, with no commercial branches. In addition to improving the ability to serve customers, the effective use of technology increases efficiency and enables financial institutions to reduce costs. While we believe our direct and personal manager to customer relationships are key to our success in the corporate segment, our ability to compete will also depend, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements. We may not be able to implement effectively new technology-driven products and services or be successful in marketing these products and services to our customers.

In addition, our business in the payroll deduction loan segment may be adversely affected if our competitors are able to obtain exclusive agreements with governmental authorities for this kind of product.

Moreover, certain of our competitors currently are, or intend to become, publicly-held companies, which will considerably increase their shareholders' equity and, as a result, increase the level of competition. Increased competition may reduce the spreads we earn and result in the loss of our managers, who may be hired by our competitors and decrease our marketing power.

Increased competition adversely affects us by, among other things, limiting our ability to increase our client base and expand our operations, reducing our profit margins on the banking and other services and products we offer, and increasing competition for investment opportunities. See "Business of Banco Daycoval S.A.—Competition".

An increase in our loan portfolio, particularly in the corporate lending segment, may adversely affect us.

An increase in our loan portfolio may increase the level of our loans in default and allowance for loan losses if this increase is caused by a less conservative management of our operations. In addition, a close relationship with clients is essential to a successful performance in the corporate lending segment. The increase in the volume of our loan operations and in the number of our clients may harm our relationships with

corporate clients since we may lose new business opportunities and distance ourselves from our existing clients.

The majority of our corporate lending clients are small- and medium-sized companies, which typically have lower levels of corporate governance and may provide us with incorrect information when we assess their risk. As a result, we may inadvertently grant loans to companies that do not meet our standard loan criteria, which may adversely affect us.

Any restrictions on bank loan interest rates may adversely affect us by decreasing our revenues and limiting our ability to make loans.

Decree No. 22,626 of April 7, 1933, as amended, also known as the Usury Law (*Lei de Usura*), prevents any person or entity from charging interest rates higher than 12.0% per annum. However, Law No. 4,595 of December 31, 1964 (the "the Banking Reform Law"), together with recent court decisions, have exempted banks from this prohibition. Any changes to the courts' interpretation of the exemption or an amendment in the applicable laws and regulations limiting the interest rates that we can charge on our loans may adversely affect us.

Limits on the maximum interest rates we are allowed to charge on our payroll deduction loans could adversely affect us.

We are subject to limits on the interest rates we charge on our loans to pension beneficiaries and retirees of the INSS, and to other government entities with which we have agreements governing our payroll deduction loan segment. We cannot guarantee that these entities will maintain the maximum applicable interest rates at current levels. For example, in the past the INSS has reduced the maximum interest rate applicable to its pension beneficiaries and retirees to reflect reductions in the benchmark SELIC rate. In the event that the INSS decides to implement new reductions to the rates applicable to our loans or any other government entity reduces the limits on applicable interest rates, we could be adversely affected.

Payroll deduction loans are subject to changes in applicable laws and regulations and to the interpretation of such laws and regulations by Brazilian courts, as well as to changes in policies by public entities.

Payroll deduction loans are governed by several laws and regulations at the federal, state and municipal levels, establishing limits on the amounts that can be deducted and the irrevocability of the authorisation of the payroll deduction given by the public employee, retiree or pension recipient prior to the repayment of the loan.

The adoption of any new law or regulation or the change, revocation or new interpretation of any existing law or regulation, that results in a prohibition or restriction on our ability to make these direct deductions could increase our loan portfolio's risk profile, increase the interest rates of our consumer loans and lead to a higher percentage of losses. We cannot guarantee that the laws and regulations relating to direct payroll deductions from public employees or the INSS will not be changed or revoked in the future.

In addition, the granting of payroll deduction loans to public employees, INSS retirees and pension beneficiaries requires the authorisation of the public entities to which those persons are connected. The Brazilian Government or other government entities can change the regulations applicable to these authorisations. Currently, we have no authorisation to offer payroll deduction loans to the employees of certain state or municipal governments because the laws of those states and municipalities will only allow state-owned banks to grant such loans. Other government agencies could enact regulations in the future to restrict or prevent us from offering payroll deduction loans to their employees. As of December 31, 2018, our payroll deduction loan portfolio was almost entirely made up of payroll deduction loans to public employees and INSS

retirees and pension beneficiaries, and any changes or implementation of new laws or regulations that restricts or prevents us from granting these type of loans could adversely affect us.

Our ability to make direct payroll deductions depends on the effectiveness and validity of the agreements we enter into with the private and public sector employers of the persons who have taken such loans and on those persons remaining employed.

A portion of our revenues is derived from our payroll deduction loan transactions, the payments of which are directly deducted from an employee's or retiree's paychecks. These deductions could be suspended if the agreements we entered into with our borrowers' private or public sector employers are terminated, or if these borrowers' employment is terminated, including as a result of death of the borrower.

If any of these agreements are terminated, we may need to implement a new collection system of payroll deduction loans, which may not be as effective as the previous one or have higher operating costs. As a result, our operations in this segment may decrease. If an employee has his or her employment terminated because the employee leaves his or her job, or has deceased, the payment of the loan may depend exclusively on the financial ability of the borrower or his or her estate to repay the loan. In these circumstances we may not recover all or part of the credit we extended to such persons.

In addition, if a borrower divorces, Brazilian law provides that in certain circumstances, the alimony due by the borrower may be directly deducted from his or her paycheck. These deductions may have priority over other debts of the borrower (including our credit) and, as a result, we may not receive all or part of the amount owed to us.

Any of these risks could increase the risk of our payroll deduction loan portfolio, which could adversely affect us. These risks could also cause an increase of administrative and other expenses for the collection of payments, including the implementation of a new collection system caused by termination of agreements, which could adversely affect us.

Deterioration of our relationship with, poor performance by, or bankruptcy of, our third-party service providers or sales teams may adversely affect us.

We use third-party service providers to assist, support and maintain certain of our back-office departments and certain of our communications, IT and point-of-sale systems. If these third-party service providers fail to meet their assistance, support and maintenance obligations, we could be adversely affected. In addition, our revenues from payroll deduction loans and auto loans are highly dependent on the willingness and ability of our banking correspondents and their independent sales agents to identify new borrowers for us. Our relationship with our banking correspondents is not exclusive, so they may generate business for other banks. If the effectiveness of our banking correspondents and their independent agents were to deteriorate, and we are unable to replace them with new banking correspondents and agents, we may lose clients, fail to gain new clients or experience significantly reduced revenues from our payroll deduction and auto loan businesses, which would adversely affect us.

A failure in, or breach of, our operational or security systems could temporarily interrupt our businesses, increasing our costs and causing losses.

Although we have high profile information security controls, continuing investments in infrastructure, and operations and crisis management in place, our business, financial, accounting, data processing systems or other operating systems and facilities may stop operating properly for a limited period of time or become temporarily disabled or damaged as a result of a number of factors, including events that are wholly or partially beyond our control, such as: electrical or telecommunications outages; breakdowns, systems failures or other

events affecting third parties with which we do business or that facilitate our business activities, including exchanges, clearing houses, financial intermediaries or vendors that provide services; events arising from local or larger-scale political or social matters and cyber-attacks. Temporary interruptions or failures in the physical infrastructure or operating systems that support our businesses and customers, cyber-attacks, or any unauthorized disclosures of personal information in our possession, could result in customer attrition, lawsuits, regulatory fines, penalties or intervention, reimbursement or other compensation costs.

We could suffer a loss of revenue and increased costs, exposure to significant liability, reputational harm and other serious negative consequences if we sustain cyber-attacks or other data security breaches that disrupt our operations or result in the dissemination of proprietary or confidential information about us or our clients or other third parties.

We manage and store various proprietary information and sensitive or confidential data relating to our operations. We may be subject to breaches of the information technology systems we use for these purposes. Experienced computer programmers and hackers may be able to penetrate our network security and misappropriate or compromise our confidential information or that of third parties, create system disruptions, or cause shutdowns. Computer programmers and hackers also may be able to develop and deploy viruses, worms and other malicious software programs that attack our products or otherwise exploit any security vulnerabilities of our products. In addition, sophisticated hardware and operating system software and applications that we produce or procure from third parties may contain defects in design or manufacture, including "bugs" and other problems that could unexpectedly interfere with the operation of the system. The costs to us to eliminate or address the foregoing security problems and security vulnerabilities before or after a cyber-incident could be significant. Our remediation efforts may not be successful and could result in interruptions, delays or cessation of service, and loss of existing or potential clients that may impede our critical functions. In addition, breaches of our security measures and the dissemination of proprietary information or sensitive or confidential data about us or our clients or other third parties could expose us, our clients or other third parties affected to a risk of loss or misuse of this information, result in litigation and potential liability for us, damage our brand and reputation, or otherwise harm our business. In addition, we rely in certain limited capacities on third-party data management providers whose possible security problems and security vulnerabilities may have similar effects on us.

Failure to protect against cyber-attacks could lead to loss of revenue and damage to reputation, damaging our operations or resulting in unauthorized disclosure of information.

Our IT infrastructure is subject to cyber-attacks consisting of intentional attempts to access, alter, corrupt or destroy systems, computer networks, and stored or transmitted information. Even with efficient monitoring and response processes to IT incidents, with continuous and significant investments, trained and dedicated teams using state-of-the-art IT security solutions with specific policies and standards for monitoring, evaluation, testing and auditing, the cyber-attacks may result in unavailability of services, database contamination, corruption of stored information, breach of data security or unauthorized disclosure of information, any of which could adversely affect us.

Changes in tax and social security regulations may adversely affect us.

To support its fiscal policies, the Brazilian Government regularly implements changes to tax and social security regimes that affect our clients and us. These reforms include changes in tax rates, fees, sectorial charges and tax assessment criteria and the enactment of temporary taxes, the proceeds of which are earmarked

for specific governmental purposes. See "The Brazilian Financial and Banking Regulation—Taxation of Brazilian Corporations". Some of these measures, such as the imposition of a tax on financial transactions (*Imposto sobre Operações Financeiras*) ("IOF") of 6% on the entry of foreign funds in relation to some specific money market investments, may result in increases in our payments of taxes and social contributions, which could adversely affect our profitability and ability to engage in certain transactions. In addition, changes in tax and social securities regulations, which may be implemented or adjusted at any time, may result in uncertainties in the Brazilian financial system, and increase our funding costs and the default rates of our borrowers, which may adversely affect us.

The risks associated with our treasury activities and open market activities may have an adverse effect on our financial condition.

In recent years, while the majority of our gross revenues and profit have been derived from our credit operations, a portion of our gross revenues and operating profit have been derived from market operations conducted by our treasury department. Such operations generally involve trading in a variety of Brazilian Government securities and financial instruments. There are various risks to us associated with such activities, including market and counterparty risks. We are actively seeking to expand our credit operations and range of banking products in order to diversify our revenue base. However, we intend, for so long as we perceive opportunities for treasury operations, and consider involvement in such activities to be in our interests, to continue such operations. Accordingly, our financial condition and our net income in future periods will continue to be exposed to the risks inherent in such activities, which may have an adverse effect on us. See "Business of Banco Daycoval S.A.—Treasury".

Any imbalance between our loan portfolio and our sources of funds could adversely affect our operating results and our capacity to expand our credit transactions.

We are exposed to certain imbalances between the loans we make and our obligations to our funding providers in relation to the interest rates and maturity dates of these loans and obligations. A portion of our loan portfolio is made up of fixed interest rate credits and the yield from our credit transactions depends on our ability to balance the cost of our funding with the interest rates charged to our clients. An increase in the market interest rates in Brazil could increase our cost of funding, especially the cost of our time deposits, and may force us to reduce the spread we charge on our loans, adversely affecting us.

Any mismatch between the maturity of our loans and our sources of funds would potentially result in an imbalance in the interest rates on these loans and funding sources, which could create problems in our liquidity if we fail to continue to be able to obtain funding at favourable rates. An increase in the total cost of our sources of funds for any of these reasons could result in an increase in the interest rates on our loans, which could, as a result, affect our ability to attract new clients. Any decrease in the level of our loan portfolio may adversely affect us.

Time deposits are an important source of funding for us and we cannot assure you that they will continue to be available on favourable terms to us or at all.

We rely upon time deposits as an important funding source. While we have significantly increased our issuance of financial bills (LF), agribusiness credit notes (LCA) and mortgage loan notes (LCI) in the Brazilian market over the last several years such that they now represent our largest source of domestic funding, time deposits remain an important element of our funding. As of December 31, 2018, we had R$4,129.1 million of our funding through time deposits.

Our ability to obtain additional funding through time deposits and alternative sources will depend on, among other factors, our performance and future market conditions. We cannot assure you that time deposits

or alternative sources of funding will continue to be available on favourable terms to us or at all. If we are unable to obtain sufficient new funding, we may not be able to maintain or continue growing our loan portfolio or to respond effectively to changes in business conditions and competitive pressures, which could have an adverse effect on us.

A downgrading in our credit rating may increase our costs of funding.

Our costs of funding are influenced by a number of factors, some of which are out of our control, such as prevailing macroeconomic conditions and the regulatory environment for Brazilian banks. Any unfavourable change in these factors may cause a negative impact in our credit rating, which could restrict our ability to obtain funding, transfer loan portfolios or issue securities on acceptable terms, increasing our cost of funding.

A deterioration in the creditworthiness of the receivables our clients provide as collateral to our loans, or difficulties in repossessing and realising value from collateral with respect to defaulted loans, may adversely affect us.

Many of the financings we grant to our corporate clients, particularly mid-sized companies, are secured by pledges of receivables from third parties. Any reduction in the creditworthiness of these third parties may negatively affect our clients' or our ability to collect receivables from such third parties and therefore may adversely affect us.

In addition, some of our loans, such as vehicle financing, are secured by assets that are expensive to repossess and difficult and cumbersome to store and manage or in respect of which security has not been properly taken or registered. Upon default by our clients, it may be difficult for us to repossess and to realise value from collateral with respect to the underlying loans. If we experience higher rates of default on such loans and are unable to repossess or to realise value from such collateral, we may incur higher losses from such defaulted loans than we have historically experienced, in respect of which provisioned amounts may be inadequate.

We may not successfully implement our strategies, which may adversely affect us.

Several elements of our strategies are relatively recent and still in the process of implementation. In addition, we intend to implement other business strategies that we believe will be important for our future growth. Among these strategies, we seek to expand our market share in the corporate lending segment by increasing our customer base, improving our distribution structure and offering tailor-made products to our clients. We also seek to consolidate and expand our market share in the individual lending segment by offering new credit products and by taking advantage of our current distribution network. We cannot assure you that we will successfully implement these or any other strategies, which would have an adverse effect on us.

The loss of any of our key managers, our inability to attract and maintain additional management personnel may adversely affect us.

Our ability to maintain our competitive position and implement our growth strategy is highly dependent on our management team. While many of our senior executives and other key managers have been with us for many years, we cannot assure that we will not lose any of our current senior executives or key managers or that we will be successful in attracting and maintaining substitute or additional qualified personnel to be part of our management team. The loss of some of our management team, or our inability to maintain and attract qualified personnel could have a material adverse effect on our operation and our ability to implement our strategies.

Our controlling shareholders' interests could conflict with interests of the holders of the Notes.

We are controlled by the Dayan family. See "Summary—Structure of Banco Daycoval S.A.". In common with all Brazilian financial institutions, we are monitored by the Central Bank to ensure we comply with regulations that prevent an abuse of such power. However, this level of control enables the Dayan family to, among other things, elect and control the decisions of our board of executive officers and to determine the outcome of all of actions requiring shareholders' approval. Decisions in relation to our policy towards acquisitions, divestitures, dividends and shareholder distributions, funding or other transactions could be made by the Dayan family which may be contrary to the interests of Noteholders, and which may have a negative impact on the interests of Noteholders. See "Summary—Structure of Banco Daycoval S.A.".

There may be less publicly available corporate disclosure about us than is regularly published by or about listed companies in certain countries with highly developed capital markets.

A principal objective of the securities laws of the United Kingdom, the United States, Brazil and other countries is to promote full and fair disclosure of all material information of companies issuing securities. As a Brazilian listed bank, we have been subject to extensive regulation by the Central Bank and the CVM, which requires us (to a greater extent than non-bank and non-listed entities) to disclose information concerning our operations and financial condition. In 2017, we completed the process of delisting our preferred shares from B3 S.A. – Brasil, Bolsa, Balcão. While we remain subject to Central Bank regulation and disclosure requirements, there may be less publicly available information about us than is regularly published by or about listed companies in certain countries with highly developed capital markets, such as the United Kingdom or the United States.

Increased regulation following recent developments in global markets may adversely impact our results of operations.

The turmoil experienced in the global financial markets, which had its roots in the subprime mortgage crisis in the United States in 2008 and a debt crisis affecting certain countries in the European Union commencing in 2009, led to a significant increase in the involvement of various governmental and regulatory authorities in the financial sector and in the operations of financial institutions. In particular, governmental and regulatory authorities in the European Union and its Member States, the United States, and elsewhere have increased regulatory control in their respective banking sectors, particularly as it relates to derivatives transactions and information reporting, and implemented measures to strengthen financial institutions including the mandatory collateralisation of certain types of transactions and enhanced capital requirements. It is uncertain how the more rigorous regulatory climate will impact financial institutions, including us. It is also uncertain whether further regulatory requirements (including capital adequacy requirements) will be introduced in such countries or elsewhere, including Brazil.

We may not be able to detect money laundering, terrorism financing and other illegal or improper activities fully or on a timely basis, which could expose us to additional liability and could have an adverse material effect on us

We are required to comply with applicable laws and regulations combatting money laundering, corruption, terrorism and other illegal or improper activities in the jurisdictions in which we operate. These laws and regulations require us, among other things, to adopt and enforce "know your customer" policies and procedures and to report suspicious and large transactions to the applicable regulatory authorities. These laws and regulations have become increasingly complex and detailed, requiring improved systems, demanding sophisticated monitoring and compliance personnel and subjecting us to enhanced supervision by regulatory authorities.

Our policies and procedures aimed at detecting and preventing the use of our banking network, products and services for money laundering, corruption, terrorist financing and other illegal or improper activities may not completely eliminate instances where our banking network may be used by our employees, representatives or other parties to engage in such activities. To the extent we fail to fully comply with applicable laws and regulations, the relevant government agencies to which we report have the power and authority to impose fines and other penalties on us, including the revocation of licenses. As of the date of this Offering Memorandum, we have not been the subject of any such fines or penalties.

In addition, our business and reputation could be adversely affected if our banking network is used for money laundering, corruption, terrorism financing or other illegal or improper activities. While we review our significant counterparties' internal policies and procedures with respect to such matters before engaging in business with them, to a large degree, we rely upon these counterparties to maintain and properly apply their own appropriate control procedures. Our and their measures, procedures and compliance may not be completely effective in preventing third parties from using our (and our relevant counterparties') processes, products and services as a conduit for money laundering, corruption, terrorism financing or other illegal or improper activities without our (and our relevant counterparties') knowledge.

If we are associated with, or even accused of being associated with, or become a party to, money laundering, corruption, terrorism financing or other illegal or improper activities, then our reputation could suffer and/or we could become subject to fines, sanctions and/or legal enforcement, any one of which could have a material adverse effect on our operating results, financial condition and prospects.

We may not be able to prevent our officers, employees or third parties acting on our behalf from engaging in situations that qualify as corruption in Brazil or in any other jurisdiction, which could expose us to administrative and judicial sanctions, as well as cause adverse material effect to us

We are subject to Brazilian anticorruption legislation and anticorruption legislation in the other jurisdictions in which we operate or participate in transactions of a transnational scope. These laws require the adoption of integrity procedures to mitigate the risk that any person acting on our behalf may offer an improper advantage to a public agent in order to obtain benefits of any kind.

Transnational legislation, such as the U.S. Foreign Corrupt Practices Act and U.K. Bribery Act, as well as the applicable Brazilian legislation, require, among other things, the maintenance of policies and procedures aimed at preventing any illegal or improper activities related to corruption on government entities and officials in order to secure any business advantage, and we are required to maintain accurate books and a system of internal controls to ensure the accuracy of our books and prevention of illegal activities.

If our policies and procedures designed to prevent bribery and other corrupt practices are not capable of preventing voluntary or inadvertent action by our administrators, employees or third parties acting on our behalf that fall within the applicable definitions of corruption, applicable regulatory agencies may have the power and authority to impose fines and other penalties on us. In addition, our business and reputation may be affected if we are to appear as defendants or investigated in corruption-related investigations. While we review our significant counterparties' internal policies and procedures with respect to integrity procedures before engaging in business with them, to a large degree, we rely upon these counterparties. Such procedures and controls may not be completely effective in preventing our counterparts from using the relationships established with us for the act of corruption.

If we are involved in, associated with, or even accused of being associated with, corrupt practices, then our reputation could suffer and/or we could become subject to fines, sanctions and/or legal enforcement, any one of which could have a material adverse effect on our operating results, financial condition and prospects.

Adverse decisions in one or more lawsuits to which we are a party may adversely affect our results.

We, like certain other Brazilians banks, are party to various tax, civil and labour-related proceedings. These proceedings are incidental to our normal course of business. As of December 31, 2018, provisions related to these actions amounted to R$2,144.5 million and judicial deposits amounted to R$1,669.0 million. While we believe we have taken reasonable provisions in respect of such proceedings, unfavourable outcomes in one or more of these proceedings may materially adversely affect our business and financial conditions. For further information see "Business of Banco Daycoval S.A.—Legal Proceedings."

The changes in Brazilian GAAP for conversion into IFRS may adversely impact our financial statements.

The Bank prepares its financial statements in accordance with Brazilian GAAP, which differs in certain significant respects from IFRS. As a result, the financial information presented in this Offering Memorandum may differ significantly from financial statements prepared in accordance with IFRS or the accounting standards of other countries. The Bank has made no attempt to identify or quantify the impact of those differences.

The CVM and the Central Bank require that publicly-listed companies, and companies subject to Central Bank supervision, also present and disclose, once a year, consolidated financial statements prepared in accordance with IFRS, beginning with financial statements as of and for the year ending December 31, 2010, with comparative figures for 2009.

Due to the enactment of Law No. 11,638, which amended Law 6.385, the CPC has issued and will continue to issue new accounting standards to align Brazilian GAAP more closely with IFRS. Accounting standards issued by CPC and applicable to financial institutions must be approved by the Central Bank.

No reconciliation of IFRS of any of the financial statements presented in this Offering Memorandum has been prepared. There can be no assurance that such a reconciliation would not identify material quantitative differences between our financial statements as prepared on the basis of accounting principles determined by Brazilian GAAP and our financial statements as prepared on the basis of IFRS.

Risks Relating to the Notes

Noteholders may not be fully compensated for the amount invested in the Notes plus accrued interest if we declare bankruptcy, violate banking regulations on a recurring basis or are insolvent.

The generally applicable bankruptcy law in Brazil is Law No. 11,101 of 2005 (the "Bankruptcy Law"). The main goal of the Bankruptcy Law is to prevent the liquidation of viable companies that can fulfil their debt obligations. The Bankruptcy Law seeks to do that by providing companies a broad flexibility to design reorganisation strategies, while maintaining adequate safeguards for secured creditors. It also seeks to enable creditors' to recover their claims by allowing for judicial approval of settlement agreements and plans of reorganisation between the debtor and a committee of creditors. While the insolvency of financial institutions and mixed capital companies remain governed by specific regimes (intervention, extrajudicial liquidation and temporary special administration, each of which is discussed in further detail below), they are subject to the Bankruptcy Law on a subsidiary basis, to the extent applicable, until such time as a specific set of rules is enacted (Article 197 of the Bankruptcy Law). Therefore, Noteholders will not be able to take full advantage of the Bankruptcy Law's more flexible provisions and must continue to rely on Law No. 6,024, dated March 13, 1974, which governs the intervention into, and the administrative liquidation of financial institutions by the Central Bank. See "The Brazilian Financial System and Banking Regulation—Bank Failure".

The Central Bank may (i) intervene in our operations and management or (ii) liquidate us if we:

- suffer losses due to bad management that places our creditors at risk;
- commit recurrent violations of banking regulations;
- are insolvent; or
- request the Central Bank to intervene in our operations.

During the 6-month intervention period (which can be extended for another 6 months, with the prior approval of the Central Bank), our liabilities for obligations contracted prior to the commencement of the intervention period are suspended. Upon commencement of an extrajudicial liquidation proceeding against us, all potential and ongoing lawsuits asserting claims over our assets as well as matured liabilities and claims on deposits will be automatically suspended, while all our outstanding obligations will be simultaneously accelerated. In addition, certain credits, such as credits for salaries, among others, will have preference over any other credits, including secured credits. As the Notes are unsecured and would constitute general unsecured claims in an administrative liquidation proceeding, in the event that the Central Bank intervenes in our operations or commences liquidation proceedings against us, Noteholders may not be fully compensated for the amount they invested in the Notes, plus accrued interest. See "The Brazilian Financial System and Banking Regulation—Bank Failure".

It may be difficult to enforce civil liabilities against us or our directors and officers.

We are organised under the laws of Brazil, and all our directors and officers reside in Brazil. In addition, substantially all of our assets and most or all of the assets of our directors and officers are located in Brazil. There is uncertainty as to whether courts of Brazil would enforce, either in whole or in part, judgments of English, American or other foreign courts obtained against us or such persons, predicated upon the civil liability provisions of securities law of any jurisdiction other than Brazil. As a result, it may be difficult for investors to effect service of process outside Brazil on such persons or to enforce judgments against them, including in any action based on civil liabilities under the securities laws of any jurisdiction other than Brazil. See "Enforcement of Judgments".

We may issue Notes that are subject to a Foreign Currency Constraint.

The Notes may contain a Foreign Currency Constraint provision, as more fully described in the Conditions and in the applicable Final Terms. Upon the occurrence of a Foreign Currency Constraint Event, Noteholders affected thereby may elect to exchange the Notes for an equivalent nominal amount of Exchanged Notes with terms and conditions identical to the terms and conditions of the original Notes, except that payments in respect of the Exchanged Notes will be made in the lawful currency of Brazil. Upon termination of the Foreign Currency Constraint Event, Exchanged Notes will be exchanged for an equivalent nominal amount of the original Notes and such holder will receive future payments in respect of the Notes in the Specified Currency of the Notes. If a holder does not elect to receive payments in the lawful currency of Brazil by making such exchange, after the termination of the Foreign Currency Constraint Event such holder will receive any payments in respect of the Notes in the Specified Currency of the Notes. A Foreign Currency Constraint Event will not be deemed an Event of Default provided that we have fully complied with our obligations under Condition 7(i). Noteholders containing a Foreign Currency Constraint provision shall have no recourse against our assets and operations outside Brazil, including, without limitation, our assets and operations in the Cayman Islands.

In the event of the occurrence of a Foreign Currency Constraint Event in Brazil and the decision by a Noteholder to receive amounts due under the Notes in the Specified Currency in which payments are due, interest will accrue on any unpaid principal amounts of the Notes of such Noteholder at the interest rate on such Notes from the date payment was due until the date of payment, subject to limitations in the event that payments are held by financial institutions to comply with certain requirements of the Brazilian government or the Central Bank. For these Notes, interest will not accrue on overdue payments of interest or additional amounts, if any. See "Terms and Conditions of the Notes—Condition 7(i) (Currency Constraint)".

In the event we are required to pay any amount due in respect of Notes issued through our Cayman Islands Branch from Brazilian sources, it is not certain that the necessary governmental approval will be obtainable at a future date.

The Issuer has obtained all necessary consents, approvals and authorisations under the laws of Brazil and the Cayman Islands for the establishment of the Programme, the issue and performance of the Notes under the Programme and the execution of the Agency Agreement, all of which are in full force and effect, except that the issue of any Series of Notes under the Programme from Brazil (or the substitution of the principal office in Brazil if a Series of Notes is initially issued by the Cayman Islands Branch) requires (i) the approval by the Central Bank of the terms and conditions of the Series of Notes and registration of the Schedule of payments applicable to such Series, which will enable the Issuer to make remittances from Brazil in the relevant currency of the principal of and interest on the Notes in relation to such Series and (ii) the approval of the Central Bank for the Issuer to make any payment in the relevant currency not set forth in the relevant schedule of payments or to make any payment provided for therein earlier than the due date therefor. Reference to the consents, approvals and authorisations obtained by the Issuer in connection with each issue of Notes under the Programme and performance thereunder is included in the Final Terms prepared in connection with such issue.

Under Brazilian law, the issue of Notes through our Cayman Islands Branch is not subject to the Central Bank's prior approval and/or registration. In the event we are required to pay any amount due in respect of such Notes from Brazilian sources, or our principal office is substituted for the Cayman Islands Branch in respect of such Notes in accordance with the terms and conditions of such Notes, we will need the specific approval of the Central Bank. Any specific approval from the Central Bank may only be requested when such payment is to be remitted abroad, and will be granted by the Central Bank on a case-by-case basis. It is not certain that any such approval will be obtainable at a future date.

Additional Notes issued in the same series may be treated as a separate issue for U.S. federal income tax purposes.

The Issuer may, without the consent of the holders of outstanding Notes, issue additional Notes with identical terms. These additional Notes, even if they are treated for non-tax purposes as part of the same series as the original Notes, in some cases may be treated as a separate issue for U.S. federal income tax purposes. In such a case, the additional Notes may be considered to have been issued with original issue discount ("OID") even if the original Notes had no OID, or the additional Notes may have a greater amount of OID than the original Notes. See "Taxation—United States Federal Income Taxation Considerations" for a discussion of OID. These differences may affect the market value of the original Notes if the additional Notes are not otherwise distinguishable from the original Notes.

U.S. Foreign Account Tax Compliance Act Withholding risk

Pursuant to certain provisions of the Code, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("foreign passthrough payments") to persons that fail to meet certain certification, reporting, or related requirements. A number of jurisdictions

(including Brazil) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("IGAs"), which modify the way in which FATCA applies in their jurisdictions. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding.

The Issuer may be substituted without the consent of Noteholders.

The terms and conditions of the Notes contain provisions permitting the Issuer, without consent of the Noteholders, to substitute for itself any other branch or office of the Issuer as principal debtor under the Notes. Any such substitution must be by a deed poll and shall be subject to the satisfaction of the conditions set forth in the terms and conditions of the Notes, including the delivery of legal opinions addressed to the Noteholders relating to the assumption by the substitute of all of the obligations of the Issuer under the Notes and other matters relating thereto. See "Terms and Conditions of the Notes—Meetings of Noteholders, Modifications and Substitution—Substitution".

Subordination to certain statutory liabilities.

Under Brazilian law, our obligations under the Notes are subordinated to certain statutory preferences. In the event of our liquidation, such statutory preferences, such as claims for salaries, wages, social security, other employment related claims and taxes, court fees and expenses will have preference over any other claim, including claims by any Noteholder and those guaranteed by a security interest.

Absence of public markets.

If provided in the Final Terms applicable to any Series of Notes, application will be made to list such Notes on Euronext Dublin (Global Exchange Market). However, all Notes when issued are new securities for which there is no established market. We cannot assure Noteholders that any application for listing of any Series of Notes will in fact be accepted or as to the development or liquidity of any market for such or any of our Notes.

The liquidity of and trading market for the Notes may be adversely affected by a general decline in the market for similar securities. Such a decline may adversely affect our liquidity and trading markets independent of our prospects of financial performance.

The market for debt securities issued by Brazilian companies is influenced by economic and market conditions in Brazil and, to varying degrees, market conditions and interest rates in other Latin American countries and emerging market countries. For example, following the various economic crises in the region, the market for debt instruments issued by Latin American companies (including Brazilian companies) has been volatile, and this volatility has adversely affected the price of such securities. There can be no assurance that events in Latin America or elsewhere will not cause a continuation or recurrence of such market volatility or that such volatility will not adversely affect the price of the Notes or that economic and market conditions will not have any other adverse effect on our business.

Judgments of Brazilian courts enforcing our obligations under the Notes would be payable only in reais.

If proceedings were brought in the courts of Brazil seeking to enforce our obligations under the Notes, we would not be required to discharge our obligations in a currency other than *reais*. Under the Brazilian

exchange control limitations, an obligation in Brazil to pay amounts denominated in a currency other than *reais* may only be satisfied in Brazilian currency at the rate of exchange, as disclosed by the Central Bank as of the date on which such judgment is rendered. There can be no assurance that such rate of exchange will afford the full compensation of the amount invested in the Notes plus accrued interest, if any.

We may redeem the Notes prior to maturity.

The Notes are redeemable at our option in the event of certain changes in applicable taxes and, if provided in the Final Terms applicable to any Series of Notes, such Series of Notes may be redeemable at our option for any other reason. We may choose to redeem those Notes at times when prevailing interest rates may be relatively low. Accordingly, an investor may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the Notes.

The Notes are not registered securities

The Notes are not registered under the Securities Act or under any state securities laws. The Notes are being offered outside the United States in accordance with Regulation S and, if provided in the Final Terms applicable to any Series of Notes, in the Unites States in accordance with Rule 144A. Neither the SEC nor any state securities commission or regulatory authority has recommended or approved the Notes, nor has any such commission or regulatory authority reviewed or passed upon the accuracy or adequacy of this Offering Memorandum.

FOREIGN EXCHANGE RATES AND EXCHANGE CONTROLS

Before March 14, 2005 there were two foreign exchange markets in Brazil, the commercial rate exchange market and the floating rate exchange market, where exchange positions of Brazilian banks in the commercial market and the floating market were unified and differentiated solely for regulatory purposes. The commercial market was reserved primarily for foreign trade transactions and transactions that generally require prior registration with the Central Bank, such as the purchase and sale of registered investments by foreign persons and related remittances of funds abroad. Purchases of foreign exchange in the commercial market could be carried out only through a financial institution in Brazil authorised to buy and sell currency in that market. The commercial market rate was the commercial selling rate for converting Brazilian currency into U.S. dollars, as reported by the Central Bank. The floating market rate generally applied to specific transactions for which Central Bank approval was not required. Prior to the implementation of the Real Plan, the commercial market rate and the floating market rate differed significantly at times. However, since the introduction of the *real* in 1994, the two rates have not differed significantly.

On March 4, 2005, the CMN unified the commercial market and the floating market through the enactment of CMN Resolution No. 3,265, thereby producing a single exchange market in place of the previous two. Currently, CMN Resolution No. 3,568 of May 29, 2008 regulates the new unified exchange market, simplifying both inbound and outbound foreign exchange transactions by permitting exchange contracts to be executed by those local institutions that are authorised to deal in foreign exchange.

On March 23, 2010, the CMN issued CMN Resolution No. 3,844 ("CMN Resolution No. 3,844"), adopting a series of measures to consolidate and simplify the Brazilian foreign exchange regulations. These changes are expected to reduce the effective cost of foreign exchange transactions and the related administrative expenses for both the public and private sectors, as well as to provide more legal certainty for the parties to such transactions.

As of the date of this Offering Memorandum, all financial transfers from Brazil to other countries and from abroad to Brazil, either in Brazilian currency or in any foreign currency, related to foreign capital flows governed by CMN Resolution No. 3,844, must comply with the general rules applicable to the Brazilian foreign exchange market, such as complying with all laws, be supported by proper documentation and have a reasonable economic justification.

From time to time, there have been significant fluctuations in the exchange rate between the Brazilian *real* and the U.S. dollar and other currencies. The *real* appreciated against the U.S. dollar by 17.0% in 2007. In 2008, due to the global financial crisis, the *real* depreciated against the U.S. dollar by 31.9%. However, in 2009 and 2010, the *real* appreciated by 25.5% and 4.3%, respectively, against the U.S. dollar. In 2011, 2012, 2013 and 2014, the *real* depreciated 12.6%, 8.9%, 14.6% and 13.4%, respectively against the U.S. dollar. In 2015, amid the Brazilian political and economic crisis and corruption investigations, the *real* depreciated 47.0% from a rate of R$2.66 per U.S. dollar at the end of 2014 to a rate of R$3.90 per U.S. dollar at the end of 2015. In 2016, the *real* appreciated 16.5% to a rate of R$3.26 per U.S. dollar at the end of 2016. In 2017, the *real* depreciated 1.5% to a rate of R$3.31 per U.S. dollar at the end of 2017. On December 31, 2018, the exchange rate between the *real* and the U.S. dollar was R$3.87 to U.S.$1.00, a depreciation of 16.9% over the course of 2018.

At June 24, 2019, the rate for purchasing U.S. dollars was R$3.82 to U.S.$1.00.

The following table shows the *real*/U.S. Ptax selling rate for U.S. Dollars for the periods and dates indicated:

Year	Average[(1)]	Period-End
2004	2.926	2.654
2015	3.338	3.905
2016	3.483	3.259
2017	3.192	3.308
2018	3.655	3.874
Month		
January 2019	3.781	3.869
February 2019	3.742	3.652
March 2019	3.724	3.897
April 2019	3.896	3.945
May 2019	4.002	3.941
June 2019 (through June 24)	3.863	3.823

Note:

(1) Represents the average of exchange rates on each day of each respective month during the periods indicated.

Source: Central Bank

USE OF PROCEEDS

We will use the net proceeds of any issue of Notes for our general corporate purposes or as otherwise specified in the applicable Final Terms.

CAPITALISATION

The table below shows our capitalisation as of December 31, 2018. You should read this table in conjunction with "Presentation of Financial Information", "Summary Financial Information", "Management's Discussion and Analysis of Financial Condition and Results of Operations", and our audited consolidated financial statements and the related notes included elsewhere in this Offering Memorandum.

	As of December 31, 2018	
	(R$ millions)	**(U.S.$ millions)[1]**
Short-term liabilities		
Deposits	3,218.4	831.6
Money market funding	2,992.3	773.2
Funds from acceptance and issuance of securities	5,833.0	1507.2
Interbank accounts	1.2	0.3
Interbranch accounts	107.5	27.8
Borrowings	1,675.2	432.8
Domestic onlendings	193.5	50.0
Derivatives	29.7	7.7
Technical reserves-insurance	67.9	17.5
Other payables	1,261.0	325.8
Total	**15,379.7**	**3,974.0**
Deposits	2,177.3	562.6
Funds from acceptance and issuance of securities	4,941.9	1,276.9
Borrowings	371.8	96.1
Domestic onlendings	173.1	44.7
Other payables	2,579.7	666.6
Total	**10,243.8**	**2,646.9**
Deferred income	118.2	30.5
Non-controlling interests	1.0	0.2
Total shareholders' equity	3,237.0	836.4
Total capitalisation[2]	**28,979.7**	**7,488.3**

Notes:

(1) Translated into U.S.$ solely for the convenience of the reader. The rate used to translate such amounts was R$3.87 to U.S.$1.00 (subject to rounding adjustments), which was the exchange rate in effect as of December 31, 2018, as reported by the Central Bank.

(2) Total capitalisation corresponds to short- and long-term liabilities, deferred income, non-controlling interests and total shareholders' equity.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations is based on, and must be read in conjunction with, our audited consolidated financial statements as of and for the years ended December 31, 2018, 2017 and 2016 and their related notes included elsewhere in this Offering Memorandum, as well as with the sections "Presentation of Financial Information" and "Summary Financial Information".

The following discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ significantly from those discussed in these estimates and forward-looking statements as a result of various factors, including, but not limited to, those indicated in the section "Risk Factors".

Principal Factors Affecting Our Financial Condition and Results of Operations

Brazilian Macroeconomic Conditions

As a bank in Brazil, our financial condition and results of operations are significantly affected by Brazilian macroeconomic, political and social conditions as well as the economic performance of other emerging markets.

Brazil continued to experience a very difficult economic scenario in 2016, as it had in 2015. In 2016, Brazil's GDP fell a further 3.5%, which was on top of the 3.5% reduction suffered in 2015. Nevertheless, the *real* appreciated against the U.S. dollar by 16.5% in 2016, reaching R$3.26 per U.S.$1.00 as of December 31, 2016 compared to R$3.90 as of December 31, 2015, as inflation expectations diminished somewhat. Inflation, as measured by the IPCA and the IGP-M, was 6.29% and 7.19%, respectively, for the year ended December 31, 2016. Although this reflected a significant improvement compared to 2015 inflation levels, the Central Bank maintained a tight monetary policy throughout the year. However, it did commence reducing the SELIC rate which decreased over the course of the year from 14.25 % as of December 31, 2015 to 13.75% as of December 31, 2016.

Brazil experienced a somewhat more favourable economic scenario in 2017 compared to 2015 and 2016 as the economy returned to modest growth. In 2017, Brazil's GDP grew by 1.0% and the *real,* although vacillating during the course of the year, finished the year relatively flat against the U.S. dollar, R$3.31 per U.S.$1.00 as of December 31, 2017. During the course of 2017, the Central Bank eased monetary policy, successively reducing the SELIC rate over the course of the year from 17.75% to 7.00% as of December 31, 2017. In 2017, the inflation rate, as measured by the IPCA and the IGP-M, was 2.95% and -0.53%, respectively.

Brazil's economic scenario continued to improve, albeit modestly, in 2018. In 2018, Brazil's GDP grew by 1.1% and the *real* depreciated 17.1% against the U.S. dollar, reaching R$3.87 per U.S.$1.00 as of December 31, 2018. During the course of 2018, with a relatively benign inflation situation, the Central Bank continued to ease monetary policy, further reducing the SELIC rate over the course of the year from 7.00% to 6.50% as of December 31, 2018. In 2018, the inflation rate, as measured by the IPCA and the IGP-M, was 3.75% and 7.55%, respectively.

The following table shows GDP growth, U.S. dollar exchange rates, inflation and interest rates in Brazil for the periods presented.

	At and for the years ended December 31,		
	2018	2017	2016
GDP growth	1.1%	1.0%	-3.5%
Inflation (IGP-M)[(1)]	7.55%	-0.53%	7.19%
Inflation (IPCA)[(2)]	3.75%	2.95%	6.29%
CDI[(3)]	6.42%	9.93%	14.00%
TJLP[(4)]	6.98%	7.00%	7.50%
Appreciation (depreciation) of the *real* against the U.S. dollar	(17.1)%	(1.5)%	16.5%
Exchange rate at closing (R$ to U.S.$1.00)	R$3.26	R$3.31	R$3.87
Average exchange rate (R$ to U.S.$1.00[(5)])	R$3.48	R$3.19	R$3.66

Notes:

(1) IGP-M is the general market price index as measured by the FGV.

(2) IPCA is a consumer price index calculated by the IBGE.

(3) CDI is the average interbank deposit certificate index applicable in Brazil (accumulated at the end of each month and annually).

(4) TJLP represents the interest rates applied by the BNDES for long-term financing (end of period).

(5) Average of exchange rate for each day of each month during the period.

Sources: BNDES, Central Bank, IBGE and the FGV.

GDP Growth

Growth in Brazil's GDP may impact our results of operations, since such growth generally affects the overall volume of credit transactions in the country, including of our corporate and individual clients. In the years ended December 31, 2018, and 2017, Brazil's GDP grew 1.1% and 1.0%, respectively, after having contracted by 3.5% in the year ended December 31, 2016.

Effects of Fluctuation of Interest Rates on Our Financial Condition and Results of Operations

Generally, an increase in interest rates results in an increase in our income from lending operations due to higher rates that we are able to charge. However, such an increase can adversely affect our results of operations as a result of reduced overall demand for loans and greater risk of default by our clients. In addition, increased interest rates affect our funding costs, particularly time deposits and interbank deposits, and can adversely affect our profitability if we are unable to pass on our increased funding costs to our clients. However, a decrease in interest rates can reduce our income from lending operations as a result of lower rates on our loans. This reduction of income may eventually be offset by an increase in the volume of loans we make resulting from increased demand for loans and/or a decrease in our funding costs.

In addition, changes in interest rates can affect the value of our securities portfolio and therefore our financial condition and results of operations. However, the effect of these fluctuations may be limited by our use of derivative hedging instruments. See "—Information on Market Risks—Risk and Risk Management".

Inflation

Our net income may be adversely affected by higher inflation rates in Brazil, which generally increase our operating costs. In addition, higher inflation generally causes an increase in interest rates by the Central Bank to control inflation. See "—Effects of Fluctuation of Interest Rates on Our Financial Condition and Results of Operations". Inflation can also contribute to an increase in market volatility by causing economic uncertainty and reducing overall consumption levels, GDP growth and consumer confidence.

Political Environment

Dilma Rousseff was re-elected as the President of Brazil in the 2014 general election and sworn in for her second term on January 1, 2015. Nevertheless she started her second term weakened by an economic recession that had commenced in 2014 and corruption allegations.

By March 2015, large scale protests began across the country demanding, among other things, President Rousseff's resignation or her impeachment. An impeachment process began in December 2015 when a petition for her impeachment was accepted by the president of the Chamber of Deputies, and continued into late 2016.

President Rousseff was initially charged with criminal administrative misconduct and disregard for the federal budget in violation of Brazilian law and of criminal responsibility for failing to act on the corruption scandal that engulfed Brazilian national petroleum company, Petrobras and its contractors. The Petrobras charges were later excluded from the process based on the timing of the alleged misconduct.

President Rousseff was formally impeached by the Chamber of Deputies on 17 April 2016, at which time Michel Temer, her Vice President, became acting President in accordance with Brazilian constitutional law. He immediately appointed a new cabinet. Following a finding of guilt by the Senate, President Rousseff was formally removed from office on August 31, 2016 and Michel Temer became President in his own right.

Although himself affected by allegations of corruption and investigations of his conduct, the assumption of the presidency by President Temer resolved for the time being the political crisis that had affected Brazil over the previous two years. His government was able to pass a constitutional amendment providing for a cap on public service spending and important labor reforms that added flexibility to the labor market and efficiency to the processes for resolving disputes between employers and workers. The constitutional amendment was considered critical to Brazil emerging from recession in 2016, and the labor reforms important to returning real growth to the economy. On the other hand, President Temer's government did not succeed in passing what it itself regarded as critical pension reform.

Following a contentious general election in 2018, Jair Bolsonaro, a retired military officer and member of congress, was elected President of Brazil. He was sworn in January 1, 2019. President Bolsonaro is currently a member of the conservative Social Liberal Party. He appointed what is generally regarded as a conservative cabinet, and has, since he assumed government, proposed elements of what is generally viewed as a liberal economic agenda and a forceful campaign against corruption and organized crime. One of President Bolsonaro's stated economic priorities is the enactment of some variation of the pension reform that President Temer had prioritized but was unable to implement.

Governmental Regulation

Compulsory Deposit Requirements

The Central Bank imposes compulsory deposit requirements on financial institutions to control liquidity within the Brazilian financial system. Whenever the Central Bank modifies these requirements, the

balance of our interest-bearing assets and liabilities is affected, which will, in turn, affect our interest revenues and expenses.

The compulsory deposit percentages apply to the total volume of our deposits, and the compulsory amounts must be deposited with the Central Bank. The principal compulsory deposit requirements that affect us are as follows:

- Pursuant to Circular No. 3,917 of November 22, 2018 ("Central Bank Circular No. 3,917"), banks and other financial institutions are generally required to maintain a mandatory reserve of 21.0% of the average daily balance of the amounts of their demand deposits and certain other amounts, after a deduction of R$500.0 million; and

- Pursuant to Central Bank Circular No. 3,916 of November 22, 2018, as amended ("Central Bank Circular No. 3,916"), banks are subject to a mandatory reserve of 33.0% of the average daily balance of their time deposits and certain other amounts, after a deduction of R$30.0 million, in the amount exceeding: (i) R$3.6 billion, for financial institutions with a Tier I component of regulatory capital below R$3.0 billion; (ii) R$2.4 billion, for financial institutions, such as the Bank, with a Tier I component of regulatory capital equal or higher than R$3.0 billion and below R$10.0 billion; (iii) R$1.2 billion, for financial institutions with a Tier I component of regulatory capital equal or higher than R$10.0 billion and below R$15.0 billion; and (iv) zero, for financial institutions with a Tier I component of regulatory capital higher than R$15.0 billion. See "Regulation of the Brazilian Banking Industry—Regulations Affecting Liquidity in the Financial Market".

As of December 31, 2018, the balance of our compulsory deposits with the Central Bank was R$42.5 million, compared to R$148.6 million as of December 31, 2017 and R$150.7 million as of December 31, 2016. See "Risk Factors—Risks Relating to the Bank and the Brazilian Banking Industry—Changes in Regulations Regarding Compulsory Deposits may Adversely Affect Us". The year on year fluctuations related to the applicable reductions in time and demand deposit reserve requirements as provided for in Central Bank Circular No. 3,916 and Central Bank Circular No. 3,917 discussed above, our year-end deposit balances and the relevant thresholds.

Capital Requirements

As a Brazilian financial institution, we must comply with guidelines established by the Central Bank and the CMN that are similar to those of the Basel III regulations on capital adequacy, stress testing and market liquidity risk. We provide the Central Bank with the information necessary for it to perform its supervisory functions, which include supervising the movements in the solvency or capital adequacy of banks.

Our regulatory capital is calculated using the criteria established by the Basel III Regulations as implemented in Brazil, which provide that Regulatory Capital and Minimum Required Referential Equity (MRRE) are calculated in relation to Risk-Weighted Assets (RWA). For more information on regulatory changes to capital adequacy, see "Regulation of the Brazilian Banking Industry—Capital Adequacy Guidelines."

Basel III requires banks to maintain: (i) a minimum common equity capital ratio of 4.5%; (ii) a minimum Tier 1 Capital ratio of 6.0%; and (iii) a minimum regulatory capital ratio of 8.0%. Since the minimum regulatory capital ratio under Basel III was phased in over a period of years, the minimum regulatory capital ratio applicable has been reduced from 11.0% in 2015 and prior years to 9.875% in 2016, 9.25% in 2017, 8.625% in 2018, to the now implemented rate of 8.0%.

In addition to the minimum capital requirements, Basel III Regulations require a "capital conservation buffer" of 2.5% (but up to 5.0%, if so determined by the Central Bank). The capital conservation buffer restricts certain discretionary distributions (such as bonuses to management, dividends, reduction of capital and repurchase of shares). The capital conversion buffer under Basel III was phased in over a period of years to coincide with the reduction in the regulatory capital ratio. It commenced at 0.625% in 2016, 1.25% in 2017, 1.875% in 2018, to the now implemented rate of 2.5%.

Our Basel III ratio was 14.7% as of December 31, 2018, 14.9% as of December 31, 2017 and 15.9% as of December 31, 2016.

See "—Liquidity and Capital Resources—Capital Adequacy" for the calculation of our capital requirements and our regulatory capital level.

Regulation of Payroll Deduction Loans

The Brazilian Government and the Ministry of Welfare and Social Security (*Ministério da Previdência e Assistência Social*) oversee credit activities offered to pension beneficiaries and retirees of the INSS who receive benefits from the INSS. Currently, we are not permitted to charge an origination fee (*Taxa de Abertura de Crédito*) for payroll deduction loans to individuals who receive INSS benefits. Furthermore, the INSS may review its policy related to loan deductions from payrolls and may issue new regulations imposing limitations and/or modifications in the terms and conditions on which payroll deduction loans can be offered to pension beneficiaries and retirees of the INSS. See "Risk Factors—Risks Relating to the Bank and the Brazilian Banking Industry—Payroll deduction loans are subject to changes in applicable laws and regulations and to the interpretation of such laws and regulations by Brazilian courts, as well as to changes in policies by public entities".

Loan Losses

An increase in the volume of our loans in default can result in reduced revenue from our lending operations, which requires us to make additional allowance for loan losses or to use such allowance to write-off loans, and adversely affect our financial condition and results of operations. We comply with Central Bank regulations regarding the write-off of overdue loans, which generally require that they be written off as a loss 360 days after they mature or otherwise become due.

See "—Critical Accounting Policies— Loans and Allowance for Loan Losses" for a discussion of our accounting policies as they relate to loan losses and "Selected Statistical Information—Loan portfolio—Rating of our loan portfolio" for a table setting forth the rating of our credit transactions by risk levels as of December 31, 2018, 2017 and 2016.

Changes in Tax Regulation

Our results of operations are affected by changes to the tax regulations and regimes applicable to us and our clients. These changes include changes in tax rates and tax assessment criteria and the imposition of temporary taxes, the proceeds of which are generally earmarked for specific governmental purposes. See "The Brazilian Financial System and Banking Regulation—Taxation of Corporations" for a discussion of taxes and taxes and tax rates affecting us.

Volatility of the Real Against the U.S. Dollar

The depreciation or appreciation of the *real* may adversely affect our financial condition and results of operations to the extent we have operations denominated in or indexed to foreign currency, primarily the U.S.

dollar. Our exposure to foreign exchange rate fluctuations is reduced through the use of derivative instruments or through our policy of avoiding mismatches between our funding denominated in foreign currency (particularly the U.S. dollar) and foreign-linked investments, which serve as a natural hedge.

When the *real* depreciates, we generally suffer losses from our liabilities denominated in or indexed to foreign currencies, such as our short-term and long-term indebtedness denominated in U.S. dollars and other cross-border sources of funds, because we incur an expense on the revaluation of such liabilities in *reais* and our cost in *reais* to service this indebtedness increases. However, we also have gains derived from our assets denominated in or indexed to foreign currencies since the principal and interest income on these assets, when calculated in *reais*, increase as the *real* depreciates.

Conversely, when the *real* appreciates, we generally obtain gains from our liabilities denominated in or indexed to foreign currencies on the revaluation of such liabilities in *reais* and our cost in *reais* of servicing these debts decreases. However, we also incur losses from our assets denominated in or indexed to foreign currencies because the principal and interest income on these assets, when calculated in *reais*, decrease.

In addition to impacting the value of our assets and liabilities indexed to or denominated in foreign currency, fluctuations of the *real* against other foreign currencies can, among other factors, increase or decrease demand by our clients for loans indexed to foreign currency and the percentage of non-recoverable loans.

Critical Accounting Policies

The following is a description of the principal accounting policies that currently affect our financial condition and results of operation and that require us to make judgments, estimates and assumptions affecting the reported amount of our assets and the liabilities and results of operations. Our financial statements include, for example, several estimates and assumptions related to our allowance for loan losses and the market value of securities and derivatives which we acquire or trade, among others. The adoption of these estimates and assumptions requires us to make judgments related to effects of matters that are inherently uncertain. A change in these estimates and assumptions may adversely affect our financial condition and results of operations. Note 3 to our consolidated financial statements as of and for the years ended December 31, 2018, 2017 and 2016 included in this Offering Memorandum contains the critical accounting policies and methods used in the preparation of our financial statements.

On December 28, 2007, Law No. 11,638 was enacted altering, revoking and adding new provisions to the Brazilian Corporation Law, especially with respect to chapter XV, Fiscal Year and Financial Statements. Law No. 11,638 was designed primarily to update accounting practices as contemplated in Brazilian Corporation Law, so as to enable the convergence of Brazilian accounting practices with international accounting standards. It also contemplates broad changes to accounting practices generally accepted in Brazil as they relate to statutory accounting practices and procedures. Law No. 11,638 also allows the CVM, the Central Bank and the Committee of Accountancy Pronouncements (Comite de Pronunciamentos Contábeis (CPC)) to issue new accounting standards and procedures, applicable to public companies in Brazil, in conformity with such international accounting standards.

As part of the process of convergence with IFRS, the CPC has issued several pronouncements related to the international convergence which have been approved by the CVM, some of which have not yet been ratified by the Central Bank. See “Presentation of Financial Information”.

Provision for Contingencies

We are currently party to tax, labour and civil proceedings arising from the normal course of our business. We classify as "probable", "possible" and "remote" the risk that such contingencies arising from these lawsuits will materialise into actual losses for us. We generally record provisions for these contingencies on our books when we classify the loss related to these claims as probable, except for fiscal contingencies, which are fully provisioned regardless of their risks. We do not constitute provisions for contingencies whose risk we consider possible or remote. We base our classifications of the probability of losses on those risks on the opinion of our external and internal legal counsel, taking into consideration the analysis of the possible outcomes of the claims and the strategies for challenging or entering into agreements in relation to such claims. Any change in the circumstances taken into account in the process of classification of our risk of loss in the lawsuits to which we are party may lead us to revise our provision for contingencies.

Loans and Allowance for Loan Losses

Our loans are classified by our officers according to their risks, which are determined based on the type and amount of the loan and the collateral received, the borrower's credit history, the spread to be charged and other specific and global risks of our loan portfolio. This classification is based on the requirements of CMN Resolution No. 2,682 of December 21, 1999, as amended ("CMN Resolution No. 2,682"), which requires us to periodically analyze our loan portfolio and classify our loans within nine levels, from "AA" (minimum risk) to "H" (maximum risk—loss). See "Selected Statistical Information—Loan portfolio—Rating of our loan portfolio" for a table setting forth the rating of our credit transactions by risk levels as of December 31, 2018, 2017 and 2016.

Any loans classified as level "H" (which requires an allowance for loan losses equal to the full amount of the loan) must be written off after being so classified for a period of six-months. The write-off is taken against the existing allowance for loan losses, is recorded for up to five years in a memorandum account and is no longer included in our balance sheet. Any eventual revenue from loans allocated to the memorandum account is recognised only upon receipt. See "The Brazilian Financial System and Banking Regulation—Regulation by the Central Bank—Classification of Credit and Allowance for Loan Losses".

Market Value of Financial Instruments

In accordance with Brazilian GAAP and specific rules of the Central Bank, we record some of our assets, such as securities and derivatives, at market value.

Market value is defined as the value at which a position could be closed or sold in the market. The market value of the majority of securities we hold is determined on the basis of the value of transactions conducted on a particular day or on the business day before the date in which the transaction closes. When information regarding such transactions is not available, we determine market value on the basis of various sources. For government securities, the market value is based on the information compiled by the ANBIMA. The market value of securities issued abroad is based on their daily average trading price. Finally, the market value of securities in investment funds is based on the price quoted by the fund manager.

To manage our interest rate and foreign exchange rate risk exposure, we enter into option, swap and other derivative contracts. The market value of these derivatives is based on the trading price of these instruments on the exchanges on which they are traded, especially on the B3 S.A. - Brasil, Bolsa, Balcão.

Securities

In accordance with Central Bank Circular no. 3,068 of November 8, 2001, as amended, we record securities in our portfolio as follows:

- *Trading Securities*. We record the securities we acquire for trading on our balance sheet at their acquisition cost and add any adjustments resulting from mark-to-market accounting and earnings derived from such securities. These adjustments and earnings are also recognised as revenues or expenses, as the case may be, in our income statement.

- *Securities held to maturity*. We record the securities that we intend and have the financial capacity to hold through maturity on our balance sheet at their acquisition cost and add any earnings derived from such securities. These earnings are also recognised as revenues in our income statement. We do not make mark-to-market adjustments in connection with these securities.

- *Securities available for sale*. We record any securities not classified as securities for trading nor held to maturity on our balance sheet at their acquisition cost and mark them to market. We recognise the earnings from such securities as assets on our balance sheet and as revenue in our income statement. The mark-to-market adjustments are recorded net of income tax and social contribution in a separate account of our shareholders' equity.

Derivatives

In accordance with Central Bank Circular No. 3,082 of January 30, 2002, as amended, we record options, future contracts and swaps as follows:

- *Options*. A premium received is classified as a liability until the option maturity, when it is then recognised as a reduction of the cost of the acquired financial instrument underlying the option or as income, in the event of non-exercise. A premium paid is classified as an asset until the option maturity, when it is then recognised as an increase in the cost of the acquired financial instrument underlying the option or as expense, in the event of non-exercise.

- *Future contracts*. The amount recorded on our balance sheet for our future contracts is adjusted on a daily basis at market value and the corresponding revenue or expense is recorded in our income statement.

- *Swaps*. The differential receivable or payable are recorded on our balance sheet and the corresponding revenue or expense, respectively, is recorded in our income statement on a pro rata basis.

- *Currency swaps*. The gains or losses on our currency swap agreements are recorded on our balance sheet and the corresponding revenue or expense, respectively, is recorded on our income statement.

Our derivative financial operations consist mainly of future market index contracts, future DI contracts and future foreign exchange contracts traded on the B3 S.A. - Brasil, Bolsa, Balcão.

Impairment

The impairment of non-financial assets is recognised when the carrying amount of an asset or a cash generating unit is higher than its recoverable or realisable value. A cash generating unit is the smallest identifiable group of assets which generates cash flows substantially independent from other assets and groups of assets. Impairment losses are recorded in the statement of income for the period when they are recognised, when applicable. As of December 31, 2018, no events indicate that non-financial assets may be impaired.

Amounts of non-monetary items, except those recorded under the captions "Other assets" and "Other receivables – tax credits", are periodically tested, at least annually, for impairment.

Other Accounting Policies

Consolidation of the financial statements

We prepare our consolidated financial statements in accordance with Brazilian GAAP. For a discussion of Brazilian GAAP, IFRS convergence, and variations between Brazilian GAAP and U.S. GAAP and IFRS, see "Presentation of Financial Information—Financial Statements and Information". Our consolidated financial statements comprise Banco Daycoval S.A., our Cayman Islands Branch, and each of our direct and indirect subsidiaries. See "Subsidiaries and Affiliates" for a list of our direct and indirect subsidiaries.

Recognition of Results of Operations

Our results of operations are recognised on the accrual basis.

Pre-paid Expenses

We recognise commissions paid to our banking correspondents as prepaid expenses on our balance sheet. This methodology enables us to maintain a high degree of control over the payments made in connection with these commissions. The corresponding expense for a commission payment is recognised over the life of the loan for which the commission was paid, concurrently and in proportion to the recognition of income from the corresponding loan payments. Commission payments are recorded as other administrative expenses on our income statements.

Deferred IncomeTax and Social Contribution

Our income tax and social contribution are recorded under current or deferred liabilities.

Current income tax and social contribution are calculated based on our taxable income at the rates of 25% (15% plus an additional 10% for taxable income in excess of R$240,000 per year or R$60,000 per quarter) and 15% (compared to 9% until May 2008), respectively. Brazilian tax legislation allows us to offset tax losses from prior periods against the taxable income of the current period, with no time limitation, but only up to 30% of the taxable income of each fiscal year.

Deferred income tax and social contribution include the effects from the recognition of "temporary differences", which are composed mainly of provisions usually related to contingencies and provision for credit losses which are not deductible in the calculation of taxable income when recorded, but only at a later point in time when their financial realisation occurs. When calculating our income tax, we recognise all recorded provisions as temporary differences.

Main Sources of Revenues and Expenses

Our principal sources of revenues and expenses are:

- *Income from financial intermediation*. Consists of income from lending operations, leasing operations, securities transactions, derivatives and foreign exchange transactions.

- *Expenses on financial intermediation*. Consists of expenses from funding operations (through time deposits, interbank deposits and money market funding), borrowings and onlendings, leasing expenses and our allowance for loan losses.

- *Other operating income (expenses)*. Consists primarily of (i) income from services provided, particularly fees charged in connection with asset management, new credit operations and operation of accounts; (ii) personnel expenses; (iii) other administrative expenses; (iv) tax expenses; and (ii) other operating income and other operating expenses, including exchange rate variations on our debt issued in the international markets and monetary adjustments of contingencies.

Recent Developments

On May 7, 2019, we published our results for the first quarter of 2019 which showed a continuation of the same trends evident in our results for the year ended December, 31, 2018 compared to the year ended December, 31, 2017 as discussed below. Our net income for the quarter ended March 31, 2019 was R$215.6 million, compared to R$159.9 million in the quarter ended December 31, 2018 and R$165.4 million in the quarter ended March 31, 2018. Our total assets as at March 31, 2019 were R$28,398.8 million compared to R$28,979.7 million at December 31, 2018 and our shareholders' equity was R$3,407.2 million as at March 31, 2019 compared to R$3,237.0 million at December 31, 2018. Our Basel III ratio was 16.0% as at March 31, 2019 compared to 14.7% at December 31, 2018, reflecting the increase in our shareholders' equity.

Comparison of Results of Operations for the Year Ended December 31, 2018 compared to the Year Ended December 31, 2017

The following table shows certain items derived from our income statements for the years indicated:

Income Statement Data

	For the years ended December 31,				
	2018	% of total income from financial intermediation	2017	% of total income from financial intermediation	Variation (%)
	(R$ millions, except percentages)				
Income from financial intermediation	4,459.6	100.0%	3,845.4	100.0%	16.0%
Expenses on financial intermediation	(2,710.1)	(60.8)%	(2,367.6)	(61.6)%	14.5%
Gross profit from financial intermediation	1,749.5	39.2%	1,477.9	38.4%	18.4%
Other operating (expenses) income	(628.4)	(14.1)%	(631.4)	(16.4)%	(0.5)%
Income from operations	1,121.1	25.1%	846.5	22.0%	32.4%
Non-operating expenses	5.2	]0.1%	16.0	0.4%	(67.5)%
Income before income taxes	1,126.3	25.3%	862.5	22.4%	30.6%
Income tax and social contribution	(402.0)	(9.0)%	(279.2)	(7.3)%	44.0%
Profit sharing	(78.5)	(1.8)%	(61.7)	(1.6)%	27.2%
Noncontrolling interests	-	-%	(0.1)	-%	-%
Net income	645.8	14.5%	521.5	13.6%	23.8%

Income from financial intermediation

Our income from financial intermediation increased 16.0%, from R$3,845.4 million in the year ended December 31, 2017 to R$4,459.6 million in the year ended December 31, 2018. The table below shows the composition of our income from financial intermediation for the years indicated.

Income from financial intermediation

	For the years ended December 31,				
	2018	**% of total**	**2017**	**% of total**	**Variation (%)**
	(R$ millions, except percentages)				
Lending operations	3,020.4	67.7%	2,781.0	72.3%	8.6%
Leasing operations	376.6	8.4%	313.7	8.2%	20.1%
Securities transactions	491.9	11.0%	673.3	17.5%	(26.9)%
Derivatives	372.9	8.4%	(59.4)	(1.5)%	727.8%
Foreign exchange transactions	191.5	4.3%	136.9	3.6%	39.9%
Sale of financial assets	6.2	-%	-	-%	-%
Total	4,459.6	100.0%	3,845.4	100.0%	16.0%

Lending operations

The table below contains the composition of our income from lending operations for the years indicated.

Lending Operations

	For the years ended December 31,				
	2018	**% of total**	**2017**	**% of total**	**Variation (%)**
	(R$ millions, except percentages)				
Payroll deduction loans	1,141.8	37.8%	1,137.6	40.9%	0.4%
Working capital	470.5	15.6%	487.3	17.5%	(3.5)%
Secured account/overdraft account	365.8	12.1%	327.2	11.8%	11.8%
Discounted trade notes[(1)]	167.7	5.6%	205.0	7.4%	18.2%
Vehicle financing	187.4	6.2%	170.7	6.1%	9.8%
Export credit notes (CCE)	118.3	3.9%	66.5	2.4%	77.9%
Onlending (FINAME and BNDES)	50.9	1.7%	44.8	1.6%	13.6%
Other lending	288.5	9.6%	195.6	7.0%	47.5%
Recovery of credits previously written off as loss	229.5	7.6%	146.2	5.3%	57.0%
Total	3,020.4	100.0%	2,781.0	100.0%	8.6%

Notes:

(1) Represents income from receivables acquired from our clients at a discount for collection.

Our income from lending operations increased 8.6%, from R$2,781.0 million in the year ended December 31, 2017 to R$3,020.4 million in the year ended December 31, 2018. This increase was mainly due to (i) a 57.0% increase in income arising from the recovery of credits previously written off as loss from R$146.2 million in the year ended December 31, 2017 to R$229.5 million in the year ended December 31, 2018; and (ii) from the increase in the average balance of our outstanding loans, from R$12,724.9 million in the year ended December 31, 2017 to R$14,738.3 million in the year ended December 31, 2018, reflecting growth in our working capital, discounted trade notes, vehicle financing and payroll deduction loan portfolios. Such increases were partially offset however by reductions in the average interest rates charged on our *reais* portfolio of loans from an average rate of 24.5% per annum in the year ended December 31, 2017 to 23.3% per

annum in the year ended December 31, 2018. The reduction in interest rates charged on our *reais* portfolio of loans reflected the reduction in the CDI, the base rate component of interest charged by us on our corporate loans. The CDI in turn reflected reductions in the Central Bank's benchmark SELIC target rate which commenced 2017 at 14.5% and declined over the course of the year to 7.0%, before being reduced further in 2018 to finish the year at 6.5%. As a result the average interest rates earned on our lending portfolio were lower in 2018 than 2017. Importantly, however, our net interest margin increased to 11.6% per annum in 2018, compared to 11.2% in 2017.

Leasing operations

Our income from leasing operations increased 20.1%, from R$313.7 million in the year ended December 31, 2017 to R$376.6 million in the year ended December 31, 2018. This increase was mainly due to a 45.0% increase the average balance of our leasing portfolio, from R$437.0 million in the year ended December 31, 2017 to R$635.3 million in the year ended December 31, 2018, principally due to our strategy to offer leasing operations as an alternative form of financing for our corporate clients. Such increase was partially offset by the lower average interest rates earned on our leasing portfolio in 2018 compared to 2017.

Securities transactions

Our income from securities transactions decreased 26.9%, from R$673.3 million in the year ended December 31, 2017 to R$491.9 million in the year ended December 31, 2018, as a result of the lower prevailing interest rates for the year ended December 31, 2018 compared to the year ended December 31, 2017. Our securities portfolio is mainly composed of securities linked to the SELIC rate.

Derivatives

Our income from derivatives increased 727.8% from a net expense of R$59.4 million in the year ended December 31, 2017 to income of R$491.9 million in the year ended December 31, 2018, mainly due to an increase in net gains from swap transactions, from an expense of R$42.7 million in the year ended December 31, 2017 to income of R$397.9 million in the year ended December 31, 2018. The results of derivative financial instruments reflect the effects of interest rate and foreign exchange rate volatilities, and these results offset the effects of such volatilities on our core banking operations. The principal line items affected by such volatilities are expenses from borrowings and onlendings and expenses from funds from acceptance and issuance of securities (included in expenses from funding operations). The 17.1% depreciation of the *real* against the U.S. dollar and exchange rate volatility during 2018 resulted in significant income on our derivatives transactions, which in turn offset increased expenses on our funding transactions. This compared to the modest depreciation of the *real* against the U.S. dollar and more limited volatility in 2017, which contributed to our net derivative expense for that year.

Foreign exchange transactions

Our income, net of expenses from foreign exchange transactions, increased 39.9% from R$136.9 million in the year ended December 31, 2017 to R$191.5 million in the year ended December 31, 2018, mainly due to the increase in the volume of our foreign exchange transactions.

Expenses on financial intermediation

Our expenses on financial intermediation increased 14.5% from R$2,367.6 million in the year ended December 31, 2017 to R$2,710.1 million in the year ended December 31, 2018. The table below provides the composition of our expenses on financial intermediation for the years indicated:

Expenses on financial intermediation

	For the years ended December 31,				
	2018	% of income from financial intermediation	2017	% of income from financial intermediation	Variation (%)
	(R$ millions, except percentages)				
Funding operations	(1,347.9)	49.7%	(1,358.8)	57.4%	(0.8)%
Borrowings and onlendings	(399.7)	14.7%	(191.7)	8.1%	108.5%
Leasing	(245.8)	9.1%	(214.7)	9.1%	14.5%
Financial assets sale or transfer	(17.8)	0.7%	(48.8)	2.1%	(63.5)%
Allowance for loan losses	(698.9)	25.8%	(553.6)	23.4%	26.2%
Total	(2,710.1)	100.0%	(2,367.6)	100.0%	14.5%

Funding operations

The table below shows the composition of our expenses from funding operations for the years indicated:

	For the years ended December 31,				
	2018	% of total	2017	% of total	Variation (%)
	(R$ millions, except percentages)				
Interbank deposits	(23.0)	1.8%	(31.6)	2.3%	(27.2)%
Time deposits	(239.8)	17.8%	(404.7)	29.8%	(40.3)%
Money-market funding	(139.4)	10.3%	(167.0)	12.3%	(16.5)%
Foreign securities[(1)]	(397.9)	29.5%	(103.4)	7.6%	267.4%
Mortgage loan notes (LCI)	(37.8)	2.8%	(49.8)	3.7%	(24.1)%
Agrobusiness letter of credit (LCA)	(36.4)	2.7%	(40.2)	3.0%	(9.5)%
Financial bills (LF)	(466.3)	34.6%	(553.7)	40.7%	(15.8)%
Contributions to loan guarantee fund (FGC)	(7.2)	0.5%	(8.4)	0.6%	(14.3)%
Total	(1,347.9)	**100.0%**	(1,358.8)	**100.0%**	(0.8)%

Note:

(1) Expenses from the issuance of securities abroad do not include earnings from exchange rate variation applicable to these operations, which are recorded as other operating income.

Our expenses from funding operations decreased 0.8%, from R$1,358.8 million in the year ended December 31, 2017 to R$1,347.9 million in the year ended December 31, 2018. The volume of our average funding increased from R$12,454.9 million in the year ended December 31, 2017 to R$13,952.5 million in the year ended December 31, 2018, however the average interest rate paid on such funding decreased from 9.7% in the year ended December 31, 2017 to from R$8.7 million in the year ended December 31, 2017, reflecting the lower prevailing interest rates in Brazil. In 2018, we increased our reliance on financial instruments issued in the domestic market (comprising financial bills (LF), agribusiness letters of credit (LCA) and mortgage loan notes (LCI)) as a source of domestic funding and reduced our reliance on time deposits. The average balance of such financial instruments increased by 26.1% from R$6,208.3 million in the year ended December 31, 2017 to R$7,826.3 million in the year ended December 31, 2018. The average balance of our notes issued abroad increased by 9.6% from R$1,650.8 million in the year ended December 31, 2017 to R$1,808.8 million in the year ended December 31, 2018 as a result of the 17.1% depreciation of the *real*

against the U.S. dollar in the year ended December 31, 2018. This depreciation of the *real* had the effect of increasing the value in *reais* of payments on our notes issued abroad.

Borrowings and onlendings

Our expenses from borrowings and onlendings increased 108.5%, from R$191.7 million in the year ended December 31, 2017 to R$399.7 million in the year ended December 31, 2018. The increase in expenses reflects the 17.1% depreciation of the *real* against the U.S. dollar in the year ended December 31, 2018 which increased the expenses of our foreign currency borrowings.

Leasing operations

Our expenses from leasing operations, which consist mainly of depreciation charges on leased assets, increased 14.5%, from R$214.7 million in the year ended December 31, 2017 to R$245.8 million in the year ended December 31, 2018. This increase was mainly due to the 45.0% increase in the average balance of our leasing portfolio from R$437.0 million in the year ended December 31, 2017 to R$635.3 million in the year ended December 31, 2018. This increase was principally due to our strategy to offer leasing operations as an alternative form of financing for our corporate clients.

Allowance for loan losses

Our allowance for loan losses reflects both the aggregate value of our credit portfolio and the credit risk assigned to credits within the portfolio. Our provisions charged increased 26.2% from R$553.6 million in the year ended December 31, 2017 to R$698.9 million in the year ended December 31, 2018. The increase reflects a decision on the part of the Bank to establish, commencing in 2018, an additional provision in respect of risk category A-C loans above the provision required for such loans by the Central Bank. The additional provision expense was R$165.3 million in 2018. Overall, our ratio of loans past due more than 90 days, including instalments falling due, decreased from 2.9% of our portfolio as of December 31, 2017 to 2.4% of our portfolio as of December 31, 2018.

Our closing balance allowance for loan losses was R$1,099.9 million, or 6.0% of our total loan portfolio, as of December 31, 2018, compared to R$930.5 million, or 6.1% of our total loan portfolio, as of December 31, 2017. See "Selected Statistical Information—Loan portfolio—Rating of our loan portfolio" for a table setting forth the rating of our credit transactions by risk levels and our allowance for loan losses as of December 31, 2018, 2017 and 2016.

Gross profit from financial intermediation

As a result of the foregoing, our gross profit from financial intermediation increased 18.4% from R$1,477.9 million in the year ended December 31, 2017 to R$1,749.5 million in the year ended December 31, 2018.

Other operating income (expenses)

Our other operating expenses net of other operating income decreased 0.5% from R$631.4 million in the year ended December 31, 2017 to R$628.4 million in the year ended December 31, 2018. The following table shows the composition of our other operating income (expenses) for the years indicated:

Other operating income (expenses)

	For the years ended December 31,				
	2018	% of total income from financial intermediation	2017	% of total income from financial intermediation	Variation (%)
	(R$ millions, except percentages)				
Income from services provided	160.3	3.6%	134.3	3.5%	19.4%
Results of insurance operations	4.0	0.1%	4.0	0.1%	-%
Personnel expenses	(329.7)	(7.4)%	(304.6)	(7.9)%	8.2%
Other administrative expenses	(506.8)	(11.4)%	(455.3)	(11.8)%	11.3%
Tax expenses	(148.5)	(3.3)%	(123.1)	(3.2)%	20.6%
Other operating income	429.5	9.6%	391.9	10.2%	9.6%
Other operating expenses	(237.2)	(5.3)%	(278.5)	(7.2)%	(14.8)%
Net income	(628.4)	(14.1)%	(631.4)	(16.4)%	(0.5)%

Income from services provided

Our income from services provided increased 19.4%, from R$134.3 million in the year ended December 31, 2017 to R$160.3 million in the year ended December 31, 2018, principally due to an increase in assets under management and loan originations during the year ended December 31, 2018 compared to the year ended December 31, 2017, resulting in an increase in the fees earned in respect of such transactions.

Personnel expenses

Our personnel expenses increased 8.2%, from R$304.6 million in the year ended December 31, 2017 to R$329.7 million in the year ended December 31, 2018. The increase reflects the 21.5% increase in our total number of employees from 1,641 on December 31, 2017 to 1,994 on December 31, 2018.

Other administrative expenses

Our other administrative expenses increased 11.3%, from R$455.3 million in the year ended December 31, 2017 to R$506.8 million in the year ended December 31, 2018. The increase was broadly divided among our administrative expense line items and reflects the growth of our operations.

Tax expenses

Our tax expenses increased 20.6%, from R$123.1 million in the year ended December 31, 2017 to R$148.5 million in the year ended December 31, 2018, mainly due to the increase in our taxable income, and more specifically in contributions to federal taxes including the Programme for Social Integration (*Programa de Integração Social*) ("PIS") and the Contribution for the Financing of Social Security (*Contribuição para o Financiamento da Seguridade Social*) ("COFINS").

Other operating income

Our other operating income increased 9.6%, from R$391.9 million in the year ended December 31, 2017 to R$429.5 million in the year ended December 31, 2018. This increase was mainly due to (i) a 16.1% increase in income from receivables not recorded as lending operations, which consist of receivables purchased from third parties without recourse to the sellers, from R$221.0 million in the year ended December 31, 2017 to R$256.5 million in the year ended December 31, 2018 and (ii) a 235.3% increase in income from exchange

rate variation gains from our U.S. dollar denominated securities and borrowings, from R$9.7 million in the year ended December 31, 2017 to R$32.3 million in the year ended December 31, 2018. The average balance of receivables purchased not recorded as lending operations increased 47.1% from R$1,289.7 million in the year ended December 31, 2017 to R$1,897.2 million in the year ended December 31, 2018. The increase in foreign exchange gains was mainly due to the depreciation of 17.1% of the *real* against the U.S. dollar in the year ended December 31, 2018 compared to a depreciation of 1.5% in the year ended December 31, 2017, which increased the *reais* value of our foreign investments, which increase we record as an expense. Our increase in other operating income was partially offset by a decrease in the income arising from the inflation adjustment of our escrowed judicial deposits which decreased 31.4% from R$101.2 million in the year ended December 31, 2017 to R$69.4 million in the year ended December 31, 2018.

Other operating expenses

Our other operating expenses decreased 14.8%, from R$278.5 million in the year ended December 31, 2017 to R$237.2 million in the year ended December 31, 2018. This decrease was mainly due to a decrease of 28.5% in expenses arising from the inflation adjustment of taxes, from R$110.7 million in the year ended December 31, 2017 to R$79.1 million in the year ended December 31, 2018.

Income from operations

As a result of the foregoing, our income from operations increased 32.4%, from R$846.5 million in the year ended December 31, 2017 to R$1,121.1 million in the year ended December 31, 2018.

Non-operating expenses

Our non-operating expenses, usually representing losses on the sales of collateral recovered on loans, decreased 67.5%, from R$16.0 million in the year ended December 31, 2017 to R$5.2 million in the year ended December 31, 2018.

Income before income taxes

As a result of the foregoing, our income before income taxes increased 30.6%, from R$862.5 million in the year ended December 31, 2017 to R$1,126.3 million in the year ended December 31, 2018.

Income tax and social contribution

Our income tax and social contribution increased 44.0%, from R$279.2 million in the year ended December 31, 2017 to R$402.0 million in the year ended December 31, 2018, mainly due to the increase in our income before income taxes. The greater proportional increase in our income tax and social contribution compared to our income before income taxes arose principally because of temporary differences arising from tax credits and deferred tax liabilities. In particular, we had a net increase in deferred tax assets arising from allowances for loan losses in the year ended December 31, 2018 of R$25.9 million compared to a net decrease in the year ended December 31, 2018 of R$53.8 million.

Net income

As a result of the foregoing, our net income increased 23.8%, from R$521.5 million in the year ended December 31, 2017 to R$645.8 million in the year ended December 31, 2018.

Comparison of Results of Operations for the Year Ended December 31, 2017 compared to the Year Ended December 31, 2016

The following table shows certain items derived from our income statements for the years indicated:

Income Statement Data

	For the years ended December 31,				
	2017	% of total income from financial intermediation	2016	% of total income from financial intermediation	Variation (%)
	(R$ millions, except percentages)				
Income from financial intermediation	3,845.4	100.0%	3,235.0	100.0%	18.9%
Expenses on financial intermediation	(2,367.6)	(61.6)%	(2,617.7)	(80.9)%	(9.6)%
Gross profit from financial intermediation	1,477.9	38.4%	**617.3**	19.1%	139.4%
Other operating (expenses) income	(631.4)	(16.4)%	21.9	0.7%	(2,983.1)%
Income from operations	846.5	22.0%	**639.2**	19.8%	32.4%
Non-operating expenses	16.0	0.4%	1.7	0.1%	841.2%
Income before income taxes	862.5	22.4%	**640.9**	19.8%	34.6%
Income tax and social contribution	(279.2)	(7.3)%	(187.4)	(5.8)%	49.0%
Profit sharing	(61.7)	(1.6)%	(46.6)	(1.4)%	32.4%
Noncontrolling interests	(0.1)	-%	(0.1)	-%	-%
Net income	521.5	13.6%	**406.9**	12.6%	28.2%

Income from financial intermediation

Our income from financial intermediation increased 18.9%, from R$3,235.0 million in the year ended December 31, 2016 to R$3,845.4 million in the year ended December 31, 2017. The table below shows the composition of our income from financial intermediation for the years indicated.

Income from financial intermediation

	For the years ended December 31,				
	2017	% of total	2016	% of total	Variation (%)
	(R$ millions, except percentages)				
Lending operations	2,781.0	72.3%	2,898.1	89.6%	(4.0)%
Leasing operations	313.7	8.2%	285.7	8.8%	9.8%
Securities transactions	673.3	17.5%	695.1	19.9%	(3.1)%
Derivatives	(59.4)	(1.5)%	(713.2)	(22.0)%	(91.7)%
Foreign exchange transactions	136.9	3.6%	69.3	2.1%	97.5%
Sale of financial assets	-	-%	-	-%	-%
Total	3,845.4	100.0%	3,235.0	100.0%	18.9%

Lending operations

The table below contains the composition of our income from lending operations for the years indicated.

Lending Operations

	For the years ended December 31,				
	2017	**% of total**	**2016**	**% of total**	**Variation (%)**
			(R$ millions, except percentages)		
Payroll deduction loans	1,137.6	40.9%	1,180.9	40.7%	(3.7)%
Working capital	487.3	17.5%	538.5	18.6%	(9.5)%
Secured account/overdraft account	327.2	11.8%	347.2	12.0%	(5.8)%
Discounted trade notes[(1)]	205.0	7.4%	210.1	7.2%	(2.4)%
Vehicle financing	170.7	6.1%	206.1	7.1%	(17.2)%
Export credit notes (CCE)	66.5	2.4%	32.6	1.1%	104.0%
Onlending (FINAME and BNDES)	44.8	1.6%	21.9	0.8%	104.6%
Other lending	195.6	7.0%	199.8	6.9%	(2.1)%
Recovery of credits previously written off as loss	146.2	5.3%	161.0	5.6%	(9.2)%
Total	2,781.0	100.0%	2,898.1	100.0%	(4.0)%

Notes:

(1) Represents income from financial instruments acquired from our clients at a discount for collection.

Our income from lending operations decreased 4.0%, from R$2,898.1 million in the year ended December 31, 2016 to R$2,781.0 million in the year ended December 31, 2017. The average balance of our outstanding loans, increased 1.9% from R$12,483.7 million in the year ended December 31, 2016 to R$12,724.9 million in the year ended December 31, 2017, reflecting our efforts to grow our corporate portfolio which increased from an average balance of R$5,490.5 million in the year ended December 31, 2016 to R$5,917.2 million in the year ended December 31, 2017. Such increases were partially offset however by reductions in the average interest rates charged on our *reais* portfolio of loans from an average rate of 25.9% per annum in the year ended December 31, 2016 to 24.5% per annum in the year ended December 31, 2017. The reduction in interest rates charged on our *reais* portfolio of loans reflected the reduction in the CDI, the base rate component of interest charged by us on our corporate loans. The CDI in turn reflected reductions in the Central Bank's benchmark SELIC target rate which commenced 2016 at 14.5% and declined over the course of the year to 7.0%, before being reduced further in 2017 to finish the year at 6.5%. As a result the average interest rates earned on our lending portfolio were higher in 2016 than 2017. Our net interest margin decreased to 11.2% per annum in 2017, compared to 11.5% in 2016.

Leasing operations

Our income from leasing operations increased 9.8%, from R$285.7 million in the year ended December 31, 2016 to R$313.7 million in the year ended December 31, 2017. This increase was mainly due to a 64.2% increase in the average balance of our leasing portfolio, from R$321.0 million in the year ended December 31, 2016 to R$437.0 million in the year ended December 31, 2017, principally due to our strategy to offer leasing operations as an alternative form of financing for our corporate clients. Such increase was partially offset by the lower average interest rates earned on our leasing portfolio in 2017 compared to 2016.

Securities transactions

Our income from securities transactions decreased 3.1%, from R$695.1 million in the year ended December 31, 2016 to R$673.3 million in the year ended December 31, 2017, mainly as a result of the lower prevailing interest rates for the year ended December 31, 2017 compared to the year ended December 31, 2016. Our securities portfolio is mainly composed of securities linked to the SELIC rate.

Derivatives

Our net expense from derivatives decreased 91.7% from an expense of R$713.2 million in the year ended December 31, 2016 to an expense of R$59.4 million in the year ended December 31, 2017, mainly due to a decrease in expenses from swap transactions, from R$692.3 million in the year ended December 31, 2016 to R$42.7 million in the year ended December 31, 2017. The results of derivative financial instruments reflect the effects of interest rate and foreign exchange rate volatilities, and these results offset the effects of such volatilities on our core banking operations. The principal line items affected by such volatilities are expenses from borrowings and onlendings and expenses from funds from acceptance and issuance of securities (included in expenses from funding operations). The 16.5% appreciation of the *real* against the U.S. dollar and exchange rate volatility during 2016 resulted in significant expenses on our derivatives transactions, which in turn offset decreased expenses on our funding transactions. This compared to the modest depreciation of the *real* against the U.S. dollar and more limited volatility in 2017, which contributed to our net reduced derivative expense for that year.

Foreign exchange transactions

Our income, net of expenses from foreign exchange transactions, increased 97.5% from R$69.3 million in the year ended December 31, 2016 to R$136.9 million in the year ended December 31, 2017, mainly due to the increase in the volume of our foreign exchange transactions.

Expenses on financial intermediation

Our expenses on financial intermediation decreased 9.6% from R$2,617.7 million in the year ended December 31, 2016 to R$2,367.6 million in the year ended December 31, 2017. The table below provides the composition of our expenses on financial intermediation for the years indicated:

Expenses on financial intermediation

	For the years ended December 31,				
	2017	% of income from financial intermediation	2016	% of income from financial intermediation	Variation (%)
	(R$ millions, except percentages)				
Funding operations	(1,358.8)	57.4%	(1,638.5)	62.6%	(17.1)%
Borrowings and onlendings	(191.7)	8.1%	(105.1)	4.0%	82.4%
Leasing	(214.7)	9.1%	(191.0)	7.3%	(12.4)%
Financial assets sale or transfer	(48.8)	2.1%	(60.7)	0.2%	(19.6)%
Allowance for loan losses	(553.6)	23.4%	(622.4)	23.8%	(11.1)%
Total	(2,367.6)	100.0%	(2,617.7)	100.0%	(9.6)%

Funding operations

The table below shows the composition of our expenses from funding operations for the years indicated:

	For the years ended December 31,				
	2017	% of total	2016	% of total	Variation (%)
	(R$ millions, except percentages)				
Interbank deposits	(31.6)	2.3%	(55.0)	3.4%	(42.5)%
Time deposits	(404.7)	29.8%	(513.0)	31.3%	(21.1)%
Money-market funding	(167.0)	12.3%	(193.9)	11.8%	(13.9)%
Foreign securities[(1)]	(103.4)	7.6%	(165.9)	10.1%	(37.7)%
Mortgage loan notes	(49.8)	3.7%	(69.6)	4.2%	(28.4)%
Agrobusiness letter of credit	(40.2)	3.0%	(53.3)	3.3%	(24.6)%
Financial bills	(553.7)	40.7%	(579.7)	35.4%	(4.5)%
Contributions to loan guarantee fund (FGC)	(8.4)	0.6%	(8.1)	0.5%	3.7%
Total	(1,358.8)	**100.0%**	(1,638.5)	**100.0%**	(17.1)%

Note:

(1) Expenses from the issuance of securities abroad do not include earnings from exchange rate variation applicable to these operations, which are recorded as other operating income.

Our expenses from funding operations decreased 17.1%, from R$1,638.5 million in the year ended December 31, 2016 to R$1,358.8 million in the year ended December 31, 2017. The volume of our average funding increased from R$11,070.3 million in the year ended December 31, 2016 to R$12,454.9 million in the year ended December 31, 2017, however the average interest rate paid on such funding decreased from 10.5% in the year ended December 31, 2016 to 9.7% in the year ended December 31, 2017, reflecting the lower prevailing interest rates in Brazil. In 2017, we increased our reliance on financial instruments issued in the domestic market (comprising financial bills (LF), agribusiness letters of credit (LCA) and mortgage loan notes (LCI)) as a source of domestic funding and reduced our reliance on time deposits. The average balance of such financial instruments increased by 24.6% from R$4,982.5 million in the year ended December 31, 2016 to R$6,208.3 million in the year ended December 31, 2017. The average balance of our notes issued abroad decreased by 7.3% from R$1,780.5 million in the year ended December 31, 2016 to R$1,650.8 million in the year ended December 31, 2017. The average *real* against U.S. dollar exchange rate was however significantly lower on 2017 than 2016 which had the effect of decreasing the expense in *reais* of payments on our notes issued abroad.

Borrowings and onlendings

Our expenses from borrowings and onlendings increased 82.4%, from R$105.1 million in the year ended December 31, 2016 to R$191.7 million in the year ended December 31, 2017, mainly due to the depreciation of *real* against US$ dollar in 2017.

Leasing operations

Our expenses from leasing operations, which consist mainly of depreciation charges on leased assets, increased 14.5%, from R$214.7 million in the year ended December 31, 2016 to R$245.8 million in the year ended December 31, 2017. This increase was mainly due to a 64.2% increase in the average balance of our leasing portfolio from R$321.0 million in the year ended December 31, 2017 to R$437.0 million in the year ended December 31, 2018, principally due to our strategy to offer leasing operations as an alternative form of financing for our corporate clients.

Allowance for loan losses

Our allowance for loan losses reflects both the aggregate value of our credit portfolio and the credit risk assigned to credits within the portfolio. Our provisions charged decreased 11.1% from R$622.4 million in the year ended December 31, 2016 to R$553.6 million in the year ended December 31, 2017. Overall, our ratio of loans past due more than 90 days, including instalments falling due, was virtually unchanged between December 31, 2016 and December 31, 2017 at 2.9% of our portfolio, and loan losses showed no significant concentration in any segment.

Our closing balance allowance for loan losses was R$930.5 million, or 6.1% of our total loan portfolio, as of December 31, 2017, compared to R$765.2 million, or 5.5% of our total loan portfolio, as of December 31, 2016. See "Selected Statistical Information—Loan portfolio—Rating of our loan portfolio" for a table setting forth the rating of our credit transactions by risk levels and our allowance for loan losses as of December 31, 2018, 2017 and 2016.

Gross profit from financial intermediation

As a result of the foregoing, our gross profit from financial intermediation increased 139.4% from R$617.3 million in the year ended December 31, 2016 to R$1,477.9 million in the year ended December 31, 2017.

Other operating income (expenses)

Our other operating income net of other operating expenses decreased from net other operating income of R$21.9 million in the year ended December 31, 2016 to net other operating expenses of R$631.4 million in the year ended December 31, 2017. The following table shows the composition of our other operating income (expenses) for the years indicated:

Other operating income (expenses)

	For the years ended December 31,				
	2017	% of income from financial intermediation	2016	% of income from financial intermediation	Variation (%)
	(R$ millions, except percentages)				
Income from services provided	134.3	3.5%	101.7	3.3%	32.1%
Results of insurance operations	4.0	0.1%	4.3	0.1%	(7.0)%
Personnel expenses	(304.6)	(7.9)%	(286.6)	(8.9)%	6.2%
Other administrative expenses	(455.3)	(11.8)%	(464.0)	(14.3)%	(1.9)%
Tax expenses	(123.1)	(3.2)%	(115.0)	(3.6)%	7.0%
Other operating income	391.9	10.2%	1,091.3	33.7%	(64.1)%
Other operating expenses	(278.5)	(7.2)%	(309.8)	(9.6)%	(11.2)%
Total	(631.4)	(16.4)%	21.9	0.7%	(2,983.1)%

Income from services provided

Our income from services provided increased 32.1%, from R$101.7 million in the year ended December 31, 2016 to R$134.3 million in the year ended December 31, 2017, principally due to the increase in assets under management and loan originations during the year ended December 31, 2017 compared to the year ended December 31, 2016, resulting in an increase in the fees earned in respect of such transactions.

Personnel expenses

Our personnel expenses increased 6.2%, from R$286.6 million in the year ended December 31, 2016 to R$304.6 million in the year ended December 31, 2017. The increase reflects the 14.0% increase in our total number of employees from 1,440 on December 31, 2016 to 1,641 on December 31, 2017.

Other administrative expenses

Our other administrative expenses decreased 1.9%, from R$464.0 million in the year ended December 31, 2016 to R$455.3 million in the year ended December 31, 2017. Most of our administrative expense line items were relatively unchanged, and a reduction on commissions paid to banking correspondents due to lower origination of payroll deductible loans in 2017 than 2016, more than compensated increases in data processing and advertising expenses.

Tax expenses

Our tax expenses increased 7.0%, from R$115.0 million in the year ended December 31, 2016 to R$123.1 million in the year ended December 31, 2017, mainly due to the increase in our taxable income, and more specifically in contributions to federal taxes including the Programme for Social Integration (*Programa de Integração Social*) ("PIS") and the Contribution for the Financing of Social Security (*Contribuição para o Financiamento da Seguridade Social*) ("COFINS").

Other operating income

Our other operating income decreased 64.1%, from R$1,091.3 million in the year ended December 31, 2016 to R$391.9 million in the year ended December 31, 2017. This decrease was mainly due to (i) a large decrease in income from exchange rate variation gains from our U.S. dollar denominated securities issued abroad and foreign borrowings, from R$694.4 million in the year ended December 31, 2016 to R$9.6 million in the year ended December 31, 2017, and (ii) a decrease in the income arising from the inflation adjustment of our escrowed judicial deposits which decreased 31.4% from R$117.4 million in the year ended December 31, 2016 to R$101.2 million in the year ended December 31, 2017 due to the lower rate of inflation in 2017. The decrease in foreign exchange gains was mainly due to the limited depreciation of 1.5% of the *real* against the U.S. dollar in the year ended December 31, 2017 compared to the significant appreciation of 16.5% in the year ended December 31, 2016.

Other operating expenses

Our other operating expenses decreased 11.2%, from R$309.8 million in the year ended December 31, 2016 to R$278.5 million in the year ended December 31, 2017. This decrease was mainly due to a 87.0% decrease in exchange rate expenses from R$92.2 million in the year ended December 31, 2016 to R$12.0 million in the year ended December 31, 2017 as a result of reduced exchange rate volatility in 2017, which was partially offset by (i) an increase of 36.4% in expenses arising from provisions, mainly relating to labor contingencies and sureties, from R$71.2 million in the year ended December 31, 2016 to R$97.1 million in the year ended December 31, 2017 and (ii) increases in various other operating expense line items.

Income from operations

As a result of the foregoing, our income from operations increased 32.4%, from R$639.2 million in the year ended December 31, 2016 to R$846.5 million in the year ended December 31, 2017.

Non-operating expenses

Our non-operating expenses, usually representing losses on the sales of collateral recovered on loans, increased 841.2%, from R$1.7 million in the year ended December 31, 2016 to R$16.0 million in the year ended December 31, 2017.

Income before income taxes

As a result of the foregoing, our income before income taxes increased 34.6%, from R$640.9 million in the year ended December 31, 2016 to R$862.5 million in the year ended December 31, 2017.

Income tax and social contribution

Our income tax and social contribution increased 49.0%, from R$187.4 million in the year ended December 31, 2016 to R$279.2 million in the year ended December 31, 2017, mainly due to the increase in our income before income taxes. The greater proportional increase in our income tax and social contribution compared to our income before income taxes arose principally because of temporary differences arising from tax credits and deferred tax liabilities. In particular, we had a net increase in deferred tax assets arising from allowances for loan losses in the year ended December 31, 2017 of R$25.9 million compared to a net increase in the year ended December 31, 2016 of R$100.7 million, a 74.3% decrease.

Net income

As a result of the foregoing, our net income increased 28.2%, from R$406.9 million in the year ended December 31, 2016 to R$521.5 million in the year ended December 31, 2017.

Liquidity and Capital Resources

Liquidity

Our asset and liability management policy is designed to ensure that our capital position is adequate for our risk profile and consistent with applicable regulatory standards and guidelines. In particular, our policy is designed to avoid material mismatches between our assets and liabilities, optimise our risk-return ratio and ensure that we have sufficient liquidity to meet obligations for deposit withdrawals, repay other liabilities at maturity, make loans or enter into other transactions with our customers and meet our working capital needs.

We seek to maintain access to diversified funding sources at reasonable costs, within the framework of our asset and liability management policy, which establishes limits with respect to risks, interest rate sensitivity, funding gaps and limitations of asset concentration.

We review the main aspects of our asset and liability management, as well as our liquidity and capital resources, in regular monthly meetings of our committees. These committees review and evaluate our liquidity position to establish a minimum liquidity level and, when necessary, hold extraordinary meetings to review and evaluate our liquidity position as a result of macroeconomic changes.

To avoid a liquidity crisis, we monitor our investments on a daily basis to seek to maintain a high level of our deposits in cash and available funds. Our total cash and cash equivalents were R$2,167.7 million, R$2,563.6 million and R$1,190.6 million as of December 31, 2018, 2017 and 2016, respectively. In addition, we consider our available funds to include sovereign local bonds which totalled an additional R$1,809.0 million, R$1,263.3 million and R$2,257.4 million as of December 31, 2018, 2017 and 2016, respectively. We also generally maintain the average term of our total funding higher than the average term of our loan portfolio. In order to deal with an unanticipated need for substantial liquidity, we have prepared a contingency

plan consisting of the use of additional funds from our current facilities and the reduction of our total loan portfolio, including through the interruption of our lending operations. In addition, we and other financial institutions in Brazil have unused pre-approved credit lines with the Central Bank, which are limited to the amount of government-issued securities we hold. Since our creation, we have never used these credit lines.

Our treasury department is responsible for managing our liquidity and funding sources, including trading securities denominated in *reais* and in foreign currency, and hedging, currency, interest rate and maturity mismatches. Our treasury department maintains what we believe is a proper balance between scheduled maturities and diversification of funding sources. With our current level of capital resources and capacity to access additional funding, we believe that our overall liquidity is sufficient to meet our existing obligations to our customers and creditors, satisfy anticipated changes in our asset and liability levels and fulfil our ordinary course working capital needs.

Sources of Funding

The following table shows the composition of our funding at the dates presented:

	As of December 31					
	2018		2017		2016	
	(R$ millions)	(% of total funding)	(R$ millions)	(% of total funding)	(R$ millions)	(% of total funding)
Demand deposits	863.8	4.0%	735.5	4.2%	598.6	3.8%
Interbank deposits	395.5	1.8%	337.4	1.9%	353.7	2.2%
Time deposits	4,129.1	19.0%	3,985.1	22.6%	4,268.1	27.1%
Other deposits	116.0	0.5%	70.4	0.4%	73.3	0.5%
Money market funding	2,992.3	13.8%	1,860.1	10.5%	1,802.5	11.5%
Funds from acceptance and issuance of securities	10,775.0	49.7%	8,450.9	47.9%	7,201.0	45.8%
Borrowings	2,047.0	9.4%	1,732.5	9.8%	1,104.5	7.0%
Domestic onlendings	366.6	1.7%	472.0	2.7%	329.3	2.1%
Total funds	**21,685.3**	**100.0%**	**17,643.9**	**100.0%**	**15,731.0**	**100.0%**

We believe that our current sources of funding provide us with adequate resources for our lending operations.

Demand deposits

As of December 31, 2018, we had a total of R$863.8 million in demand deposits, compared to R$735.5 million and R$598.6 million as of December 31, 2017, and 2016, respectively. As we do not operate retail branches, we do not consider demand deposits to be a significant source of funding.

Interbank deposits

We receive interbank loans from Brazilian financial institutions in open market operations. Interbank deposits are primarily accepted as instruments in the management of our treasury operations and we do not consider them to be a significant source of funding. Our balance of interbank deposits was R$395.5 million, R$337.4 million and R$353.7 million as of December 31, 2018, 2017 and 2016, respectively.

Time deposits

A significant portion of our funding is in the form of time deposits. Usually, these deposits result from the sale of CDBs to Brazilian companies, pension funds and individuals. Most of our CDBs bear an interest rate equivalent to the CDI plus a spread. Usually, CDBs have a lower average cost and longer average maturity than our assets. Our balance of time deposits was R$4,129.1 million, R$3,985.1 million and R$4,268.1 million as of December 31, 2018, 2017 and 2016, respectively.

See "Selected Statistical Information—Funding—Maturity of deposits" for a table setting forth the composition of our deposits by maturity as of December 31, 2018, 2017 and 2016.

Money Market Funding

We manage our liquidity position by performing overnight operations with other financial institutions, generally for a one-business-day term, backed up by federal treasury bonds and buy-back commitments. These operations represent an important instrument in the management of our treasury operations. As of December 31, 2018, 2017 and 2016, our money market funding transactions totaled R$2,992.3 million, R$1,860.1 million and R$1,802.5 million, respectively. Our use of money market funding varies from time to time depending upon our short-term liquidity and arbitrage opportunities in the market.

Funds from acceptance and issuance of securities

These funds consist of the issuance of financial bills (LF), agribusiness credit notes (LCA) and mortgage loan notes (LCI) in the Brazilian market and notes in the international capital markets, mainly pursuant to our U.S.$2,000,000,000 Euro Medium-Term Note Programme. In recent years, we have decreased our reliance on time deposits as we have issued increased amounts of financial bills, agribusiness credit notes and mortgage loan notes in the Brazilian market. As with time deposits, such issuances bear an interest rate equivalent to the CDI plus a spread. The principal advantage to such issuances versus time deposits is that they are issued for a longer fixed term with limited rights of early redemption and are not subject to Central Bank reserve requirements. As of December 31, 2018, 2017 and 2016, our funds from acceptance and issuance of securities totaled R$10,775.0 million, R$8,450.9 and R$7,201.0 million, respectively. Our outstanding notes as of December 31, 2018 under the Euro-Medium Term Note Programme matured in March 2019.

The following table shows the composition of our acceptances and issuances of securities at the dates presented:

	As of December 31					
	2018		2017		2016	
	(R$ millions)	(% of total acceptances/ issuances)	(R$ millions)	(% of total acceptances/ issuances)	(R$ millions)	(% of total acceptances/ issuances)
Financial bills (LF)	7,439.2	69.0%	5,773.1	68.3%	4,558.0	63.3%
Agribusiness credit notes (LCA)	663.8	6.2%	482.5	5.7%	414.5	5.8%
Mortgage loan notes (LCI)	773.9	7.2%	506.8	6.0%	542.6	7.5%
Securities issued abroad	1,898.0	17.6%	1,688.4	20.0%	1,685.8	23.4%
Total acceptances/issuances	**10,774.9**	**100.0%**	**8,450.8**	**100.0%**	**7,201.0**	**100.0%**

See "Selected Statistical Information—Funding—Funds from financial bills (LF), agribusiness letters of credit (LCA) and mortgage loan notes (LCI) and securities issued abroad" for a table setting forth the

composition of our funds from acceptance and issuance of securities by maturity as of December 31, 2018, 2017 and 2016.

Borrowings and onlendings

Funds from borrowings and onlendings consist of resources from credit facilities executed with other financial institutions located outside Brazil to finance the import and export operations of our clients. As of December 31, 2018, the outstanding balance of these facilities was R$1,376.5 million, compared to R$1,271.4 million and R$832.1 million as of December 31, 2017 and 2016, respectively. In addition, we fund foreign exchange transactions denominated in foreign currency relating to the financing of imports and exports, the outstanding balance of which amounted to R$670.5 million as of December 31, 2018 compared to R$461.1 million and R$571.7 million as of December 31, 2017 and 2016.

In addition to funds from credit facilities with financial institutions outside Brazil, we are an accredited financial agent for BNDES, onlending special purpose funding obtained from BNDES to targeted groups of borrowers. The source of funds is managed by BNDES, principally on behalf of FINAME. In these circumstances, we borrow funds from BNDES and onlend those funds at a spread determined by BNDES to particular sectors of the economy or for specific purposes determined by BNDES and reflecting Brazilian government policy. We control lending decisions and the application of lending criteria, within certain parameters, which may be set by BNDES. Our lending is principally to the private sector, in respect of which we assume the risk for the funds we onlend. BNDES funds are typically lent for longer maturities than are our other corporate loans. As of December 31, 2018, the outstanding balance of these facilities was R$366.6 million, compared to R$472.0 million and R$329.3 million as of December 31, 2017 and 2016, respectively.

Use of Funds

We mainly use our funds to carry out our lending operations and acquire interbank financial investments. We also use a substantial portion of our funding to acquire securities, including federal government securities issued by the National Treasury and by the Central Bank, which have lower risk and, consequently, higher liquidity.

The following tables present our main uses of funds at the dates indicated.

	As of December 31,					
	2018	**% of total assets**	**2017**	**% of total assets**	**2016**	**% of total assets**
Total assets	28,891.7	100.0%	23,786.3	100.0%	21,774.3	100.0%
Cash	153.2	0.5%	117.1	0.5%	136,6	0.6%
Interbank instruments	5,197.7	18.0%	4,477.0	18.8%	3,042.7	14.0%
Securities and derivatives	2,700.4	9.3%	1,656.8	7.0%	2,579.2	11.8%
Loan portfolio	12,664.3	43.8%	10,939.7	46.0%	10,348.1	47.5%
Leasing portfolio	778.1	2.7%	514.6	2.2%	391.9	1.8%
Foreign exchange portfolio	1,064.6	3.7%	591.0	2.5%	523.4	2.4%
Receivables purchased from third parties	3,225.9	11.2%	2,504.3	10.5%	1,999.9	9.2%
Total use of funds	25,784.2	89.2%	20,800.5	87.4%	19,021.8	87.4%

Compulsory Deposits with the Central Bank

The Central Bank requires that certain financial institutions either deposit a determined amount of funds with the Central Bank or purchase and hold Brazilian federal treasury securities. These compulsory deposits can be used only for limited purposes. The Central Bank determines the interest to be paid on these deposits, if any. As of December 31, 2018, the outstanding balance of such deposits and investments was R$42.5 million, compared to R$148.6 million and R$150.7 million as of December 31, 2017 and 2016, respectively. The year on year fluctuations related to the applicable reductions in time and demand deposit reserve requirements as provided for in Central Bank Circular No. 3,916 and Central Bank Circular No. 3,917 of November 22, 2018, our year-end deposit balances and the relevant thresholds.

Investments

From 2016 to 2018, we made substantial investments in our information technology system and facilities. Our investments in information technology relate mainly to the development and implementation of on-line banking platforms and services for our clients and updating and maintaining our information technology equipment and systems in accordance with know your client, anti-money laundering and security requirements.

Capital Adequacy

Our regulatory capital is calculated using the criteria established by the Basel III Regulations as implemented in Brazil, which provide that Regulatory Capital and Minimum Required Referential Equity (MRRE) are calculated in relation to Risk-Weighted Assets (RWA). For more information on regulatory changes to capital adequacy, see "—Government Regulation—Requirements" above and "Capital Capital Adequacy Guidelines Regulation of the Brazilian Banking Industry—Capital Adequacy Guidelines."

Basel III requires banks to maintain: (i) a minimum common equity capital ratio of 4.5%; (ii) a minimum Tier 1 Capital ratio of 6.0%; and (iii) a minimum regulatory capital ratio of 8.0%. Since the minimum regulatory capital ratio under Basel III was phased in over a period of years, the minimum regulatory capital ratio applicable has been reduced from 11.0% in 2015 and prior years to 9.875% in 2016, 9.25% in 2017, 8.625% in 2018, to the now implemented rate of 8.0%.

In addition to the minimum capital requirements, Basel III Regulations, as implemented in Brazil, require a capital conservation buffer that has been phased in over a period of years to coincide with the reduction in the regulatory capital ratio. It commenced at 0.625% in 2016, 1.25% in 2017, 1.875% in 2018, to the now implemented rate of 2.5%.

Our Basel III ratio was 14.7% as of December 31, 2018, 14.9% as of December 31, 2017 and 15.9% as of December 31, 2016.

The following table presents the calculation of our capital requirements and our regulatory capital level, on the dates presented.

	As of December 31,		
	2018	**2017**	**2016**
	(R$ millions, except percentages)		
Regulatory capital			
Regulatory capital - Tier 1 (equity)	3,237.0	3,009.0	2,657.4
Valuation adjustments	(1.4)	(3.7)	(3.8)

	As of December 31,		
	2018	2017	2016
	(R$ millions, except percentages)		
Regulatory capital - Tier 2 (subordinated)	147.3	-	-
Regulatory capital for comparison to RWAs	**3,383.0**	**3,005.3**	**2,653.6**
Risk weighted assets			
Exposure to credit risk - RWAcpad	18,525.5	15,361.1	13,007.4
Foreign exchange asset - RWAcam	1,564.4	1,367.3	353.7
Assets indexed to fixed interest – RWAjur	444.1	833.6	909.7
Assets indexed to foreign exchange coupon – RWAjur2	185.6	120.7	214.5
Assets indexed to inflation – RWAjur3	0.1	108.3	6.6
Shares – RWApacs	87.8	68.2	57.2
Operational risk – RWAopad	2,009.3	2,331.9	2,155.3
Risk weighted assets	**23,016.8**	**20,191.0**	**16,704.3**
Minimum required regulatory capital[(1)]	**1,985.2**	**1,867.7**	**1,649.5**
Basel index	**14.70%**	**14.88%**	**15.89%**
Basel index Tier 1	**14.06%**	**14.88%**	**15.89%**
Basel index Tier 2	**0.64%**	**-%**	**-%**

Notes:
(1) RWA x 8.625% in 2018, RWA x 9.25% in 2017 and RWA x 9.875% in 2016.

Contractual Obligations

The table below presents the maturity of our significant contractual obligations as of the dates indicated. The table does not include deferred income tax liability and estimated payments of interest on such obligations.

	As of December 31, 2018			
Contractual Obligations	**Less than one year**	**From one to three years**	**From three to five years**	**Five years or more**
	(R$ millions)			
Funds from acceptance and issuance of securities	5,833.0	4,650.7	247.1	191.4
Borrowings and onlendings	1,868.7	377.6	166.5	0.8
Derivatives	32.7	-	-	-
Exchange transactions	501.5	-	-	-
Rents	6.6	10.3	7.3	-

Off-Balance Sheet Transactions

Except for the financial guarantees and sureties we provide in the ordinary course of our business, we do not have any off-balance sheet transactions. In addition, we do not control any company that is not consolidated or otherwise included in our financial statements. We do not own any equity interest in any special purpose company.

Financial guarantees and sureties provided on behalf of clients to third parties as of December 31, 2018 amounted to R$1,383.7 million, compared to R$870.9 million and R$548.9 million as of December 31, 2017 and 2016, respectively.

We generate fee income from such financial guarantees and sureties. We hold counter-guarantees from the clients on whose behalf such guarantees and sureties are provided which may or may not be secured by collateral.

We do not provide financial guarantees or sureties on behalf of our shareholders, directors, officers, or our direct or indirect subsidiaries.

Information on Market Risks

Risk and Risk Management

In the ordinary course of our business, we are exposed to various risks inherent to banking activities. The way we manage these risks directly affect our activities and operations and, consequently, our results. The most significant risks to which we are exposed to are:

- market risk;
- exchange rate risk;
- interest rate risk;
- liquidity risk; and
- operating risk.

The manner in which we manage and identify these risks is essential for our profitability. Our management of these risks involves different levels of our management team and encompasses a series of policies and strategies.

Market Risk

We identify market risk through the impact on the value of our assets and liabilities of variations such as in the interest rate and exchange rate curves. Since most of our assets and liabilities are subject to market risk, we have developed our own tools to make it possible to carry out real-time diagnosis of our entire assets and liabilities exposure, as well as offering us alternative scenarios and the impacts of the same on the value of our positions, such as the development of studies and economic-financial analysis that evaluate the impact of different scenarios in the market positions, reports that monitor the risks to which we are subject and periodic tests that evaluate the controls on these risks and also verify the adequacy of our methodology. We also use a risk system called Value at Risk (VaR) to measure the exposure of our positions to market risk. The VaR consistently applies to all products and markets, allowing the comparison of risks among different portfolios. This system is based on the parametric assessment technique within a one year period and with approximately 99.0% confidence interval. The efficacy of this system is tested through procedures that indicate the historical degree of adhesion of the results, and the figures obtained in the current measurement.

Exchange Rate Risk

Most of our transactions are denominated in *reais*. However, we also have obligations denominated in or indexed to foreign currencies, especially the U.S. dollar.

Our consolidated exchange rate exposure equals the difference between the assets and liabilities linked to a foreign currency, including derivatives at market value. The Central Bank requires that financial institutions maintain a consolidated exchange rate exposure lower than 30.0% of the reference shareholder's equity. Our policy is to hedge our exchange rate position such that we have only minimal exposure risk at any point in time.

We engage in derivative financial transactions to minimise the effect of foreign exchange rates on our dollar-indexed assets and liabilities or if we are instructed to do so by our clients. These operations involve various types of derivatives, including interest rates swaps, foreign exchange rate swaps and future contracts. As of December 31, 2018, 2017 and 2016, the notional value of our derivative contracts amounted to R$13,272.8 million, R$13,033.2 million and R$9,270.7 million, respectively.

The table below shows our assets and liabilities indexed in foreign currencies, in terms of purchased and sold operations, respectively, at the dates indicated.

	Position in U.S.$		**Position in Euro**	
	As of December 31, 2018			
	Purchased	**Sold**	**Purchased**	**Sold**
	(R$ millions, except percentages)			
Assets denominated in foreign currency				
Cash	63.6	-	34.3	-
Interbank investments	168.2	-	-	-
Securities	108.9	-	-	-
Loan portfolio	531.3	-	31.5	-
Other credits – foreign exchange portfolio	1,024.9	-	42.6	-
Other assets	4.6	-	0.1	-
Investments	-	-	-	-
Total	**1,901.5**	**-**	**108.5**	**-**
Liabilities denominated in foreign currency				
Deposits	-	183.7	-	0.7
Securities issued abroad	-	20.6	-	-
Interbranch accounts	-	101.3	-	5.4
Borrowings and onlending	-	892.9	-	31.9
Other payables – foreign exchange portfolio	-	1,564.7	-	47.6
Other payables	-	1.9	-	-
Total	-	**2,765.1**	**-**	**85.6**
Derivatives	**365.0**	**12.0**	**-**	**1.0**
Consolidated foreign exchange exposure	2,266.5	2,777.1	108.5	86.6
Net exposure	-	**510.6**	**21.9**	**-**
Reference shareholders' equity	3,237.0	3,237.0	3,237.0	3,237.0
Consolidated foreign exchange exposure as % of the reference shareholders' equity	70.0%	85.8%	3.4%	2.7%

Interest Rate Risk

Interest rate risk results from the potential changes in the prices of our assets and liabilities, unexpected oscillations in the inclination and form of interest yield curves and changes in the correlation between interest rates of different financial instruments. We are exposed to interest rate risk when there are mismatches between the interest rates of our funding and the loans we grant.

Liquidity Risk

Liquidity risk represents the possibility of mismatch between maturity dates of our assets and liabilities, which could result in our inability to meet our obligations within the established terms. Our general policy is to maintain appropriate levels of liquidity that make it possible for us to meet our current and future obligations, while at the same time being able to take advantage of any opportunities that may arise. In addition, we are subject to the liquidity requirements established by the Central Bank.

We control liquidity risk on a daily basis through analysis of our mismatch structures, especially in the short-term. We also simulate these structures with estimates for renewal of portfolios. In parallel, we analyze on a monthly basis liquidity rates derived from the balances of the accounts of the balance sheets. In addition, we analyze stress scenarios specifically focused on liquidity.

Operating Risk

Operating risks are related to the possibility of losses resulting from failure, deficiency or inadequacy of internal procedures, persons and systems, or external events. Due to the increase in the volume of banking operations and greater dependency on digital platforms and computer systems, the maintenance of a proper technological base is essential to us. Thus, we have allocated substantial funds to assure the stability and availability of our digital platforms and computer systems.

SELECTED STATISTICAL INFORMATION

The information below is included only for analytical purposes and is based on and should be read in conjunction with our consolidated financial statements and accompanying notes included in these Offering Memorandum, as well as with "Presentation of Financial Information", "Summary Financial Information" and "Management's Discussion and Analysis of Financial Condition and Results of Operation".

Average balance sheet and information on interest rates

The tables below set forth the average balances of our interest-earning assets and interest-bearing liabilities, other assets and liabilities, the interest income and expenses generated from such assets and liabilities and the average return rate for each period of the periods indicated. Data for full-year periods regarding volume and average balances included in these Offering Memorandum was calculated at 13 dates: as of December 31 of the previous year and at the end of each of the following 12 months. Likewise, data regarding the average return rate included in these Offering Memorandum was calculated based on the revenues and expenses for the period, divided by the average balances calculated as indicated above. Interest income and expense also include inflation adjustment and indexing of our assets and liabilities in *reais*; earnings and losses from assets and liabilities denominated in foreign currency; and earnings and losses both realised and to be realised in connection with securities and derivatives, except for mark-to-market adjustments of securities classified as available for sale, which are recorded under shareholders' equity and exclude applicable taxes and contributions.

	For the years ended December 31,								
	2018			2017			2016		
	Average balance	Revenue (Expenses)	Average Rate%	Average balance	Revenue (Expenses)	Average Rate%	Average balance	Revenue (Expenses)	Average Rate%
	(R$ millions, except as otherwise indicated)								
Assets									
Lending operations[1]	14,077.0	3,276.9	23.3%	12,237.3	3,002.0	24.5%	12,055.2	3,126.5	25.9%
Leasing operations	635.3	130.9	20.6%	437.4	99.0	22.6%	321.0	94.7	29.5%
Foreign exchange portfolio[2]	506.3	191.5	37.8%	447.5	136.9	30.6%	451.9	69.3	15.3%
Interbank investments[3]	3,309.3	203.8	6.2%	3,162.2	294.4	9.3%	2.025,6	262.2	12.9%
Securities and derivatives[4]	2,376.2	525.4	22.1%	2,333.7	164.0	7.0%	2,205.6	(462.0)	(20.9)%
Total interest-earning assets	**20,904.1**	**4,328.5**	**20.7%**	**18,618.1**	**3,696.3**	**19.9%**	**17,059.3**	**3,090.8**	**18.1%**

[1] Lending operations transactions includes purchased receivables without co-obligation from the issuer, previously recorded as "Other assets" on the financial statements for the years ended 2018, 2017 and 2016. The results of these transactions consist of the income from lending operation plus income from purchased receivables.

[2] Foreign exchange transactions consist of the net balance of positive and negative foreign exchange positions as recorded, respectively, under "exchange purchased pending settlement" and "exchange sold pending settlement". The results of these transactions consist of the income from foreign exchange operations less expenses derived from such operations.

[4] Interbank investments consist of the net balance of interbank investment recorded as an asset position and money market funding (third party portfolio) recorded as a liability position and the result of these transactions consist of the income of interbank investments less expenses of money market funding (third party portfolio).

[5] Securities and derivatives consist of the net balance of positive and negative operations with securities and derivatives. The results of these operations consist of the income from securities and derivatives less expenses derived from such instruments.

	For the years ended December 31,								
	2018			2017			2016		
	Average balance	Revenue (Expenses)	Average Rate%	Average balance	Revenue (Expenses)	Average Rate%	Average balance	Revenue (Expenses)	Average Rate%
	(R$ millions, except as otherwise indicated)								
Liabilities									
Funding operations									
Interbank deposits	375.7	(23.0)	(6.1)%	322.8	(31.6)	(9.8)%	392.4	(55.0)	(14.0)%
Time deposits	3,791.1	(247.0)	(6.5)%	4,121.1	(413.1)	(10.0)%	3,831.8	(521.1)	(13.6)%
Money market funding[1]	150.6	(3.7)	(2.5)%	151.9	(11.7)	(7.7)%	83.1	(12.2)	(14.7)%
Funds from issuance of financial bills (LF), agribusiness letters of credit (LCA) and mortgage loan notes (LCI)	7,826.3	(540.5)	(6.9)%	6,208.3	(643.7)	(10.4)%	4,982.5	(702.5)	(14.1)%
Funds from securities issued abroad[2]	1,808.8	(397.9)	(22.0)%	1,650.8	(103.4)	(6.3)%	1,780.5	122.9	6.9%
Total funding operations	**13,952.5**	**(1,212.1)**	**(8.7)%**	**12,454.9**	**(1,203.5)**	**(9.7)%**	**11,070.3**	**(1,167.9)**	**(10.5)%**
Total borrowings and onlending[3]	2,319.8	(399.7)	(17.2)%	2,146.6	(191.7)	(8.9)%	2,146.4	169.9	7.9%
Total interest-bearing liabilities	**16,272.3**	**(1,611.8)**	**(9.9)%**	**14,601.5**	**(1,395.2)**	**(9.6)%**	**13,216.7**	**(998.0)**	**(7.6)%**
Gross profit from financial intermediation (before provisions)		**2,716.7**			**2,301.1**			**2,092.8**	

[1] The average balances of money marketing funding consider only our own portfolio of repurchase transactions.

[2] Expenses from funds derived from securities issued abroad include foreign exchange gains that were previously recorded as "other operating income" in the amount of R$288.9 million in 2016, changing our expenses from funds derived from securities issue abroad from expense of R$1,638.5 million to expenses of R$1,168.9 million.

[3] Expenses from borrowings and onlending include foreign exchange gains that were allocated from "other operating income" in the amount of R$275.0 million in 2016, changing our expenses from borrowings and onlending from expense of R$101.1 million to income of R$169.9 million.

Changes in interest income and expenses – Volume and rates analysis

The table below sets forth the effect of changes in our interest income and expenses resulting from fluctuations in the average volumes and average yield rate for each of the periods indicated. Variations in our volumes and interest rates were calculated based on changes on our average balances during the period and changes on the average interest rates on our interest-earning assets and interest-bearing liabilities. We allocated the net change from the combined effects of volume and rate proportionately to the average volume and rate, in absolute terms, without considering positive or negative effects.

	For the years ended December 31,					
	2017 and 2018			2016 and 2017		
	Increase / decrease due to variations in			Increase / decrease due to variations in		
	Average Volume	Average Rate	Net Variation	Average Volume	Average Rate	Net Variation
	(R$ millions)					
Interest earning assets						
Loan portfolio	416.4	(141.5)	274.9	48.2	(172.8)	(124.5)
Leasing portfolio	39.8	(7.9)	31.9	12.0	(7.7)	4.3
Foreign exchange portfolio	19.5	35.1	54.6	(0.7)	68.2	67.6
Interbank investments	14.4	(105.0)	(90.6)	64.4	(32.2)	32.2
Securities and derivatives	3.0	358.4	361.4	(28.5)	654.5	626.0
Total	**493.1**	**139.1**	**632.2**	**95.6**	**510.0**	**605.5**

	For the years ended December 31,					
	2017 and 2018			2016 and 2017		
	Increase / decrease due to variations in			Increase / decrease due to variations in		
	Average Volume	Average Rate	Net Variation	Average Volume	Average Rate	Net Variation
	(R$ millions)					
Interest-bearing liabilities						
Funding transactions						
Interbank deposits	(6.7)	15.3	8.6	8.7	14.7	23.4
Time deposits	30.9	135.2	166.1	(43.5)	151.5	108.0
Money market funding	0.1	7.9	8.0	1.2	(0.7)	0.5
Financial bills (LF), agribusiness letters of credit (LCA) and mortgage loan notes (LCI)…	(366.9)	470.1	103.2	(777.8)	836.6	58.8
Funds from securities issued abroad	(10.8)	(283.7)	(294.5)	(8.3)	(218.0)	(226.3)
Total funding operations	**(353.4)**	**344.8**	**(8.6)**	**(819.8)**	**784.2**	**(35.6)**
Total borrowings and onlendings	(16.6)	(191.4)	(208.0)	-	(361.6)	(361.6)
Total interest-bearing liabilities	**(370.0)**	**153.4**	**(216.6)**	**(819.8)**	**422.6**	**(397.2)**

Net interest margin and net income margin

The table below sets forth the average balances of our total assets, interest-earning assets, interest-bearing liabilities, and average shareholders' equity, as well as certain related ratios, for the periods indicated.

	For the years ended December 31,		
	2018	2017	2016
	(R$ millions, except as otherwise indicated)		
Average balance of total assets	25,893.8	22,810.6	20,694.4
Average balance of interest-earning assets[(1)]	20,904.1	18,618.1	17,059.3
Average balance of interest-bearing liabilities[(2)]	16,249.6	14,601.5	13,216.7
Average balance of shareholders' equity	3,209.8	2,847.3	2,753.1
Net margin[(3)]	11.6%	11.2%	11.5%

	For the years ended December 31,		
	2018	2017	2016
Excess of interest-earning assets over interest-bearing liabilities[4]	4,654.5	4,016.6	3,842.6
Return on average balance of interest-earning assets[5]	3.1%	2.8%	2.4%
Average income on interest-earning assets[6]	21.3%	20.7%	19.0%
Average expenses on interest-bearing liabilities[7]	16.7%	16.2%	19.8%
Return on average balance of shareholders' equity[8]	20.2%	18.4%	14.8%
Efficiency index[9]	28.7%	31.9%	34.1%

(1) Represents assets that generate income from financial operations.

(2) Represents liabilities that generate expenses from financial operations.

(3) Consists of gross profit from financial intermediation before allowances for loan losses as a percentage of the average balance of interest-earning assets. See "Management's Discussion and Analysis of financial condition and results of operation— Critical Accounting Policies—Loans and Allowance for Loan Losses" for a discussion of the allowance for loan losses.

(4) Consists of the average balance of interest-earning assets less the average balance of interest-bearing liabilities.

(5) Consists of net income as a percentage of the average balance of interest-earning assets.

(6) Consists of income from financial intermediation as a percentage of the average balance of interest-earning assets.

(7) Represents expenses on financial intermediation excluding the effects of the allowance for loan losses, as a percentage of the average balance of interest-bearing liabilities.

(8) Consists of net income (annualised) as a percentage of the average balance of shareholders' equity.

(9) Efficiency index is calculated by dividing (a) the sum of (i) personnel expenses, (ii) other administrative expenses, excluding depreciation and amortisation, and (iii) commissions by (b) the sum of (i) income from services provided, (ii) gross income from financial intermediation, and (iii) the income from purchase of credit rights, less (iv) exchange rate variation. Efficiency index is not calculated using a standard methodology and may not be comparable to the definition of efficiency index or similarly titled measures used by other banks. Efficiency index is not a measure calculated in accordance with Brazilian GAAP or IFRS. We believe that the efficiency index provides a useful understanding of our operational performance, particularly over time.

Return on shareholders' equity and assets

The table below sets forth selected financial ratios for the periods indicated.

	For the year ended December 31,		
	2018	2017	2016
	(R$ millions, except as otherwise indicated)		
Net income	645.8	521.5	406.9
Average balance of total assets	25,893.8	22,810.6	20,694.4
Average balance of shareholders' equity	3,209.8	2,847.3	2,753.1
Return on average assets [1]	2.5%	2.3%	2.0%
Return on average shareholders' equity[2]	20.2%	18.4%	14.8%
Percentage of average shareholders' equity on average balance of total assets	12.4%	12.5%	13.3%
Distribution of Dividends			
Total dividends distributed [3]	197.8	188.3	194.5
Total dividends as percentage of net income	30.6%	36.1%	47.8%

(1) Consists of net income as a percentage of the average balance of total assets.

(2) Consists of net income as a percentage of the average balance of total shareholders' equity.

(3) Total distribution of dividends and interest on shareholders' equity.

Composition of our securities and derivatives portfolio

The tables below set forth the detailed breakdown of the composition of securities and derivatives portfolio by account, maturity and type for each of the periods indicated. For a description on the accounting practices that are applicable to our securities portfolio, see notes to our financial statements included elsewhere in these Offering Memorandum.

Breakdown by Maturity

	As of December 31, 2018				
	Indeterminate Maturity	**Up to 3 months**	**3 to 12 months**	**Over 12 months**	**Total**
			(R$ millions)		
Trading securities					
Investment fund units	67.9	-	-	-	67.9
Debentures	-	-	136.9	-	136.9
Total	67.9	-	136.9	-	204.8
Available for sale securities					
Brazilian government securities	-	28.6	0.3	1,780.2	1,809.1
Foreign securities	-	0.9	0.1	81.6	82.6
Other investment funds	203.3	-	-	-	203.3
Bank deposit certificate	-	-	-	0.1	0.1
Total	203.3	29.5	0.4	1,861.9	2,095.1
Total securities portfolio	271.2	29.5	137.3	1,861.9	2,299.9

	As of December 31, 2017				
	Indeterminate Maturity	**Up to 3 months**	**3 to 12 months**	**Over 12 months**	**Total**
			(R$ millions)		
Trading securities					
Investment fund units	60.9	-	-	-	60.9
Total	60.9	-	-	-	60.9
Available for sale securities					
Brazilian government securities	-	37.3	4.8	1,221.2	1,502.1
Foreign securities	2.7	0.5	0.1	58.9	62.2
Shares of listed companies	5.2	-	-	-	5.2
Investment fund units	171.4	-	-	-	171.4
Total	179.3	37.8	4.9	1,280.1	1,502.1
Total securities portfolio	240.2	37.8	4.9	1,280.1	1,563.0

	As of December 31, 2016				
	Indeterminate Maturity	**Up to 3 months**	**3 to 12 months**	**Over 12 months**	**Total**
			(R$ millions)		
Trading securities					
Investment fund units	57.4	-	-	-	57.4
Total	57.4	**-**	**-**	**-**	57.4
Available for sale securities					
Brazilian government securities	-	0.5	48.1	2,208.8	2,257.4
Foreign securities	2.5	-	-	57.0	59.5
Shares of listed companies	4.8	-	-	-	4.8
Investment fund units	107.9	-	-	-	107.9
Total	115.2	0.5	48.1	2,265.8	2,429.6
Total securities portfolio	172.6	0.5	48.1	2,265.8	2,487.0

Breakdown by type of security

	As of December 31,		
	2018	**2017**	**2016**
		(R$ millions)	
Trading Securities			
Own portfolio			
Debentures	1.9	-	-
Linked to repurchase commitments			
Debentures	135.0	-	-
Assets-backed technical reserves			
Investment fund units	67.9	60.9	57.4
Available for sale securities			
Own portfolio			
Treasury Bills (LFT)	1,586.5	919.7	2,076.9
National Treasury Bills (LTN)	-	-	0.5
National Treasury Notes (NTN)	0.3	66.7	6.4
Foreign securities	82.7	67.4	59.5
Investment fund units	203.3	171.4	107.8
Shares of listed companies	0.1	-	4.8
Total	1,872.9	1,225.2	2,255.9
Linked to repurchase commitments			
Treasury Bills (LFT)	4.5	152.9	44.2
Linked to guarantees			
Treasury Bills (LFT)	215.5	121.9	127.6
Asset-backed technical reserves			
Treasury Bills (LFT)	2.2	2.1	1.9
Total securities	2,299.9	1,563.0	2,487.0

Derivatives

	As of and for the years ended December 31,					
	2018		2017		2016	
	Asset (liability)	Trade amount	Asset (liability)	Trade amount	Asset (liability)	Trade amount
	(R$ millions)					
Assets						
Derivatives						
Swap – differential receivable	373.3	4,249.0	92.8	4,430.6	92.2	3,472.9
Currency forward receivable	27.3	1,693.6	1.0	167.1	0.2	4.7
Trading account						
Futures pending settlement						
Dollar futures	0.3	367.5	0.5	-	2.2	-
Foreign exchange coupon (DDI)	1.4	308.0	0.4	74.2	1.9	135.6
Interest rate (DI)	0.1	45.0	1.6	486.6	0.1	2.9
Liabilities						
Derivatives						
Swap – differential payable	(9.7)	1,978.0	(4.9)	2,000.7	(35.9)	2,484.9
Currency forward receivable	(20.0)	1,166.8	(4.5)	327.1	(0.4)	8.8
Trading account						
Futures pending settlement						
Dollar futures	(1.4)	-	(0.3)	111.9	-	211.0
Foreign exchange coupon (DDI)	(1.2)	411.6	(0.2)	182.0	(1.2)	176.9
Interest rate (DI)	(0.5)	3,053.3	(1.3)	5,253.2	(0.1)	2,773.0
Total	369.7	13,272.8	85.2	13,033.2	58.8	9,270.7

Central Bank compulsory deposits

In compliance with the Central Bank's requirements, our balance of compulsory deposits, represented by compulsory payments and other types of compulsory deposits, amounted to R$42.5 million as of December 31, 2018. See "The Brazilian Financial System and Banking Regulation—Regulations affecting liquidity in the financial market".

Loan portfolio

The tables below set forth our credit transactions portfolio by type of transaction for each of the periods indicated. Our total lending operations involve only borrowers resident in Brazil, denominated in reais and indexed to local interest rates.

	As of December 31,					
	2018		2017		2016	
	Current	Noncurrent	Current	Noncurrent	Current	Noncurrent
	(R$ millions, except as otherwise indicates)					
Loans	5,493.3	4,814.0	4,751.7	4,063.3	4,326.0	3,945.1
Discounted trade notes	708.1	1.0	712.7	0.6	786.8	1.1
Loans assigned with substantial retention of risk	37.0	35.1	66.4	93.1	141.0	276.5
Financings	1,728.0	741.0	1,235.4	635.0	893.2	491.5
Rural and agro-industrial financings	52.2	2.4	58.2	-	58.9	10.6
Total lending operations	**8,018.6**	**5,593.5**	**6.824.4**	**4,792.0**	**6,205.9**	**4,724.8**
Financial leasing	320.4	401.9	256.5	223.3	203.2	157.3
Operating leasing	36.8	28.2	27.1	19.2	30.6	12.0
Total leasing operations	**357.2**	**430.1**	**283.6**	**242.5**	**233.8**	**169.3**
Guarantees and collateral support	-	-	34.7	-	-	-
Payables for purchase of assets	12.9	8.5	9.0	18.4	-	-
Other credit and notes receivable	3,210.4	15.5	2,497.9	6.4	1,970.0	29.5
Credits and financing related to operations acquired under assignment	51.2	59.0	-	-	-	-
Financed imports	0.5	-	12.9	-	14.6	-
Advances on foreign exchange	569.4	-	440.2	-	461.6	6.4
Total other credits	**3,844.4**	**83.0**	**2,994.7**	**24.8**	**2,455.8**	**47,7**
Total loan portfolio	**12,220.2**	**6,106.6**	**10,102.7**	**5,059.3**	**8,895.5**	**4,941.8**

Loan portfolio by business sector

The tables below set forth the business sector of our loan portfolio as indicated:

	As of December 31,		
	2018	2017	2016
Private Sector	(R$ millions, except as otherwise indicates)		
Industrial	5,018.4	3,900.9	3,258.9
Commercial	3,476.7	2,823.2	2,007.6
Financial	124.4	48.5	156.6
Other services	3,325.8	2,623.2	2,385.6
Individuals	6,270.8	5,648.2	5,874.3
Rural	0.5	0.3	-
Total Private Sector	**18,216.6**	**15,044.3**	**13,683.0**

	As of December 31,		
	2018	2017	2016
Public Sector	**110.2**	**117.7**	**154.3**
Total	**18,326.8**	**15,162.0**	**13,837.3**

Loan portfolio maturity

The tables below set forth the maturities of our loan portfolio at the dates indicated:

	As of December 31,		
	2018	2017	2016
Outstanding transactions with maturity	**(R$ millions, except as otherwise indicates)**		
Up to 3 months	6,421.4	5,603.6	4,946.4
3 months to 12 months	5,531.4	4,198.7	3,727.1
1 year to 3 years	4,281.9	3,558.7	3,419.3
3 years to 5 years	1,339.1	1,137.9	1,154.9
Over 5 years	485.7	362.8	367.7
Total outstanding transactions	**18,059.5**	**14,861.7**	**13.615.4**
Overdue transactions			
Up to 60 days	87.9	107.7	93.3
61 to 180 days	75.5	95.4	88.2
181 to 360 days	103.9	97.2	40.4
Total overdue transactions	**267.3**	**300.3**	**221.9**
Total	**18,326.8**	**15.162.0**	**13.837.3**

According to CMN Resolution No. 2,682, overdue financial transactions are written off when overdue (i) for more than 360 days if their maturity terms is shorter than 36 months or (ii) for more than 720 days if their maturity exceeds 36 months.

Largest clients

The tables below set forth a summary of our largest clients at the dates presented.

	As of December 31,					
	2018		2017		2016	
	Amount	% Total	Amount	% Total	Amount	% Total
	(R$ millions, except as otherwise indicated)					
10 largest clients	1,326.8	7.2%	1,412.0	9.3%	1,207.4	8.7%
50 largest clients	2,305.9	12.6%	1,817.0	12.0%	1,520.5	11.0%
100 largest clients	1,952.1	10.7%	1,443.1	9.5%	1,306.0	9.4%
Other loans	12,742.0	69.5%	10,489.9	69.2%	9,803.4	70.9%
Total loan portfolio	**18,326.8**	**100.0%**	**15,162.0**	**100.0%**	**13,837.3**	**100.0%**

Credit approval process

For a description of our credit approval process, see "Business of Banco Daycoval S.A.—Credit Policy, Risk Management and Default Rates".

Rating of our loan portfolio

The tables below set forth the rating of our credit transactions by risk levels, as of the dates indicated, where "AA" represents minimum credit risk and category "H" represents an extremely high credit risk, according to the applicable regulation issued by the Central Bank. It also sets forth the balance of our allowance for loan losses as of the dates indicated. See section "Management's Discussion and Analysis of Financial Condition and Results of Operation—Critical Accounting Policies—Loans and Allowance for Loan Losses".

	As of December 31, 2018			
			Allowance for loan losses	
Risk Level	**Credits**	**% of Total**	**Minimum required by Central Bank**	**Effective**
		(R$ millions, except as otherwise indicated)		
AA	1,316.1	7.2	0.0%	-
A	7,758.1	42.3	0.5%	68.4
B	6,723.5	36.7	1.0%	187.5
C	1,259.9	6.9	3.0%	53.2
D	374.5	2.0	10.0%	37.5
E	84.7	0.5	30.0%	25.4
F	138.1	0.8	50.0%	69.1
G	43.7	0.2	70.0%	30.6
H	628.2	3.4	100.0%	628.2
Total	**18,326.8**	**100.0**	**-**	**1,099.9**

	As of December 31, 2017			
			Allowance for loan losses	
Risk Level	**Credits**	**% of Total**	**Minimum required by Central Bank**	**Effective**
		(R$ millions, except as otherwise indicated)		
AA	0.3	-	0.0%	-
A	7,000.8	46.2	0.5%	35.0
B	5,692.9	37.5	1.0%	56.9
C	1,398.3	9.2	3.0%	42.0
D	166.6	1.1	10.0%	16.7
E	105.1	0.7	30.0%	31.5
F	74.5	0.5	50.0%	37.2
G	41.0	0.3	70.0%	28.7
H	682.5	4.5	100.0%	682.5
Total	**15,162.0**	**100.0**	-	**930.5**

	As of December 31, 2016			
			Allowance for loan losses	
Risk Level	Credits	% of Total	Minimum required by Central Bank	Effective
	(R$ millions, except as otherwise indicated)			
AA	0.2	-	0.0%	-
A	6,539.8	47.3	0.5%	32.7
B	4,943.1	35.7	1.0%	49.4
C	1,320.9	9.5	3.0%	39.6
D	215.6	1.6	10.0%	21.6
E	79.8	0.6	30.0%	23.9
F	152.1	1.1	50.0%	76.1
G	213.2	1.5	70.0%	149.3
H	372.6	2.7	100.0%	372.6
Total	**13,837.3**	**100.0**	-	**765.2**

Overdue credits and allowances for loan losses

The tables below set forth a summary of our overdue credits (defined as credits under D to H levels), most of which overdue for more than 61 and less than 360 days, as well as certain indexes of assets quality, for dates indicated:

	As of December 31,		
	2018	2017	2016
	(R$ millions, except as otherwise indicated)		
Total assets	28,979.7	23,786.3	21,774.3
Total loan portfolio	18,326.8	15,162.0	13,837.3
Overdue credits	267.3	300.3	221.9
Overdue credits as a percentage of total loan portfolio	1.5%	2.0%	1.6%
Overdue credits as a percentage of total assets	0.9%	1.3%	1.0%
Allowance for loan losses	1,099.9	930.5	765.2
Allowance for loan losses as a percentage of:			
Total loan portfolio	6.0%	6.1%	5.5%
Total overdue credits	411.5%	309.9%	344.8%

Allowance for loan losses

The tables below set forth the track record of our allowance for loan losses for each of the periods indicated:

	For the years ended December 31,		
	2018	2017	2016
	(R$ millions, except as otherwise indicated)		
Balance at the beginning of the period	930.5	762.5	748.5
Establishment of provision [(1)]	698.9	553.6	622.5
Write-offs	(529.5)	(388.3)	(605.8)
Balance at the end of the period	**1,099.9**	**930.5**	**765.2**
Credits recovered	230.3	150.4	163.0
Write-off credits as a percentage of total loan portfolio	**2.9%**	**2.6%**	**4.4%**
Allowance for loan losses as a percentage of loan portfolio	**6.0%**	**6.1%**	**5.5%**

(1) The difference between the provision established and the provision declared in our financial statements results from the fact that losses foreclosed assets are recognized as losses under “allowance for loan losses”.

Funding

Balance of deposits

The table below sets forth the balance of deposits as of the dates indicated:

	As of December 31,		
	2018	2017	2016
	(R$ millions, except as otherwise indicated)		
Demand deposits	863.8	735.5	598.6
Interbank deposits	395.5	337.4	353.7
Time deposits	4,129.1	3,985.1	4,268.1
Foreign-currency deposits	7.3	4.7	7.6

Maturity of deposits

The table below sets forth the maturity of our outstanding deposits as of the dates indicated:

	As of December 31,		
	2018	2017	2016
	(R$ millions, except as otherwise indicated)		
No maturity	871.1	740.2	606.3
Up to 90 days	908.3	1,120.8	1,228.3
91 to 360 days	1,439.0	1,721.4	1,666.4
1 year to 3 years	2,025.0	1,402.6	1,641.5
3 years to 5 years	141.6	77.7	63.5
Over 5 years	10.7	-	22.0
Total	5,395.7	5,062.7	5,228.0

*Funds from financial bills (*LF*), agribusiness letters of credit (LCA) and mortgage loan notes (LCI) and securities issued abroad*

Our funds from financial bills (LF), agribusiness letters of credit (LCA) and mortgage loan notes (LCI) consist of notes denominated in Brazilian reais linked to CDI and our funds from securities issued abroad consist of indebtedness denominated in foreign currency in the form of fixed rate notes.

The table below sets forth the maturity of these notes as of the dates indicated:

	As of December 31, 2018		
	Notes	Financial bills (LF), agribusiness letters of credit (LCA) and mortgage loan notes (LCI)	Total
		(R$ millions)	
Up to 90 days	1,877.4	799.0	2,676.4
91 to 360 days	-	3,156.6	3,156.6
1 year to 3 years	20.6	4,630.1	4,650.7
3 years to 5 years	-	247.1	247.1
Over 5 years	-	191.4	191.4

Total	**1,898.0**	**9,024.2**	**10,922.2**

	As of December 31, 2017		
	Notes	**Financial bills (LF), agribusiness letters of credit (LCA) and mortgage loan notes (LCI)**	**Total**
		(R$ millions)	
Up to 90 days	31.1	606.5	637.6
91 to 360 days	-	2,907.6	2,907.6
1 year to 3 years	1,657.3	3,062.3	4,719.6
3 years to 5 years	-	186.0	186.0
Total	**1,688.4**	**6,762.4**	**8,450.8**

	As of December 31, 2016		
	Notes	**Financial bills (LF), agribusiness letters of credit (LCA) and mortgage loan notes (LCI)**	**Total**
		(R$ millions)	
Up to 90 days	30.6	625.5	656.1
91 to 360 days	-	1,998.3	1,998.3
1 year to 3 years	1,655.2	2,821.8	4,477.0
3 years to 5 years	-	63.0	63.0
Over 5 years	-	6.6	6.6
Total	**1,685.8**	**5,515.2**	**7,201.0**

Borrowings and onlendings

The tables below set forth the maturity of our funding from borrowings and onlendings as of the dates indicated.

	As of December 31,		
	2018	**2017**	**2016**
	(R$ millions, except as otherwise indicated)		
Up to 90 days	1,198.8	327.1	363.7
91 to 360 days	669.9	697.0	869.0
1 year to 3 years	377.6	895.2	458.2
3 years to 5 years	166.5	285.3	39.0
Above 5 years	0.8	-	3.1
Total	**2,413.6**	**2,204.6**	**1,733.0**

BUSINESS OF BANCO DAYCOVAL S.A.

Overview

We are a diversified mid-sized Brazilian bank, specialized both in lending to companies and to individuals in the retail segment (payroll and auto loans), and with a significant presence in foreign currency exchange operations.

Since the late 1980s, we have offered a wide range of credit products to companies including working capital loans, receivables purchase, bank guarantees, trade finance and leasing most of which lending is secured by high quality collateral. The majority of our loans in this segment are provided to small- and medium-sized companies with annual gross revenues of up to R$300.0 million. We service our corporate client base through our network of 43 branches and 19 commercial platforms located in 29 cities across 21 Brazilian states and the Federal District (Brasília), and through a branch in the Cayman Islands. We had approximately 7,000 active corporate clients as of December 31, 2018 and our portfolio of company loans at such date was R$12,238.6 million, representing 66.8% of our total loan portfolio and an increase of 26.7% compared to December 31, 2017. We believe that a significant potential client base of Brazilian small and medium-sized companies exists, which will allow us to continue to expand our activities in this segment.

In 2004, we started operations in the retail segment by offering payroll deduction loans under the DayCred brand. Our portfolio of payroll deduction loans as of December 31, 2018 was R$ 5,270.5 million, representing 28.8% of our total loan portfolio and an increase of 7.9% compared to December 31, 2017. Our payroll deduction loans are either term or credit card financings. The payroll credit card portfolio amounted to R$392.6 million as of December 31, 2018, an increase of 24.4% compared to December 31, 2017. Our strategy is to grow our payroll deduction loan portfolio on a basis that is broadly proportionate to the growth of our corporate loan portfolio.

The focus of our payroll loan business is origination pursuant to national agreements with the most financially solid payers, particularly INSS, the Federal Government and the armed forces, which together represented 54.7% of the portfolio as of December 31, 2018. Overall, Daycoval had 1,072,000 active contracts with individual payroll deduction clients as of such date, with an average loan ticket of R$5,400 and an average plan of 41 months. Payroll loan origination is done through independent correspondents and our subsidiary, IFP - Promotora de Serviços de Consultoria e Cadastro Ltda., which is focused on promoting payroll loan operations. IFP operates through 38 Daycred stores nationwide and accounted for approximately 11.0% of total origination and 29.2% of the Bank's INSS operations in 2018.

Our loans to individuals also include auto loans, usually for older model used passenger cars and light vehicles, and home equity loans. In addition to credit, we provide other financial services to our clients, most importantly asset management and foreign exchange services.

As of December 31, 2018, our subsidiary Daycoval Asset Management had approximately R$4.2 billion in investment portfolios and funds under management, compared to R$2.5 billion and R$1.5 billion as of December 31, 2017 and 2016, respectively.

Besides providing foreign currency exchange services to corporate clients through our network of branches and platforms, we operate six Daycoval Câmbio foreign exchange stores and Daycoval Câmbio facilities at many of our Daycred stores. We also provide foreign exchange services through partnerships with tourism operators and agencies (160 exchange correspondents and 367 tourism agencies) which provide us with broad access to clients and offer those clients flexibility and security in conducting their foreign exchange transactions. In 2018, we completed approximately 518,300 transactions using prepaid cards, cash and remittances in different currencies, with an aggregate value of R$1,431.5 million.

We seek to diversify our sources of funding to avoid mismatches between the respective interest rates and maturities of our funding and the loans that we grant, and to obtain liquidity to allow us to take advantage of growth opportunities. Our primary sources of funding are financial bills (*letras financeiras* or LFs), a type of debt instrument issued in the Brazilian domestic market, which amounted to R$7,586.5 million as of December 31, 2018 (including subordinated financial bills of R$147.3 million), representing 40.5% of our total funding, and time deposits, which amounted to R$4,129.1 million as of December 31, 2018, representing 22.0% of our total funding. Our sources of funding also include demand and interbank deposits, other debt instruments issued in the domestic market consisting of agribusiness letters of credit (*Letras de Crédito do Agronegócio* or LCA) and mortgage loan notes (*Letras de Crédito Imobiliária* or LCI), bonds issued in the international capital markets, and development bank and interbank loans. For further discussion of our funding, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Sources of Funding". Our funding denominated in U.S. dollars represented 23.0% of our total funding as of December 31, 2018, and includes the bonds we have issued in the international capital markets and certain of our development bank and interbank loans.

As of September 30, 2018, we were the 15th largest Brazilian private bank in terms of shareholders' equity and the 18th largest Brazilian private bank in terms of volume of assets, according to the Central Bank. As of December 31, 2018, we had assets of R$28,979.7 million, shareholders' equity of R$3,237.0 million and a total loan portfolio of R$18,326.8 million.

For the year ended December 31, 2018, our return on average shareholders' equity was approximately 20.2%, compared to 18.4% and 14.8% for the years ended December 31, 2017 and 2016, respectively. For the year ended December 31, 2018, our return on average assets was approximately 2.5%, compared to 2.3% and 2.0% for the years ended December 31, 2017 and 2016, respectively.

The following tables highlight certain of our financial information as of the dates and for the periods indicated:

	As of December 31,			
	2018	2017	2016	2018
	(R$ millions, except percentages)			(U.S.$ millions, except percentages)[1]
Total assets	28,979.7	23,786.3	21,774.3	7,479.0
Shareholders' equity	3,237.0	3,009.0	2,657.4	835.4
Loan portfolio	18,326.8	15,162.0	13,837.3	4,729.7
Deposits	5,395.7	5,062.6	5,228.1	1,392.5
Funds from acceptance and issuance of securities	10,922.2	8,450.8	7,200.9	2,818.8
Basel index[2]	14.7%	14.9%	15.9%	14.7%
Cash, interbank investments and securities and derivatives	8,053.2	6,253.4	5,762.7	2,078.4
Allowance for loan losses as a percentage of total loan portfolio	6.0%	6.1%	5,5%	6.0%

	For the years ended December 31,			
	2018	2017	2016	2018
	(R$ millions, except percentages)			(U.S.$ millions, except percentages)[1]
Net income	645.8	521.5	406.9	166.7
Return on average shareholders' equity[3]	20.2%	18.4%	14.8%	20.2%
Return on average assets[4]	2.5%	2.3%	2.0%	2.5%
Efficiency index[5]	28.7%	30.8%	34.0%	28.7%

Notes:

(1) Translated into U.S.$ solely for the convenience of the reader. The rate used to translate such amounts was R$3.87 to U.S.$1.00 (subject to rounding adjustments), which was the selling exchange rate in effect as of December 31, 2018, as reported by the Central Bank. The U.S. dollar equivalent information presented in this Offering Memorandum is provided solely for the convenience of investors and should not be construed as implying that the amounts in *real* represent, or could have been or could be converted into, U.S. dollars at such rates or any other rate.

(2) Basel index corresponds to our reference shareholders' equity divided by our risk weighted assets, each as determined pursuant to the regulations of the Central Bank.

(3) Return on average shareholders' equity is calculated by dividing (a) net income by (b) average shareholders' equity that represents the sum of the shareholders' equity as of the end of each month in the fiscal year divided by 12. Return on average shareholders' equity is not a measure calculated in accordance with Brazilian GAAP or IFRS.

(4) Return on average assets is calculated by dividing (a) net income by (b) average total assets that represents the sum of total assets as of the end of each month in the fiscal year divided by 12. Return on average assets is not a measure calculated in accordance with Brazilian GAAP or IFRS.

(5) Efficiency index is calculated by dividing (a) the sum of (i) personnel expenses, (ii) other administrative expenses, excluding depreciation and amortisation, and (iii) commissions by (b) the sum of (i) gross income from financial intermediation, (ii) income from services provided, and (iii) the income from purchase of credit rights, less (iv) exchange rate variation. Efficiency index is not calculated using a standard methodology and may not be comparable to the definition of efficiency index or similarly titled measures used by other banks. Efficiency index is not a measure calculated in accordance with Brazilian GAAP or IFRS. We believe that the efficiency index provides a useful understanding of our operational performance, particularly over time.

Our Strengths

We believe that our position as one of the leading medium-sized Brazilian banks is a result of the following strengths:

Conservative and Solid Financial Position

We have maintained a solid financial position over time through the adoption of conservative credit and investment policies and the maintenance of comparatively high levels of liquidity and shareholders' equity. We seek to maintain our liquidity by investing at least 30.0% of our deposits in cash and cash equivalents and other readily available funds. To minimise liquidity risks, we also seek to avoid mismatches between our credit portfolio and our sources of funds by diversifying and extending the maturity of our funding. As of December 31, 2018, our funding was composed of (i) financial bills (LFs), (ii) time deposits, demand deposits, interbank deposits and other deposits, (iii) other debt instruments (LCA and LCI) issued in the Brazilian market, (iv) borrowings and onlendings and (v) bonds issued abroad.

Our Basel index as of December 31, 2018 was 14.7%, which was significantly higher than the 8.625% rate required as of that date, and the 8.00% rate required as of the date of this Offering Memorandum, by the Central Bank.

We believe that our financial strength is evident in our ratings: (i) Ba2 on a global scale by Moody's with a "stable" outlook; ii) BB- by Fitch Ratings with a "stable" outlook; (iii) BB- by Standard & Poor's with a

"stable" outlook. We note however that according to the reports published, the ratings reflect the opinion of the agencies regarding Banco Daycoval and should not be taken as an investment recommendation.

Significant and Solid Corporate Lending Operations

We have developed a significant presence in the Brazilian corporate lending segment in which we have operated since 1989. We understand our corporate client base and have developed solid and close relationships with our clients by offering high-quality services and a broad range of credit products. Our range of services and credit products has broadened over time in anticipation of and response to the needs of our clients and, as required, may be specifically tailored to their individual requirements. We believe that our network of branches and other distribution channels, together with our team of specialised sales managers, allow us to efficiently respond to our clients' needs, including by rapidly approving loans without compromising our conservative risk policies.

Quality of Loan Portfolio

We believe that the quality of our loan portfolio and the low level of loan defaults that we have experienced are principally a result of our ability to select clients with an acceptable risk profile and to closely monitor the collateral that they grant us with respect to the loans that we provide them. As of December 31, 2018, the percentage of our loan portfolio represented by AA to C credits, according to the risk classification system established by the Central Bank, was 93.1%, compared to 92.9% and 92.5%, as of December 31, 2017 and 2016, respectively. In addition, our allowance for loan losses represented 6.0% of our total loan portfolio as of December 31, 2018, compared to 6.1% and 5.5% as of December 31, 2017 and 2016, respectively. Commencing in 2018, as a matter of prudence, we have taken an additional provision in respect of risk category A-C loans above the provision required for such loans by the Central Bank.

In order to mitigate the risks that could result from a concentrated client base, our credit policy establishes limits on the percentages that each industry or client may represent in our total loan portfolio. As of December 31, 2018, our ten largest clients represented 7.2% of our total loan portfolio, compared to 9.3% and 8.7% as of December 31, 2017 and 2016, respectively.

In addition, the nature of the segments in which we operate contributes to the quality of our loan portfolio. Most of our loans to companies are secured by what we believe to be high-quality collateral. In addition, we believe that our payroll deduction loans have a reduced risk profile compared to other credit products since the instalments on such loans are directly deducted from the salary of the public sector employees or the pension paid to beneficiaries and retirees of the INSS, as the case may be, who are the borrowers under such loans. We also have strict internal credit analysis rules in relation to the auto and home equity loans that we grant.

Growth Potential with Low Marginal Costs

We believe that the segments in which we operate are among those with the greatest potential for growth in the Brazilian credit industry. We believe that we have the capacity to grow our operations with low marginal costs due to the combination of the following factors:

- we have developed a national network of bank branches, stores and outlets in key locations where we have identified significant customer demand;

- we have a state-of-the-art technology platform with differentiated proprietary systems to evaluate and monitor loans, facilitate origination and the capacity to support a significant increase in our client base; and

- we have expertise in the development of efficient distribution channels for our products, which we believe will allow us to further expand the market share of our products and the range of products that we offer at reduced marginal costs, allowing us to compete with larger banks.

Flexible Operating Structure and Agility and Developing New Products

We believe that our solid and flexible operating structure, together with the expertise of our management team, have allowed us to develop new products and to quickly explore market opportunities at relatively low cost and in compliance with our stringent return and risk exposure criteria. For example, in 2014, after the acquisition of the Brazilian operations of the U.S. bank CIT (Commercial Investment Trust) we started to offer leasing operations to companies from a wide range of industries, most significantly in the information technology (IT) and telecommunications sectors. Since 2010, having noted a demand arising from the significant increase in international travel, we have operated Daycoval Câmbio foreign exchange bureaus in Brazil and in addition work with an extensive network of currency exchange correspondents and travel agents to offer customers a range of options for a fast and secure service when buying or selling foreign currency. In 2004, we identified the substantial growth potential of the individual lending segment and started to offer payroll deduction loans. We rapidly implemented an efficient operating structure for offering such loans through an extensive network of banking correspondents and, more recently, through our own Daycred stores.

Experienced Management Committed to High Standards of Corporate Governance

Our directors and executives have substantial experience in the Brazilian financial markets and are fully committed to our interests and goals. Our chairman, and each of our other board of directors and senior executives, have more than 50 years and 25 years, respectively, of experience in the Brazilian banking industry and extensive knowledge of our business. They are themselves among our controlling shareholder group, but are complemented by other directors and executives with extensive experience at other financial institutions. We believe that our management is capable of identifying potential growth opportunities that arise in the market and establishing competitive strategies that increase our profitability while reducing our costs and the risks in our portfolio. Our administrative structure is based on the strict definition of activities for each of our areas of operation, which enhances our efficient decision-making process. We seek to stimulate and retain our employees by offering competitive compensation and a positive work atmosphere which have contributed to our low employee turnover. We have also implemented high standards of corporate governance, such as the inclusion of two independent directors with large experience in the financial markets.

Our Strategy

We seek to continue to grow on a sustainable and consistent basis and to create value for our shareholders through the following strategies:

Customer Focus in the Corporate Lending Segment

Our main strategy will be to focus on the maintenance and development of our corporate client base in Brazil. We believe that there are numerous potential clients in the regions in which we operate, and we intend to take advantage of the growth opportunities of this segment by:

- increasing our selected customer base while continuing to apply our stringent credit and collateral quality criteria;

- growing and diversifying our distribution structure through the opening of new branches in attractive locations. As of December 31, 2018, we had 43 branches and 19 commercial platforms located in 29 cities

across 21 states and the Federal District, and another branch in the Cayman Islands, which is an essential instrument both for fundraising and for the opening of commercial and relationship lines with corresponding banks. In 2018, we opened four branches: Barra da Tijuca (RJ), Joinville (SC), Piracicaba (SP) and São José dos Campos (SP);

- further increasing the size of our specialized team in the companies segment which consisted of 325 employees as of December 31, 2018, including our executive officers, superintendents, regional managers, account officers and assistants, with in-depth market and client specific knowledge;

- continually broadening and differentiating the range of services and credit products that we offer our corporate clients; and

- distinguishing ourselves from our competitors, by our knowledge of our clients and their businesses, our personalized services, our flexibility, and our ability to tailor products and services specifically to their individual requirements.

Continue to Take Advantage of Opportunities in the Individual Lending Segment

We intend to improve our market share in the individual lending segment by taking advantage of our experience in the lending market and our existing operating structure, as well as by offering new products that we deem attractive, by:

- increasing the volume of our payroll deduction loans through (i) the execution of new agreements with public sector entities, including primarily solid federal agencies, (ii) the use of exclusive and innovative information technology tools to reach to new clients, and (iii) the strengthening of our relationships with banking correspondents through "loyalty" programs such as incentive and training initiatives;

- continuing to offer vehicle financing products through the national coverage of our correspondents and a focus on older model used passenger cars and light vehicles, which have good loan to value ratios and attractive margins;

- using our existing distribution channels to develop and offer new products in order to realise economies of scale and reduce our marginal costs; and

- continuing to expand our foreign currency exchange business by opening new Daycoval Câmbio bureaus and expanding the network of currency exchange correspondents and travel agents with whom we work.

In addition, we expect to further extend our client offerings through our:

- credit cards – corporate cards in association with Mastercard;

- payroll deduction credit cards;

- home equity loans; and

- asset management services.

Diversify our Sources of Funding

Historically, the principal source of our funding has been our deposit base, complemented by loans and on-lendings from development banks and other financial institutions, and notes issued in the international market under our medium term note programme. More recently, we have issued financial bills (LFs) and other

debt instruments in the Brazilian capital markets which, as of December 31, 2018, represented our largest source of funding. This has not only diversified our funding base, but, since such instruments are denominated in *reais* and have maturities that are typically longer than time deposits, has assisted the bank in managing mismatches between its funding and assets.

We intend to continue to maintain a diversified funding base and to further expand out funding sources and instruments as opportunities arise. We further expect that we will continue to fund ourselves domestically in Brazil principally through our deposit base and local issuances of debt instruments, and abroad, principally through the issuance of bonds by our head office or Cayman Islands branch, as market conditions permit, and borrowings from development banks and other financial institutions.

Additionally, in order offer an array of investment opportunities to our clients and to optimize our own sources of funding we launched in 2014 an on-line investment platform named Daycovalinveste. Through this platform we make available a wide range of products (LF, LCI, LCA, CDB (time deposits), funds and automatic credit), where our clients have a direct channel to communicate with one of our investment specialists via phone, e-mail or *Whatsapp.*

Maintain our Solid Financial Base

We strive to maintain the high quality of our assets by applying our conservative credit and risk management policies, which we believe have been critical for maintaining relatively low default levels of our clients in recent years. In addition, we believe that our high liquidity level and strong shareholders' equity base as evidenced by our Basel index have contributed to high levels of confidence in our financial condition and have also allowed us take advantage of growth opportunities. Our strategy is to continue to maintain liquidity that is adequate and compatible with market standards and a strong capital base.

History

We were originally incorporated on August 5, 1968 as Daycoval Distribuidora de Títulos e Valores Mobiliários Ltda. In 1989, our name was changed to Banco Daycoval S.A. after we were authorised to operate as a multiple-service bank by the Central Bank. Since then, we have offered financing to companies.

In 1994, we were authorised by the Central Bank to operate commercial portfolios and in 1995, to conduct foreign exchange transactions to support our corporate lending operations.

In 2004, we started operations in the retail segment by offering payroll deduction loans under the DayCred brand and also expanded our activities to fund management with the creation of Daycoval Asset Management.

In 2006, we expanded our operations in the retail segment to include vehicle finance.

In March 2007, we created Dayprev to operate in the insurance business. In addition, in March 2007, we and our shareholders completed a corporate restructuring that resulted in the creation of Daycoval Holding Financeira S.A., which held the majority of our capital stock and was controlled by the Dayan family.

In June 2007, we completed our IPO and raised approximately R$1.0 billion in capital. We listed our preferred shares on the BM&FBOVESPA (now B3 S.A. – Brasil, Bolsa, Balcão) and adhered to the Level 2 regulation of the exchange. Daycoval Holding Financeira S.A. subsequently sold all of its shares of our capital stock to members of the Dayan family.

In 2008, we received authorization from Brazil's Central Bank to set up a branch bank abroad, in Grand Cayman, Cayman Islands.

In 2009, we concluded an agreement with a group of investors (the "Pioneer Investors") pursuant to which the Pioneer Investors subscribed debt instruments in a private placement and acquired warrants convertible into ordinary shares and preferred shares of the Bank. On exercise of the warrants over the next several years, the Pioneer Investors became significant shareholders of the Bank.

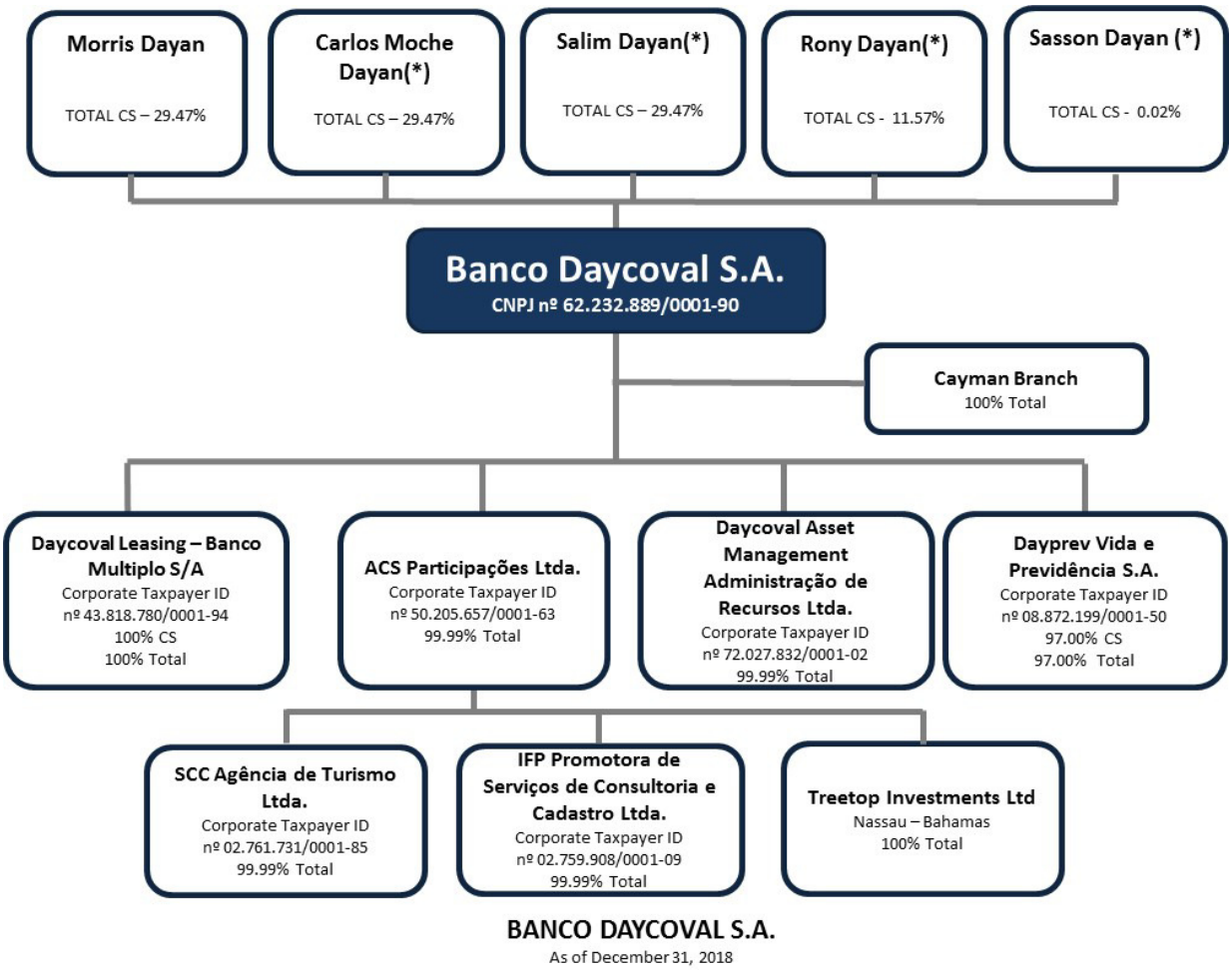
In 2014, we acquired Banco Commercial Investment Trust do Brasil S.A. (Banco CIT Brasil), a subsidiary of CIT Group Inc., specialized in providing credit to small and medium-sized companies with a focus on the leasing of equipment, particularly in the IT segment.

In 2016, we and our controlling shareholders made a joint tender offer to acquire all of our preferred shares not owned by our controlling shareholders. Following the successful tender offer, we redeemed those of our preferred shares not tendered by non-controlling shareholders in the tender offer.

In 2018, we converted all of the preferred shares issued by the Bank into common shares at the ratio of one common share for each preferred share; and we supplemented our capital base through our first issue of subordinated debt, recognized as Tier 2 capital by the Central Bank.

Structure of Banco Daycoval S.A.

The following chart indicates our corporate structure as of December 31, 2018:



Note: CS indicates Common Shares

(*) By a Contract of Gift of Participation with Reservation of Usufruct and Other Covenants, dated December 14, 2015, Mr. Sasson Dayan gave, free of charge, the total of 55,581,891 ON to his heirs: Salim Dayan, Carlos Moche Dayan and Rony Dayan, granting to them the exclusive usufruct of all the voting rights of each of their respective donated ON shares.

Our executive offices and headquarters are located at Avenida Paulista, 1793, in the City of São Paulo, in the State of São Paulo, CEP 01311-200, Brazil. Our investor relations email is ri@bancodaycoval.com.br. We are registered with the State of São Paulo Commercial Registry under NIRE (*Número de Identificação de Registro de Empresas*) 35300524110.

In addition to the Bank's headquarters, we have three other administrative and business centers in São Paulo: (i) our IT, control and CDC vehicle operations are located at Avenida Paulista, 1842, a facility we inaugurated at the end of 2018, (ii) the departments involved in our foreign exchange operations are located at Avenida Paulista, 1,776 and (iii) our customer service unit (SAC), the collection, control and back office of IFP (our subsidiary involved in payroll operations) and our HelpDesk (providing assistance and information to employees resolving technical issues related to telephony, computer systems and IT) are located at Rua Boa Vista 186.

The Cayman Islands Branch

The Cayman Islands Branch is registered as a foreign company under Part IX of the Companies Law (as amended) of the Cayman Islands. On May 12, 2008 the Cayman Islands Branch was granted a Category "B" banking licence by the Cayman Islands Monetary Authority to operate in the Cayman Islands under the Banks and Trust Companies Law (as amended) of the Cayman Islands, which allows the Cayman Islands Branch to conduct all types of banking business in any part of the world, but does not allow the Cayman Islands Branch to take deposits from residents of the Cayman Islands or to invest in any asset representing a claim on any person resident in the Cayman Islands, subject to certain exceptions in respect of, inter alia, exempted or ordinary resident companies and other licensees. Our Cayman Islands Branch is an essential instrument both for fundraising and for the opening of commercial and relationship lines with correspondent banks.

The registered office of the Cayman Islands Branch is Intertrust Corporate Services (Cayman) Limited, 190 Elgin Avenue, George Town, Grand Cayman, KY1-9005, Cayman Islands and the telephone number is +1 345 914 3248.

Principal Products

Our principal activity is providing loans to companies in Brazil. The majority of our loans in this segment are provided to small- and medium-sized companies with annual gross revenues of up to R$300.0 million. We offer these companies credit products such as working capital loans, receivables purchase, bank guarantees, foreign trade financing and leasing, in each case secured by collateral provided by the borrower. We also offer credit products to individuals including payroll deduction loans, vehicle financing and home equity loans. In addition, we provide (directly or through our subsidiaries) services that are complementary to our credit products, such as asset management and receivables collection.

The table below shows the breakdown of our loan portfolio by clients:

	As of December 31,					
	2018		2017		2016	
	Amount (R$ millions)	% of total loan portfolio	Amount (R$ millions)	% of total loan portfolio	Amount (R$ millions)	% of total loan portfolio
10 largest clients	1,326.8	7.2%	1,412.0	9.3%	1,207.3	8.7%
50 largest clients	2,305.9	12.6%	1,817.0	12.0%	1,520.5	11.0%
100 largest clients	1,952.1	10.6%	1,443.1	9.5%	1,306.0	9.4%
Other loans	12,742.0	69.6%	10,489.9	69.2%	9,803.5	70.9%
Total loan portfolio	18,326.8	**100.0%**	15,162.0	**100.0%**	13,837.3	**100.0%**

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Corporate lending

As of December 31, 2018, our total loan portfolio to companies was R$12,238.6 million, compared to R$9,661.9million and R$8,080.6 million as of December 31, 2017 and 2016, respectively. Such portfolio includes all of our loans, leases, receivables purchased and other on-balance sheet credit operations, but excludes bank guarantees. Our client base includes companies from more than 30 different business sectors in the Brazilian economy.

The table below shows the breakdown of our corporate loan portfolio by economic sector, based on Central Bank reporting criteria (the grouping of which is described below under "-Clients"):

	As of December 31,					
	2018		2017		2016	
	Amount (R$ millions)	% of total loan portfolio	Amount (R$ millions)	% of total loan portfolio	Amount (R$ millions)	% of total loan portfolio
Industrial	5,739.9	46.9%	4,116.0	42.6%	3,541.3	43.8%
Commercial	2,655.8	21.7%	2,502.4	25.9%	1,802.0	22.3%
Services	3,218.8	26.3%	2,657.0	27.5%	2,341.5	29.0%
Other	624.2	5.1%	386.5	4.0%	395.9	4.9%
Total	**12,238.6**	**100.00%**	**9,661.9**	**100.00%**	**8,080.7**	**100.0%**

As of December 31, 2018, we had 7,772 active corporate clients and our largest client accounted for 0.8% of our total loan portfolio, compared to 6,571 active corporate clients and 1.1% of our total loan portfolio as of December 31, 2017 and 6,300 active corporate clients and 1.3% of our total loan portfolio as of December 31, 2016. Most of our corporate loans are collateralized. The principal types of collateral that we take are receivables, real state and trade bills.

The aggregate amount of our expanded corporate credit portfolio comprises our corporate loan portfolio plus bank guarantees. Our expanded corporate credit portfolio amounted to R$13,622.4 million as of December 31, 2018 compared to R$10,532.7 million and R$8,629.5 million as of December 31, 2017 and 2016, respectively.

The principal products we offer to companies are described below.

Working Capital. Working capital loans are provided in local and foreign currency and generally have short- or medium-term maturities. Our broad range of working capital loans is designed to meet the specific needs of each of our customers and includes bank credit certificates, loan agreements, secured revolving credit accounts and "*compror*" and "*vendor*" loans. The "*vendor*" loan consists of financing under which a company can sell its products on credit while receiving payment in cash. The main advantage of this type of financing is that the sale is financed by the bank, not the seller. Under this type of financing, the buyer is the main obligor of the loan and the seller remains liable for the buyer's default on loan payments. Under the "*compror*" loans, the bank finances the buyer's acquisition of the goods and the seller is not liable for any payments due under the loan. As of December 31, 2018, our working capital loans amounted to R$6,680.6 million, or 49.0% of the aggregate amount of our expanded corporate credit portfolio (including bank guarantees), compared to R$5,434.8 million, or 51.6%, as of December 31, 2017 and R$4,626.6 million, or 53.6%, as of December 31, 2016.

Receivables purchased. We purchase a portion of certain of our clients' receivables without recourse to our client. As of December 31, 2018, the outstanding amount of such receivables purchased was R$3,199.0 million, equivalent to 23.5% of the aggregate amount of our expanded corporate credit portfolio (including bank guarantees), compared to R$2,478.1 million, or 23.5%, as of December 31, 2017 and R$1,875.1 million, or 21.7%, as of December 31, 2016.

Bank Guarantees. Under our bank guarantees, we guarantee our clients' cash obligations to third parties. These guarantees consist mainly of financial guarantees for payments due under debt obligations issued by our clients (*aval*) or for other general obligations (*fiança*). As of December 31, 2018, the outstanding amount of the guarantees we provided was R$1,383.8 million, equivalent to 10.2% of the aggregate amount of our expanded corporate credit portfolio (including bank guarantees), compared to R$870.8 million, or 8.3%, as of December 31, 2017 and R$548.9 million, or 6.4%, as of December 31, 2016.

Foreign trade financing. Our foreign trade financing consists mainly of advances on foreign exchange contracts (ACC), advances on exchange delivered (ACE) and export prepayment transactions. Under the ACC

and ACE agreements, we advance funds in *reais* to the exporter before the goods are shipped. After we receive the shipment documents, we forward them abroad to the importer of the goods against payment in foreign currency. If the importer defaults on any payments due under the exports transaction, we have recourse against the exporter for the full amount of the credit granted. In export prepayment transactions, we offer collateral to foreign banks that advance funds directly to Brazilian exporters on behalf of the importer. The average term of our foreign trade financing is 86 days. As of December 31, 2018, we had R$1,142.6 million in outstanding foreign trade financing, or 8.4% of the aggregate amount of our expanded corporate credit portfolio (including bank guarantees), compared to R$730.4 million, or 6.9%, as of December 31, 2017 and R$841.2 million, or 9.7%, as of December 31, 2016.

Leasing. We offer leasing products through Daycoval Leasing, a wholly owned subsidiary of Banco Daycoval. Our leasing contracts mainly consists of finance leases, but we also structure operating leases and sale-and-lease-back transactions to suit our clients' needs, Our leases finance all types of equipment including IT/telecommunications, construction/logistical, aircraft, medical and industrial equipment, as well as light and heavy vehicles.

As of December 31, 2018, we had R$849.6 million in leasing contracts, or 6.2% of the aggregate amount of our expanded corporate credit portfolio (including bank guarantees), compared to R$544.4 million, or 5.2%, as of December 31, 2017 and R$408.8 million, or 4.7%, as of December 31, 2016.

Other Corporate Lending Products. We also offer other products to meet our clients' specific needs. These include onlending of BNDES funds, a service which we offer to our small and medium-sized clients. Onlending of BNDES funds and other products accounted for R$366.8 million as of December 31, 2018, or 2.7% of the aggregate amount of our expanded corporate credit portfolio (including bank guarantees), compared to R$474.2 million, or 4.5%, as of December 31, 2017 and R$328.9 million, or 3.8%, as of December 31, 2016.

Individual lending

In 2004, we started our operations in the individual lending segment by offering payroll deduction loans. In 2006, we expanded our operations to include vehicle financing. Our vehicle financing operations focus on financing older model used passenger cars and light vehicles, which have good loan to value ratios and attractive margins. We intend to improve our market share in the individual lending segment by expanding our newer product lines, including payroll deduction credit cards and home equity loans. As of December 31, 2018, the total balance of our individual loan portfolio amounted to R$6,088.2 million, or 33.2% of our total loan portfolio, compared to R$5,500.1 million, or 36.3%, as of December 31, 2017 and R$5,756.7 million, or 41.6%, as of December 31, 2016.

The table below shows the breakdown of our individual lending portfolio by product type:

	As of December 31,					
	2018		2017		2016	
	Amount (R$ millions)	% of total loan portfolio	Amount (R$ millions)	% of total loan portfolio	Amount (R$ millions)	% of total loan portfolio
Payroll deduction loans	4,877.9	26.6%	4,568.0	30.1%	4,810.4	34.8%
Payroll deduction credit card loans	392.6	2.1%	315.6	2.1%	268.8	1.9%
Auto loans	767.1	4.2%	578.1	3.8%	590.8	4.3%
Home equity loans	50.6	0.3%	38.4	0.3%	86.7	0.6%

	As of December 31,					
	2018		2017		2016	
	Amount (R$ millions)	% of total loan portfolio	Amount (R$ millions)	% of total loan portfolio	Amount (R$ millions)	% of total loan portfolio
Total.....	6,088.2	**33.2%**	5,500.1	**36.3%**	**5,756.7**	**41.6%**

The main products offered to our individual lending customers are described below.

Payroll Deduction Loans

In 2004, we started offering payroll deduction loans to public sector employees under the DayCred brand, of which we filed an application for registration with the Brazilian Institute of Industrial Property (*Instituto Nacional de Propriedade Industrial*) (the "INPI"). Currently, our payroll deduction loan portfolio comprises primarily pension beneficiaries and retirees in the INSS system, and public sector employees at the Brazilian federal, state and municipal levels (including members of Brazil's armed forces and workers in the law courts and legislative bodies).

Our payroll deductions loans are governed by agreements we have executed with our borrowers' public sector employers and with the INSS, most of which have a definite duration and are subject to termination upon prior notice by either party. Some of those agreements have a defined term ranging from one to three years. If these agreements are terminated, the public sector entities remain responsible for withholding payments related to the outstanding credit we granted prior to such termination.

Having entered into agreements with the public sector employer or the INSS, actual origination is done with the public sector employee or beneficiary, our individual payroll deduction client. Our payroll deduction loans are either term or, more recently, credit card financings.

Our strategy is to grow our payroll deduction loan portfolio on a basis that is broadly proportionate to the growth of our corporate loan portfolio. The focus of our payroll loan business is origination pursuant to national agreements with the most financially solid payers, particularly INSS, the Federal Government and the armed forces, which together represented 54.7% of the portfolio as of December 31, 2018.

In the year ended December 31, 2018, we originated approximately R$1,138.9 million of payroll deduction loans, compared to R$747.3 million and R$ 424.6 million in the years ended December 31, 2017 and 2016, respectively.

Our aggregate payroll deduction loan portfolio totalled R$5,270.5 million on December 31, 2018, R$4,883.6 million on December 31, 2017 and R$5,079.2 million on December 31, 2016. The payroll credit card portfolio, a more recently introduced product, amounted to R$392.6 million as of December 31, 2018, an increase of 24.4% compared to December 31, 2017. Overall, Daycoval had 1,072,000 active contracts with individual payroll deduction clients as of December 31, 2018, with an average loan ticket of R$5,400 and an average plan of 41 months.

The table below shows our payroll deduction loan portfolio by type of employer at the dates indicated:

	As of December 31,		
Entity	**2018**	**2017**	**2016**
	(% of total payroll deduction loan portfolio)		
INSS	30.0%	36.2%	37.7%
Government (state and federal)	36.3%	38.6%	39.8%
Armed forces	16.4%	10.2%	9.1%
Law courts and legislative bodies	1.8%	2.2%	2.0%
Municipal governments	13.5%	10.9%	9.8%
Other	1.8%	1.7%	1.5%
Private sector employers	0.2%	0.2%	0.1%
Total	**100.0%**	**100.0%**	**100.0%**

INSS. Consists of payroll deduction loans to pension beneficiaries and retirees of the INSS. Under these loans, the pension beneficiary or retiree authorises the INSS to deduct each instalment of the loan directly from the benefit. These deductions are limited to a 30.0% monthly cap established by law. On September 29, 2005, the INSS issued a normative ruling, which placed a 36-month limit on the period over which deductions can be made. The maximum interest rate applicable to the INSS pension beneficiaries and retirees is 2.08 % per month. Currently, there is no age restriction applicable to beneficiaries and retirees for the execution of these loans, although the Brazilian Civil Code may restrict such execution in limited cases. The granting of payroll deduction loans to INSS retirees and pension beneficiaries requires the authorisation of the public sector entities to which those persons are connected. As of December 31, 2018, our INSS payroll deduction loans amounted to R$1,581.2 million, or 30.0% of our total payroll deduction loan portfolio, compared to R$1,767.9 million, or 36.2% of our total payroll deduction loan portfolio, as of December 31, 2017 and R$1,914.9 million, or 37.7% of our total payroll deduction loan portfolio, as of December 31, 2016.

Public sector employees. Brazilian law allows governmental entities to deduct repayment instalments of loans directly from the payroll of their employees, provided that certain conditions are satisfied. The employee must authorise the public sector entity to make such deductions prior to their commencement. As with deductions for INSS recipients, these deductions, combined with other optional deductions (such as association payments and retirement plan and life insurance contributions), are limited by law to 30.0% of the employee's monthly salary. However, if the sum of such optional deductions and other mandatory deductions (such as withheld income tax, social security contributions, union contributions, alimony and child support, and other withholdings required by law) exceeds 70.0% of the employee's monthly salary, the optional deductions in excess of that amount (including the payroll deduction loans we grant) may be suspended.

As of December 31, 2018, our INSS payroll deduction loans and our payroll deduction loans for public sector employees together amounted to R$4,358.7 million, or 82.7% of our total payroll deduction loan portfolio, compared to R$4,151.1 million, or 85.0% of our total payroll deduction loan portfolio, as of December 31, 2017 and R$4,398.6 million, or 86.6% of our total payroll deduction loan portfolio, as of December 31, 2016.

Auto Loans

In addition to payroll deduction loans, commencing in July 2006, we supplemented our individual lending portfolio by offering financing for vehicles, most of which are older model used cars and light vehicles, which have good loan to value ratios and attractive margins.

We originated approximately R$117.4 million, R$93.5 million and R$45.1 million of vehicle loans in the years ended December 31, 2018, 2017 and 2016, respectively. Our vehicle financing portfolio amounted to R$767.1 million, or 3.9% of our total loan portfolio, R$578.1 million, or 3.8% of our total loan portfolio, and R$644.1 million, or 4.7% of our total loan portfolio, as of December 31, 2018, 2017 and 2016, respectively.

This line of business is originated nationally by a network 141 correspondents operating through dealers and automotive outlets.

Our auto loan portfolio has an average loan to value ratio of 40%. The average age of cars financed is 12 years. Security is taken by Daycoval over the vehicle. Tenors and rates are competitive. As of December 31, 2018, passenger cars and other light vehicles accounted for 81% of the vehicle financing portfolio and heavy-duty vehicles accounted for 19%.

Other Credit Products to Individuals

We also provide other types of loans to individuals that allow us to achieve certain synergies in our operations. Our portfolio of loans to individuals included home equity loans in the amount of R$50.6 million as of December 31, 2018, compared to R$38.4 million and R$33.4 million as of December 31, 2017 and 2016, respectively.

Other Services

Asset Management

We help our clients manage investment portfolios and funds, including excess liquidity, offering straight-forward investment choices and sophisticated products according to their investment profile. Asset management is carried out through our subsidiary, Daycoval Asset Management, originally established in 2004. Daycoval Asset Management had approximately R$4.2 billion investment portfolios and funds under management as of December 31, 2018, compared to R$2.5 billion and R$1.7 billion as of December 31, 2017 and 2016, respectively. Currently, Daycoval Asset Management manages more than 60 funds including multimarket funds, fixed income funds, stock funds, FDICS, investment club funds, real estate funds, holding funds and managed portfolios.

Client Risk Management Services; Treasury and FX Products

We help our clients identify and manage the financial risks arising from currency and interest rate mismatches in their business and/or financial transactions. Mismatches may be mitigated through the use of derivative instruments, the use of which is tailored to the client's own needs and realities. The most commonly used hedging instruments are swaps of currencies, interest rates and other financial assets, non-deliverable currency forwards and currency options. While we do act as a counterparty to client derivative transactions, such transactions are subject to our standard risk management, credit approval and collateralization policies.

Trade Payables

We provide services to our clients to streamline the management and payment of their trade payables. This service, known as Pay For, includes a special line of credit to facilitate and ensure timely payment.

Insurance Brokerage

We provide insurance brokerage and related services to our corporate clients through our subsidiary Daycoval Seguros, Types of insurance brokered include group life, health, transportation of goods, general business, fleet auto, builder's risk and surety bonds. Client policies are brokered with top domestic and global

insurers including Porto Seguro, Azul Seguros, Itaú Seguros, Mapfre, Sul América, Sompo, Tokio Marine, Mitsui Sumitomo, Chubb and Zurich. We are not an insurer and do not cover insured risk under the policies we broker.

Collection Services

We provide services for the collection of trade receivables owed to our clients. The service, known as DayCollect is based on our own collection procedures, provides national coverage and relies on an online instruction system. Our fee for providing these services varies according to the terms and conditions of each agreement.

Credit Cards

We began offering credit cards to our clients under the Mastercard brand in 2008. Today, our portfolio consists of (i) consignment cards, a type of payroll deductible loan, for public employees or retirees and pensioners of the INSS (see "—Individual Lending"); (ii) corporate cards, intended for corporate clients that make cards available to their employees; and (iii) personal cards for Daycoval Investe customers who have funds invested with us. In 2018, Daycoval launched the Card APP, enabling customers to manage their spending and limits as well as providing an alternative mechanism for payment.

Foreign Exchange

Besides providing foreign currency exchange services to corporate clients through our network of branches and platforms, we operate six Daycoval Câmbio foreign exchange stores and Daycoval Câmbio facilities at many of our Daycred stores. We also provide foreign exchange services through partnerships with tourism operators and agencies (160 exchange correspondents and 367 tourism agencies) which provide us with broad access to clients and offer those clients flexibility and security in conducting their foreign exchange transactions.

We offer a wide variety of foreign exchange products including prepaid cards, cash and remittances. Our cards include foreign currency cards (Visa Travel Money and Cash Passport Mastercard Multi Currency), prepaid travel cards and corporate travel cards. We sell foreign currencies which, as with cards, may for convenience be delivered to a client address in Brazil. We also arrange express cash transfers for withdrawal in local currency at agreed establishments anywhere in the world. For those receiving foreign checks, we purchase them and exchange them for local currency.

In 2018, we completed approximately 518,300 transactions using prepaid cards, cash and remittances in different currencies, with an aggregate value of R$1,431.5 million.

Treasury

Our treasury department manages our funding operations, the pricing of our credit operations and our liquidity. Treasury operations seek to avoid mismatches between the respective currency, interest rates and maturities of our funding and the loans we grant and investments we make, as well as to maintain desired levels of liquidity.

We do not establish minimum performance goals for our treasury operations, but we do seek to arbitrate price distortions detected in the market to generate earnings.

We operate mainly with government bond instruments, which are recorded in our financial statements mainly as available for sale and therefore have their value subject to value mark-to-market adjustments. We

also use derivative instruments, mainly futures contracts, to manage our market risk and liquidity risk. See "Management's Discussion and Analysis of Financial Condition and Results of Operation—Information on Market Risks—Risk and Risk Management".

Clients

Our corporate clients are principally composed of small- and medium-sized companies with annual gross revenues of up to R$300.0 million. We have an extensive and diversified client base and do not significantly depend on any particular client or economic sector. We also operate in the individual lending segment, in which our client portfolio consists of individuals and is highly fragmented. The diversification of our client base is an essential aspect of our business strategy.

The tables below show the composition of our loan portfolio categorized by economic sector, based on Central Bank reporting criteria as discussed below:

	As of December 31,		
Business Type	**2018**	**2017**	**2016**
		(R$ millions)	
Industrial	5,018.4	3,900.9	3,258.8
Commercial	3,476.7	2,823.2	2,007.6
Services	3,325.8	2,623.2	2,385.6
Financial	124.4	48.5	156.6
Rural	0.5	0.3	-
Individuals	6,270.8	5,648.2	5,874.3
Public sector	110.2	117.7	154.3
Total	**18,326.8**	**15,162.0**	**13,837.2**

Below is a description of the criteria we use for the classification of our corporate clients and loan portfolio by economic sector.

- industrial: loans granted to companies that operate in the manufacturing, mineral extraction, processing and transformation, construction, and utility sectors, among others;
- commercial: loans granted to companies that operate as intermediaries in the sale and purchase of products in the wholesale or retail segments;
- services: loans granted to companies that render services in the air, maritime, road or rail transportation, communications, education, culture and entertainment sectors, among others;
- financial: loans granted to intermediaries in the financial sector;
- rural: loans granted to companies that operate in the agricultural sector;
- individuals: loans to individuals; and
- public sector: loans to public sector entities at the federal, state and municipal levels.

Credit Policy, Risk Management and Default Rates

We use conventional instruments of credit analysis and records to evaluate our corporate clients. We usually initiate our credit operation through our account officers who are responsible for client prospecting. Subsequently, we analyse client data and verify the credit rating of the clients with credit protection agencies and internal data. If we do not identify any problems, a branch manager or superintendent contacts the potential client to formalise the relationship and conclude the prospecting process.

For each client we create a credit registration file which allows us to establish the credit limit. The file includes an analysis of the client's indebtedness and financial position, authorisation to check the client's status with the risk department of the Central Bank, corporate documents and site visit reports drafted by the branch manager or superintendent.

Each credit proposal for corporate clients must be pre-approved by one executive officer or the entire board of executive officers, taking into account the type and amount of the loan and the collateral received, the borrower's credit history, spread to be charged and specific and global risks of our loan portfolio.

The decision-making process in connection with the approval of our corporate loans is as follows:

- loans of up to R$4.0 million must be approved by a committee composed of two executive officers, subject to ratification by our board of executive officers;

- loans between R$4.0 million and R$ 15 million must be approved by the credit committee of our board of executive officers, and,

- loans over R$ 15 million must be approved by our entire board of executive officers.

The credit limit approval is valid for a 180-day period. After that period, the credit limit must be reassessed.

For individual loans, the approval of the operation follows pre-defined limits. The criteria we use to classify loans in our portfolio correspond to those established by the Central Bank. All of our clients receive a risk classification, and each loan granted to each client also receives a risk classification, depending on the risk level of the transaction and the amount we receive as collateral. Classifications are determined by the credit line cap, and follow the risk model for each loan type and the amount of collateral to be received, client data and other relevant information. Our back-office confirms the transaction limits and receipt of all relevant documentation.

As of December 31, 2018, 93.1% of our loan portfolio was classified as AA to C compared to 92.9% and 92.5%, as of December 31, 2017 and 2016, respectively. As of December 31, 2018, our loans in respect of which there was a payment default for more than 60 days represented 3.2% of our total loan portfolio, compared to 3.6% and 4.0% as of December 31, 2017 and 2016, respectively. Our allowance for loan losses represented 6.0% of our total loan portfolio as of December 31, 2018, compared to 6.1% and 5.5% as of December 31, 2017 and 2016, respectively.

We believe that our risk management policy is essential for the maintenance of the quality of our loan portfolio and our low level of loan defaults, since it is designed to allow us select clients with an appropriate risk profile and to closely monitor the collateral that they grant us on the loans that we make. Our default

levels are below average for banks in our segment in Brazil. The collateral granted to us is usually liquid and consist of trade bills, receivables, checks and pledges.

Distribution Network

Corporate Segment

We operate in the corporate segment through our 43 branches and 19 commercial platforms located in 29 cities across 21 Brazilian states and the Federal District (Brasília), and through a branch in the Cayman Islands, which together provide the functional base for our 325 account officers. Besides our physical presence, our internet banking system allows every client to conduct all of its banking transactions remotely, making our services accessible from cities where we are not physically present. We rely heavily on information technology resources to carry out our activities, and we are continually making new investments in this area to augment our on-line platforms and increase our capacity to service clients via internet banking.

Individual Segment

Our main distribution channel in this segment is our network of around 120 banking correspondents spread throughout Brazil. These banking correspondents are responsible for promoting, offering and selling our payroll deduction and auto loan products, collecting all relevant documentation and agreements from clients and providing all information we request during the credit approval process. These banking correspondents have an extensive network of independent sales agents who further broaden our distribution network. Banking correspondents are paid on a commission-fee basis calculated on the principal amount of loans granted.

As is customary in this market, our relationship with our banking correspondents is not exclusive, so they may generate business for other banks. Our payroll deduction loans and auto loans are highly dependent on the ability of our banking correspondents and their independent sales agents to identify new borrowers for us.

In addition to our banking correspondents, we have 38 Daycred stores across Brazil which are staffed by our own employees and principally offer Daycoval payroll loans. Daycred stores are highly productive compared to other correspondents and accounted for 11.0% of our total payroll loan origination in 2018 and 29.2% of our INSS origination. With a view to increasing their aggregate sales, our Daycred stores have recently commenced distributing payroll deduction loans originated with other lenders.

Our currency exchange business operates through our six Daycoval Câmbio foreign currency exchange stores and Daycoval Câmbio facilities at many of our Daycred stores. We also provide foreign exchange services through partnerships with tourism operators and agencies (160 exchange correspondents and 367 tourism agencies) which provide us with broad access to clients and offer those clients flexibility and security in conducting their foreign exchange transactions.

Internal Audit

Since December 2017, Banco Daycoval implemented an independent internal audit area, directly linked to the Board of Directors, bringing a systematic, disciplined approach to evaluate and improve the effectiveness of our risk management, control and governance processes.

Information Technology

We have significantly increased our technology investments with a view to improving our user's experience, the functionality and productivity of our systems, our technological capacity, and the security of our systems.

In 2018, we introduced mobile banking systems for both individuals and companies, as well as new applications for credit card and payroll deductible credit. We also made significant changes in several of our core systems, including those for fixed income, tourism exchange and investment funds. With a view to improving productivity, we have consolidated our API backbone available on the Internet to accelerate the deployment of new functionalities in Web systems and mobile applications.

Many of our receivables are now validated by an artificial intelligence system, thereby improving our credit analysis process, while business analytics systems have been deployed as follow-up solutions to several critical processes.

Following our regular hardware upgrade process, major server upgrades were made along with new solid-state storage technologies, reducing the processing time of most critical routines by more than 50 percent.

So as to enhance the security of our systems, we added three additional layers of data validation and monitoring. In particular, the internal and external data that circulates through the network (including files, transactions, e-mails and web access) is now inspected individually.

Competition

Although the banking industry in Brazil has gone through a period of consolidation, the financial services market in Brazil is highly competitive. We face direct competition in all of our business areas from major multi-service banks in Brazil, such as Banco do Brasil, Itaú Unibanco, Banco Bradesco, Banco Santander and Banco Safra. In the small- and medium-sized companies sector, we also face competition from medium-sized banks focused on the sector, such as ABC Brasil, Banco Fibra, Sofisa, Sicredi, Bancoob, Paraná Banco, Banco Pan and Banco Industrial as well as from factoring companies and credit funds. We also face competition from medium-sized banks focused on the individual lending segment, such as Banco BMG, Crefisa, and Omni, among others.

Besides traditional commercial bank competition, the financial services industry is undergoing rapid technological changes, with frequent introductions of new technology-driven products and services and the establishment of financial institutions that are wholly virtual, with no commercial branches. It is not yet clear how such new competition may challenge our businesses.

Marketing

We believe that we have strong brand recognition in Brazil primarily as a result of the solid and transparent image we have built with our clients and the awards that we have received over time. We believe the strong recognition of our brand helps us to attract new clients without significant marketing initiatives and signals our credibility in the market. Unlike some of our competitors, our marketing efforts are usually limited to specific and focused marketing events.

Customer Relationship

In March 2017, we established our Customer Relationship area to improve our focus upon and service to our customers. By centralizing activities in one department, all of our clients accessing our various service channels benefit from greater agility and efficiency in our responses.

The Customer Relationship area is responsible for the elaboration and implementation of, and training to support, our Institutional Policy for Relationships with Clients and Users. Among its responsibilities, the Customer Relationship area monitors each of our service channels, and analyzes client satisfaction and loyalty data, all in accordance with our pre-established commercial policies and strategies, and in order to monitor, control and mitigate risks, under the terms of Resolution No. 4,539 of the Central Bank.

To ensure quality of care, all channels, whether internal or outsourced, are monitored to assess response times, customer concerns and solutions. Deviations from norms and expectations are noted with a view to modifying processes, so that they are more agile and responsive, thereby improving our customer´s experience. Information derived by the Customer Relationship area also facilitates the Bank in the development of new products and processes.

Human Resources

Employees

As of December 31, 2018, 2017 and 2016, we had 1,994 employees, 1,641 employees and 1,440 employees, respectively.

Training

In order to meet the requirements of the Central Bank as well as to improve the quality of our services, workforce and workplace experience, we regularly provide courses, seminars and conferences to our employees in their respective areas of expertise, including courses related to money laundering prevention. We also regularly pay for other courses and seminars in the areas of information technology, sustainability, internal processes, certifications, ergonomics, products and risk management. As part of the project "In Search of Excellence", under the Knowledge and Quality of Life pillar, special courses are offered to managers on leadership and educational lectures related to products and financial services and personal finance considered useful for our activities. Of particular note is our initiative aimed at continuous development, the Daycoeduca Program, which offers scholarships for undergraduate, postgraduate and MBA studies.

Payroll and Benefits

Our payroll expenses include expenses in connection with salaries, payroll charges and benefits. These benefits include: (i) meal vouchers, (ii) transport vouchers, (iii) fuel allowance (for commercial department only), and (iv) life insurance. We also maintain a profit sharing plan regulated by a collective bargaining agreement between the National Federation of Banks (*Federação Nacional dos Bancos* ("FENABAN") and the Banking Trade Union (*Sindicato dos Bancários*) (the "Banking Trade Union"). For the year ended December 31, 2018, we had payroll expenses of R$329.7 million and the expenses of our profit sharing plan to employees amounted to R$78.5 million. For the year ended December 31, 2017, we had payroll expenses of R$304.6 million and the expenses of our profit sharing plan amounted to R$61.7 million, compared to R$286.6 million and R$46.6 million in the year ended December 31, 2016.

Unions and Collective Bargaining Agreements

Our employees are members of the Banking Trade Union and we are members of FENABAN, which represents member banks in collective bargaining negotiations with the Banking Trade Union. We believe we have good relationship with our employees and unions and we have never experienced a strike or other labour slowdown.

Properties

We rent the building that is our headquarters and the premises for our three other administrative and business centers, all located in the city of São Paulo, and the premises where our other branches, stores and outlets are located. As of December 31, 2018, we also owned properties due to our foreclosure of loans secured by real estate. Pursuant to regulations established by the Central Bank, we are required to sell this real estate within a year following its acquisition.

Intellectual Property

We own the "Daycoval" brand, as well its logo, and the "DayCred", "Day Câmbio" and "Daypag Despachantes" brands, which are registered with the National Institute of Industrial Property ("*Instituto Nacional da Propriedade Industrial*").

We own the domain names "daycoval.com.br", "bancodaycoval.com.br" and "daycred.com.br", which are duly registered with the Information and Coordination Centre Dot Br (*Núcleo de Informação e Coordenação do Ponto Br*), or NIC.br, the entity responsible for registering domain names in Brazil.

Insurance

We maintain insurance policies with Zurich Brasil Seguros covering bankers blanket bond risk (protection against various criminal acts carried out by employees) and directors and officers risk.

We also have insurance policies covering equipment and furniture at our central offices in São Paulo and other facilities throughout Brazil with Sompo Seguros covering protection against risks and damages caused by fire, lightning and explosion, electric short circuits, theft and aggravated theft. We believe that our insurance coverage is consistent with that maintained in the Brazilian banking industry, considering the scope of our operations. Our insurance policies are renewed on an annual basis and contain standard terms and conditions applicable to insurance policies with similar coverage and in accordance with Brazilian regulations.

Legal Proceedings

We are party to various judicial and administrative proceedings, including civil, labour and tax proceedings, arising in the ordinary course of our business. As of December 31, 2018, our provisions for legal proceedings were approximately R$2,144.5 million, of which R$1,907.5 million related to tax proceedings, R$164.6 million related to civil proceedings and R$72.4 million related to labour proceedings. We believe that our provisions for judicial and administrative proceedings are sufficient to meet our probable losses. We do not believe that any individual pending proceeding, if adversely decided, would have a material adverse effect on us.

Our principal tax proceedings are summarised below:

- IRPJ (*Imposto de Renda – Pessoa Jurídica*) proceedings: we have disputed (i) the deduction of the amounts we pay for the CSLL from the tax base used for the calculation of IRPJ and (ii) the effect from the non-recognition of monetary adjustments of our balance sheet. As of December 31, 2018, we had provisions of R$430,6 million in connection with these proceedings;

- CSLL (*Contribuição Social sobre o Lucro Líquido*) proceedings: we have challenged (i) the effect from the non-recognition of monetary adjustments of our balance sheet, and (ii) the application of a differentiated tax rate for the calculation of the CSLL, (iii) the deduction of the CSLL paid from our tax base relating to the fiscal year ended December 31, 1996 of interest on shareholders' equity we paid in that

year, and (iv) the purported increase in the rate from 9% to 15% as of January 2008. As of December 31, 2018, we had provisions of R$675.0 million in connection with these proceedings;

- COFINS proceedings: we have disputed the tax base for the calculation for the COFINS, which we believe is applicable to our net income as opposed to our total income from financial intermediation. As of December 31, 2018, we had provisions of R$652.5 million in connection with these proceedings; and

PIS proceedings: we have disputed the tax base for the calculation of the PIS, which we believe is applicable to our net income as opposed to our total income from financial intermediation. As of December 31, 2018, we had provisions of R$101.2 million in connection with these proceedings.

SUBSIDIARIES AND AFFILIATES

The following table sets out the active subsidiaries of the Bank, showing the principal activity of the subsidiary and the Bank's proportion of its net worth as of December 31, 2018.

Name	Percentage owned	Principal activity
	(%)	
Direct Subsidiaries		
ACS Participações Ltda.	99.99	Investment holding company
Daycoval Asset Management Adm. Recursos Ltda.	99.99	Fund and portfolio management
Daycoval Leasing – Banco Múltiplo S.A.	100.00	Leasing
Dayprev Vida e Previdência S.A.	97.00	Insurance business
Indirect Subsidiaries		
IFP - Promotora de Serviços de Consultoria e Cadastro Ltda.	99.99	Financial services intermediation
SCC Agência de Turismo Ltda.	99.99	Travel and foreign exchange services
Treetop Investments Ltd.	100.00	Investment holding company

Through its subsidiaries, Banco Daycoval provides its customers with complementary financial products, such as asset management, insurance brokerage and leasing. The operations of our subsidiaries are carried out on a basis that is fully integrated with those of Banco Daycoval. Our principal subsidiaries are as follows:

ACS Participações Ltda.

ACS Participações Ltda. ("ACS") is a holding company which invests in and controls other companies owned by the Bank. We own 99.99% of ACS. As of December 31, 2018, ACS had shareholders' equity was R$776.1 million.

Daycoval Asset Management Administração de Recursos Ltda.

Daycoval Asset Management Adm. Recursos Ltda ("Daycoval Asset Management") manages investment funds and asset portfolios of our clients. We own 99.99% of Daycoval Asset Management. As of December 31, 2018, Daycoval Asset Management had shareholders' equity of R$40.7 million.

Daycoval Leasing – Banco Múltiplo S.A.

Daycoval Leasing – Banco Múltiplo S.A. ("Daycoval Leasing") provides equipment leasing to our clients as an alternative to loan financing. We own 100% of Daycoval Leasing. As of December 31, 2018, Daycoval Leasing had shareholders' equity of R$405.9 million.

Dayprev Vida e Previdencia S.A.

Dayprev Vida e Previdencia S.A. ("Dayprev") provides private pension plans to our clients under the brand name Dayprev. The purpose is to support new payroll lending via life insurance as part of a pensions portfolio. We own 97.0% of Dayprev. As of December 31, 2018, Dayprev had shareholders' equity of R$32.9 million.

IFP Promotora de Serviços de Consultoria e Cadastro Ltda.

IFP Promotora de Serviços de Consultoria e Cadastro Ltda. ("IFP") promotes financial services to individuals, including through the operation of our Daycred stores. We own 99.99% of IFP. As of December 31, 2018, IFP had shareholders' equity of R$47.2 million.

SCC Agência de Turismo Ltda.

SCC Agência de Turismo Ltda. ("SCC") provides foreign exchange services to our clients. We own 99.99% of SCC. As of December 31, 2018, SCC had shareholders' equity of R$13.0 million.

Treetop Investments Ltd.

Treetop Investments Ltd. ("Treetop") is a company incorporated in the Bahamas and is used mainly as an investment vehicle for our operations. It does not engage in any commercial activity. We own 99.99% of Treetop. As of December 31, 2018, Treetop had shareholders' equity of R$66.6 million.

MANAGEMENT AND EMPLOYEES

Management

Pursuant to our bylaws and Brazilian Corporation Law, we are managed by a *Conselho de Administração*, or board of directors, and a *Diretoria*, or board of executive officers. Our bylaws provide for a non-permanent fiscal council.

Board of Directors

Pursuant to our bylaws, our board of directors is composed of a minimum of five and a maximum of 10 directors, of whom 20% must be independent directors. Should this percentage result in a fractional number, our board of directors may proceed to round it up, if the fraction is equal to or higher than 0.5, or down, if lower than 0.5. Therefore, if our board of directors comprises five members, at least one member must be an independent director. The minutes of the shareholders' meeting that elects the independent director must clearly identify such director.

Our board of directors is responsible for defining our general business policies and overall guidelines, including our long-term strategies, and for controlling and monitoring our performance. The duties of our board of directors include, among other things, electing or removing our executive officers and supervising our management team.

The members of our board of directors are elected at a shareholders' meeting for two-year terms, re-election being permitted. The board members may be removed at any time pursuant to a decision of a shareholders' meeting.

Currently, our board of directors is composed of six members, two of whom are independent directors. The term of office of our current directors extends through the annual shareholders' meeting to be held to analyse and approve our financial statements for the year ended December 31, 2019.

The table below shows the names, position and date of election of the current members of our board of directors. The business address of our board of directors is Avenida Paulista, 1793, Bela Vista – 01311-200 – São Paulo – SP, Brazil.

Name	Position	Election Date
Sasson Dayan[(1)]	Chairman	April 28, 2017
Gustavo Henrique de Barroso Franco	Independent Member	April 28, 2017
Sergio Alexandre Figueiredo Clemente	Independent Member	September 18, 2017
Morris Dayan[(1)(2)]	Member	April 28, 2017
Carlos Moche Dayan[(1)(2)]	Member	April 28, 2017
Rony Dayan[(1)(2)]	Member	April 28, 2017

Note:

(1) Sasson Dayan is one of the founders of the Bank and a shareholder. See "Principal Shareholders".

(2) Morris Dayan is the son of Ibrahim Dayan, one of the founders of the Bank. Carlos Moche Dayan and Rony Dayan are sons of Sasson Dayan, one of the founders of the Bank and chairman of our board of directors. Morris Dayan, Carlos Moche Dayan and Rony Dayan are shareholders. See "Principal Shareholders".

Except for the stockholding and investor participations referred to in "Principal Shareholders" or as disclosed in "Related Party Transactions", we have no relevant agreements with and obligations to the members of our board of directors. Insofar as the Bank is aware, there are no conflicts, or potential conflicts, between any duties to the Bank of any of the members of the board of directors and their private affairs.

We set out below brief biographical descriptions of the members of our board of directors:

Sasson Dayan. Mr. Sasson Dayan is currently chairman of our board of directors. He started his career in Lebanon at Casa Bancária Salim A. Dayan, which was founded by his father. In 1968, he incorporated Daycoval DTVM in Brazil together with his brother Ibrahim Dayan. In 1970, they also founded Valco Corretora de Valores Mobiliários, which had significant operations in the BM&FBOVESPA. In 1989, Daycoval DTVM was authorised to operate as a multiple bank and became Banco Daycoval S.A.

Gustavo Henrique de Barroso Franco. Mr. Gustavo Franco is currently an independent member of our board of directors. From 1986 to 1993, he was a professor, researcher and consultant specialised in inflation, stabilisation and international economic issues. From 1993 to 1999, he was the adjunct secretary of economic policy of the Ministry of Finance, director for international affairs and president of the Central Bank. Mr. Franco played an essential role in the formulation and structuring of the Real Plan *(Plano Real)*. In 1999, he worked as a professor in the economics department of *Pontifícia Universidade Católica do Rio de Janeiro* - PUC-Rio. In 2000, he founded Rio Bravo Investimentos S.A., a consulting financial company, where he serves as CEO. He is also a member of the board of directors of various companies, as well as consultant and speaker in corporate events. Mr. Franco holds a degree in economics from PUC-Rio and a master's degree in economics from PUC-Rio. He also holds a Ph.D. in economics from Harvard University.

Sergio Alexandre Figueiredo Clemente. Mr. Clemente is currently an independent member of our board of directors. He holds a Bachelor of Mechanical Engineering degree from *Pontifícia Universidade Católica de Minas Gerais* - PUC-Minas, an MBA in Finance from IBMEC and has had a long career in the financial sector, including as the Executive Vice President of Bradesco, where he was responsible for the Corporate Relations, International, Investment Bank, Brokerage Firms, Resource Management and Private Banking areas.

Morris Dayan. Mr. Morris Dayan is currently a member of our board of directors and has been one of our officers since March 1998. From 1991 to 1992, he worked as a trainee in the Republic National Bank of New York and between 1992 and 1994 he worked with us as a trader. He has participated in various courses in the B3 S.A. – Brasil, Bolsa, Balcão. Mr. Morris Dayan graduated from the University of Jerusalem with degrees in economics and philosophy.

Carlos Moche Dayan. Mr. Carlos Dayan is currently a member of our board of directors and has been one of our officers since March 1998, having previously worked as a sales manager since 1994. Mr. Carlos Dayan graduated from the *Universidade de São Paulo* ("USP") with a degree in economics and he holds an MBA from Fundação Getulio Vargas - FGV.

Rony Dayan. Mr. Rony Dayan is currently a member of our board of directors. He earned a degree in Business Administration from FGV in 2001. He attended specialisation courses in management and leadership in Israel. He is fluent in French, English, Spanish, Hebrew and Portuguese. He has worked at Banco Daycoval since 2001, where he has been responsible for the marketing department and collateral review.

Board of Executive Officers

Under our bylaws, our board of executive officers is composed of a minimum of four and a maximum of 20 members, one of whom is designated as our investor relations officer, from three (3) up to five (5) of whom are designated as executive officers and the rest simply designated as officers. Our executive officers are our legal representatives, responsible for the day-to-day management of our operations and for implementing the policies and general guidelines set by our board of directors. Under Brazilian Corporation Law, our executive officers must reside in Brazil.

Our executive officers are elected by our board of directors for two-year terms, re-election being permitted. Under the Brazilian Corporation Law, a maximum of one-third of our directors may also serve as our executive officers. In addition, our executive officers may be removed at any time pursuant to a decision taken by our board of directors.

Currently, our board of executive officers is composed of 13 members. The table below shows the names, position and date of election of our current board of executive officers.

Name	Position	Election Date
Carlos Moche Dayan[(1)(2)(3)]	Executive Officer	April 27, 2018
Morris Dayan[(1)(2)(3)]	Executive Officer	April 27, 2018
Salim Dayan[(1)(2)]	Executive Officer	April 27, 2018
Albert Rouben	Operations Officer	April 27, 2018
Alexandre Rhein	Information Technology Officer	April 27, 2018
Alexandre Teixeira	Auto Loan Officer	April 27, 2018
Claudinei Aparecido Pedro	Commercial Officer	April 27, 2018
Eduardo Campos Raymundo	Foreign Exchange Officer	April 27, 2018
Elie Jacques Mizrahi	Commercial Officer	April 27, 2018
Paulo Augusto Luz Ferreira Saba	Treasury and Markets Officer	April 27, 2018
Maria Regina R.M. Nogueira	Controller Officer	April 27, 2018
Ricardo Gelbaum	Investor Relations and Institutional Officer	April 27, 2018
Nilo Cavarzan	Payroll Loan Officer	April 27, 2018

Note:

(1) Carlos Moche Dayan, Morris Dayan, and Salim Dayan are shareholders. See "Principal Shareholders".

(2) Carlos Moche Dayan and Salim Dayan are sons of Sasson Dayan, one of the founders of the Bank and chairman of our board of directors. Morris Dayan is the son of Ibrahim Dayan, one of the founders of the Bank

(3) Carlos Moche Dayan and Morris Dayan ae members of our Board of Directors.

We set out below brief biographical descriptions of the members of our board of executive officers:

Carlos Moche Dayan. Mr. Carlos Dayan has been one of our officers since 1998. See "Board of Directors" for a description of Mr. Sasson Dayan's resume.

Morris Dayan. Mr. Morris Dayan has been one of our officers since 1998. See "Board of Directors" for a description of Mr. Morris Dayan's resume.

Salim Dayan. Mr. Salim Dayan has been one of our officers since 1998 having worked with us as an account officer since 1991. Mr. Salim Dayan graduated from the USP, with a degree in production engineering and he holds his MBA from *Instituto Brasileiro de Mercado de Capitais*.

Albert Rouben. Mr. Rouben received an engineering degree from Technion - Israel Institute of Technology (Israel). He has approximately 30 years of professional experience, most of which were gained in the financial markets. He is currently our superintendent of operations control, responsible for the implementation and management of a number of branches focused on the corporate operations in the main capital cities and industrial centers of Brazil.

Alexandre Rhein. Mr. Rhein received a degree in electronic engineering from *Instituto Tecnológico de Aeronáutica* (ITA). He also did postgraduate work at the FGV and received an MBA from B3 S.A. – Brasil, Bolsa, Balcão, formally known as BM&FBOVESPA. He has a broad background in the field of information technology and during his career has been responsible for systems development, network infrastructure and technology areas in banks and other companies, including as a member of the global information security committee of a British multinational company. He was a member of the SWIFT working group in Brazil. He has been with Daycoval since 2006.

Alexandre Teixeira. Mr. Teixeira obtained an MBA at *Fundação Getúlio Vargas* and a Bachelor of Science in accounting sciences from *Faculdades Metropolitanas Unidas* – FMU. He has worked for over approximately 35 years in domestic and multinational financial institutions, occupying positions of superintendent, executive director, regional general manager and other management and operational positions. He has expertise in the implementation and development of financial operations, most notably in portfolios, finance companies and leasing. He has worked for the Bank since 2006 in the auto loans and other goods financing areas.

Claudinei Aparecido Pedro. Mr. Pedro graduated in Business Administration / Foreign Trade at Centro Universitário Santana. In the last 5 years, he held the position of Commercial Superintendent at Banco Daycoval.

Eduardo Campos. Mr. Campos graduated in Law from UNIP and completed several extension courses on Foreign Exchange and Financial Markets. He worked for Confidence Exchange Group for 12 years, where he participated in the creation of Confidence Exchange Tourism and Confidence Exchange Brokerage. He has been with Banco Daycoval for more than 8 years in the commercial area and distribution of various exchange products.

Elie Jacques Mizrahi. Mr. Mizrahi graduated in Business Administration from Fundação Armando Alvares Penteado (FAAP). In the last 8 years, he held the position of Commercial Superintendent at Banco Daycoval.

Paulo Augusto Saba. Mr. Saba graduated in Civil Engineering from the Polytechnic School of USP and holds an MBA in corporate finance from FIPE - FEA. Mr. Saba worked at various financial institutions including Banco Votorantim, where he worked for 3 years; Banco Espírito Santo, for 11 years and including a period as Executive Director of Treasury; and Banco Pine, where he worked for 2 years in the structuring of investments area.

Maria Regina R. M. Nogueira. Mrs. Nogueira graduated from the *Fundação Armando Álvares Penteado* (FAAP) with a degree in economics. She attended several courses in the Continuing Education Programme at *Fundação Getúlio Vargas* oriented towards the financial market. She has participated in technical committees at the Brazilian Bank Federation (FEBRABAN), at the Brazilian Association of Financial and Capital Market Association (ANBIMA) and at the Brazilian Bank Association (*Associação Brasileira de Bancos* – ABBC). She has a strong background and broad knowledge in the banking and financial segment acquired during her executive career in various mid-size and large financial institutions over the last 30 years.

Ricardo Gelbaum. Mr Gelbaum graduated in business administration from the Fundação Getúlio Vargas – FGV and has a bachelor degree in Economics from *Universidade Gama Filho*. He has worked for more than 35 years in a number of important financial institutions in Brazil, including 10 years as executive officer for finance of Banco BMG S.A. He is also a president of the Brazilian Bank Association (*Associação Brasileira de Bancos* - ABBC).

Nilo Cavarzan. Mr. Carzavan received a degree in economic science from the *Fundação de Escola de Comércio Álvares Penteado* (FECAP). He has more than 40 years of professional experience, most of which were gained in financial institutions, where he specialized in product development. He has worked at the Bank since 2004 in the payroll loan operations.

Fiscal Council

Under Brazilian Corporation Law, a fiscal council is a corporate body independent of the management and our independent accountants. A fiscal council may be either permanent or non-permanent, in which case it will be established at the request of shareholders that represent at least 10.0% of the voting shares or 5.0% of non-voting shares, present at any shareholders' meeting in a specific year. Our fiscal council is non-permanent, according to our bylaws. When empanelled, the fiscal council is to be composed of a minimum of three and a maximum of five members and their respective alternates, according to the Brazilian Corporation Law. Under our bylaws, our fiscal council members are subject to the rules of the market arbitration chamber established by the B3 S.A. – Brasil, Bolsa, Balcão.

As our fiscal council is not currently empanelled, we have not elected any fiscal council members.

The primary responsibilities of the fiscal council are monitoring management activities, reviewing the company's financial statements and reporting its findings to the shareholders. Under the Brazilian Corporation Law, we are required to pay to fiscal council members, as compensation, a minimum of 10% of the average annual amount paid to our executive officers.

Under the Brazilian Corporation Law, our fiscal council may not include members that are (i) on our board of directors, or (ii) on our board of executive officers, or (iii) employed by us or (iv) employed by a

subsidiary or company under common control with us, or (v) spouses or close family members of any member of our board of directors or board of executive officers.

Audit Committee

In 2009, we constituted and empanelled our audit committee, pursuant to CMN Resolution No. 3,198, issued by the CMN on May 27, 2004, as amended by CMN Resolution No. 3,416 dated October 24, 2006, CMN Resolution No. 3,606 dated September 11, 2008, CMN Resolution No. 3,771 dated August 26, 2009, CMN Resolution No. 4,329 dated April 25, 2014 and CMN Resolution 4,403 dated March 26, 2015 ("CMN Resolution No. 3,198"). The primary responsibilities of the audit committee are to review the quality and accuracy of our financial statements, to ensure compliance with applicable laws and regulations and to maintain our relationship with our independent accountants. The audit committee is also responsible for the quality of our internal audit procedures and the efficiency of our internal controls and risk management systems.

Our audit committee consists of three independent members. The term of office for a member of our audit committee is undertermined since the Bank is no longer a publicly traded company. The table below shows the names, responsibility and dates of original appointment of our current audit committee members.

Name	Position	Appointment Date
Marcelo Cardinal Palumbo	Coordinator	March 14, 2017
José Ferreira da Silva	Member	March 14, 2017
Ricardo Fraccaroli de Almeida	Member	March 14, 2017

Compensation

Under our bylaws, our shareholders are responsible for establishing, at a shareholders' meeting, the aggregate amount we pay to the members of our board of executive officers and our board of directors. A board of directors' meeting must in turn allocate this amount among our directors and executive officers.

The compensation committee is established by the board of directors to assist it in proposing the policies and guidelines for compensation of our managers, based on performance targets set by the board of directors itself. The compensation committee is composed of a minimum of three and a maximum of six members, nominated and removed by the board of directors. The term of office for a member of the compensation committee is five years, provided, however, that no one may be a member for a period longer than 10 years. The compensation committee reports directly to the board of directors. The main responsibilities of the compensation committee are:

a) to elaborate the compensation policy for our managers compatible with the Bank's risk management policy, targets and our current and expected financial situation as well as the provisions of existing regulations, and to submit it to the board of directors for approval;

b) to propose to the board of directors the annual total amount of compensation of our managers; and

c) to annually review the compensation policy for our managers and propose any corrections or adjustments to the board of directors.

Aggregate compensation of the members of our board of directors and board of executive officers amounted to R$46.4 million in 2018.

Risk Management

We consider risk management to be an essential tool for adding value to the Bank, and our stakeholders including our shareholders, employees and customers. We have established strategies and objectives to achieve what we believe to be an appropriate balance between the goals of growth and investment returns and the risks associated with them, making it possible to exploit our resources effectively and efficiently in pursuit of our goals.

We believe that an appropriately structured risk management process, in addition to satisfying the requirements of our regulators, makes for better corporate governance, which is one of our strategic focuses. Our risk management process has been developed by weighting our objectives, regulatory and institutional demands, risks inherent in our business and our culture.

The identification of risks aims to map internal and external risk events that could impact the goals of business units. In this context, our established Risk Committees and our risk managers play an important role in our various business and administrative areas, ensuring the continued growth of the bank occurs within acceptable risk parameters.

The risk managers have the task of identifying, measuring, monitoring, evaluating and managing risk by ensuring the consistency between the risks taken and the level of acceptable risk set by the Bank, and to report the exposure to senior management, the business areas and our regulating agencies.

The risk management activity is conducted in a collegial manner and executed by a specific risk management unit, segregated from the business units and our Internal Audit activities. The risk policies are approved by our board of directors.

The bank has identified five main categories of risks to be actively assessed and managed and in respect of which it has established separate risk committees. These include market risk, liquidity risk, credit risk, operational risk and social and environmental risk. See “Management’s Discussion and Analysis of Financial Condition and Results of Operation—Information on Market Risk—Risk and Risk Management”.

PRINCIPAL SHAREHOLDERS

We are controlled by members of the Dayan family, who hold 100.0% of our capital stock which is comprised entirely of common shares. See "Summary—Structure of Banco Daycoval S.A.". Since the tender offer, redemption and delisting discussed below, we no longer have preferred shares.

Our bylaws and the agreement between our shareholders are intended to ensure that control is not abused.

As of December 31, 2018, we have an authorised and subscribed share capital of R$2,253.5 million, consisting of 230,820,429 common shares. Each common share is entitled to one vote.

The principal shareholders of the Bank as of December 31, 2018 are as follows:

Directors and executive officers	**Common shares**	**% of our total shares**
Sasson Dayan……	50,000	0.022
Morris Dayan…….	68,017,761	29.468
Carlos Moche Dayan……..	68,017,761	29.468
Salim Dayan……	68,017,761	29.468
Rony Dayan……	26,717,146	11.574
Total……	**230,820,429**	**100.0%**

Tender Offer and Delisting

Following our IPO in 2007, we became a public company and joined the Level 2 segment of the BM&FBOVESPA (now B3 S.A. – Brasil, Bolsa, Balcão), where we listed our preferred shares and adhered to the Level 2 regulation.

On June 24, 2015, we announced a tender offer for the acquisition of those of our preferred shares which were not then held by our controlling shareholders in order to cancel our public company registration and delist from B3 S.A. – Brasil, Bolsa, Balcão Level 2.

Pursuant to a tender offer auction on August 6, 2016, we and our controlling shareholders acquired 58,394,941 of preferred shares at a price of R$9.08 per share, amounting to aggregate consideration of R$530,226,064.28. Thereafter, we held an extraordinary shareholders meeting on September 5, 2016 whereat we approved the redemption of the remaining 3,891,298 preferred shares. Such remaining shares were acquired for the same purchase price of R$9.08 per share, with an interest adjustment, amounting to aggregate consideration of R$35,724,814.02. Members of the Dayan family, our controlling shareholders, thus became owners of 100% of our share capital.

On December 20, 2016, we cancelled all preferred shares held in treasury and, on October 30, 2018, all preferred shares held by our controlling shareholders were converted to common shares.

Capital increase

We held an Extraordinary General Meeting on October 30, 2018 at which the Bank's capital was increased by R$361,452, through the issuance of 26,696,649 subscribed and fully paid-up common shares on such date. This capital increase was ratified by the Central Bank of Brazil on December 13, 2018.

Dividends

Brazilian Corporation Law and our by-laws provide that our shareholders must approve the distribution of the annual dividends at our annual shareholders' general meeting which is held on or about April 30 of each year. All shareholders are entitled to receive the dividends on the date when the dividends are declared. The minimum mandatory dividend is at least 25% of our net profits, determined in accordance with Brazilian Corporation Law and our by-laws, and calculated off of our unconsolidated financial statements

The Brazilian Corporation Law defines net profits for any fiscal year as net income for that fiscal year, net of any accumulated losses from prior fiscal years, income tax and social contribution taxes and any amounts allocated to the participation of its employees and management.

Each year, our board of directors propose the allocation of net profits for the prior year. Such allocation includes the minimum mandatory dividend and such additional dividend, if any, as our board of directors determines appropriate having due consideration of our results of operations, financial condition, cash requirements, future prospects and other factors deemed relevant by it.

Interest on capital is an alternative regime to dividends for shareholder compensation. See "The Brazilian Financial System and Banking Regulation—Taxation of Brazilian Corporations." The interest on capital approved at and paid following our annual general meetings in 2018, 2017 and 2016 in respect of the previous year were R$168.1 million in 2018, R$160.1 million in 2017 and R$167.3 million in 2016.

In 2018, we also resolved to distribute dividends on profits of prior years, in the amount of R$580.4 million, which amount was reinvested by our shareholders in our common shares (see "—Capital Increase" above) and subordinated debt (see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Capital Adequacy").

RELATED PARTY TRANSACTIONS

The Bank, in common with other banks in Brazil, is prohibited from lending or advancing funds to, or guaranteeing the obligations of, or underwriting transactions of: (i) its directors, executive officers and managers, members of its fiscal council, their respective spouses and certain other relatives of such persons; (ii) any person or entity which holds more than 10% of its share capital; (iii) any entity of which it holds more than 10% of the total capital (except subject to prior approval of the Central Bank in certain limited circumstances); and (iv) any entity of which any of the persons mentioned in (i) above holds more than 10% of the total capital.

Accordingly, we have not granted loans or made cash advances to, or guaranteed the transactions of, any of our non-financial affiliates or to our directors, officers or close family members of our directors and officers.

Certain shareholders, affiliates and other related parties maintain demand and time deposits with us or hold securities issued by us pursuant to transactions carried out on an arm's length basis on standard market terms. As of December 31, 2018, we held time deposits and demand deposits from, and had outstanding financial bills (LFs) and other debt instruments held by, shareholders, affiliates and other related parties in respect of which financial information is not consolidated within our financial statements in a total amount of R$1,034.8 million.

See note 29 to our consolidated financial statements included in this Offering Memorandum for further discussion of our related party transactions.

THE BRAZILIAN FINANCIAL SYSTEM AND BANKING REGULATION

The legal structure of the Brazilian Financial System (*Sistema Financeiro Nacional*, or "National Financial System") was established by Law No. 4,595 of December 31, 1964 (the "Banking Reform Law") (banking sector), Law No. 6,385 of December 7, 1976 (securities sector), Law No 12.154 of December 23, 2009 (pension funds sector), and Decree-Law No 73 of November 21, 1966 (private insurance sector).

Main Regulatory Agencies

The National Financial System consists of the following agencies:

(i) Macro-Regulatory Agencies:

- the National Monetary Council ("CMN");
- the Brazilian Council for Private Insurance (*Conselho Nacional de Seguros Privados* – CNSP); and
- the Brazilian Council for Complementary Pension (*Conselho Nacional de Previdência Complementar* – CNPC).

(ii) Regulatory and Supervisory Agencies:

- the Central Bank;
- the Brazilian Securities Commission ("CVM");
- the Brazilian Private Insurance Superintendence (*Superintendência de Seguros Privados* – SUSEP); and
- the Brazilian Complementary Pensions Superintendence (*Superintendência Nacional de Previdência Complementar* – PREVIC).

The CMN and the Central Bank regulate the Brazilian banking sector. The CVM regulates the Brazilian securities and capital markets. Below is a summary of the main attributes and powers of each of these regulatory agencies.

The CMN

The CMN is the chief authority in the Brazilian Financial System. It is responsible for formulating monetary and financial policies and for the overall supervision of Brazilian monetary, credit, budgetary, fiscal and public debt policies.

The CMN has the authority to regulate the credit operations of Brazilian financial institutions and Brazilian currency, to supervise Brazil's foreign exchange and gold reserves, to establish Brazilian saving and investment policies and to regulate the financial institutions operating in Brazil and the Brazilian capital markets with the overarching purpose of promoting economic and social development of Brazil. The CMN also oversees the activities of the Central Bank and the CVM. Specifically, the main responsibilities of the CMN are the following:

- adjusting the volume of means of payment to the needs of the Brazilian economy;
- controlling the value of the currency and the country's balance of payments;

- regulating the establishment and operation of financial institutions;
- directing investment of public and private financial institutions, taking into account different regions of the country and favorable conditions for the stable development of the national economy;
- controlling Brazil's reserves of gold and foreign exchange;
- enabling the improvement of the resources of financial institutions and instruments;
- monitoring the liquidity and solvency of financial institutions;
- coordinating monetary, credit, budgetary, fiscal and public debt policies; and
- establishing the policy used for the organization and operation of the Brazilian securities market.

The CMN has three members: the Minister of Finance, who is also the chairman of the CMN, the Minister of Planning, Budgeting and Management and the President of the Central Bank.

The Central Bank

The Central Bank is a federal agency subordinated to the Ministry of Finance and is responsible for implementing the monetary and credit policies established by the CMN, by means of authorising the establishment of new financial institutions, monitoring the operations of state-owned and private-owned financial institutions, and, when required, applying penalties pursuant to Brazilian law. Pursuant to Law No. 4,595, the Central Bank is also responsible for, among others, regulating credit and foreign capital, receiving mandatory payments and voluntary demand deposits from financial institutions, carrying out rediscount operations and providing loans to banking institutions, in addition to functioning as the depositary for official gold and foreign currency reserves. The Central Bank is also responsible for authorising the establishment of financial institutions, controlling and approving their operations, transfer of ownership and corporate restructurings, as well as transfers of their principal place of business or branches (whether in Brazil or abroad) and also requires that they regularly submit financial statements.

The Chairman of the Central Bank is appointed by the President of Brazil, subject to confirmation by the Federal Senate. The Chairman of the Central Bank has an indefinite term of office and may be dismissed at any time by the President of Brazil.

The CVM

The CVM is a federal agency subordinated to the Ministry of Finance and is responsible for regulating and monitoring the Brazilian securities and capital markets. Pursuant to Law No 6,385, the CVM has authority to: (i) implement the CMN´s policy in relation to securities and the capital markets, (ii) approve, suspend or cancel the registration of public companies, (iii) approve, suspend or cancel public offerings of securities, (iv) supervise the activities of public companies, organised OTC markets, exchange markets and commodities and futures markets, as well as members of the securities distribution system, (v) disclose information or issue recommendations providing guidance to the market, and (vi) prohibit market participants from engaging in acts that could be detrimental to the operation of the market and its investors. Pursuant to Law No. 10,198 of February 14, 2001, as amended, and Law No. 10,303 of October 31, 2001 ("Law No. 10,303"), the regulation and supervision of both mutual funds and variable income funds and of transactions involving derivatives were transferred to the CVM.

In accordance with Law No. 6,385, the CVM consists of a chairman and four directors, all appointed by the President of Brazil, subject to confirmation by the Federal Senate. The term of office of CVM directors

is five years, they may not be re-appointed. In addition, one fifth of the members of the board must be substituted each year.

Legal Reform of the Brazilian Financial System—Amendment to the Brazilian Constitution

Former Article 192(3) of the Brazilian Constitution, enacted in 1988, established a maximum of 12.0% *per annum* on bank loan interest rates. However, since the Brazilian Constitution was enacted, this rate has not been enforced, as the constitutional provision was pending regulation. Several attempts were made to regulate the limitation on bank loan interest, but none of them were implemented. In May 2003, Constitutional Amendment 40/03 ("EC 40/03") was enacted which repealed the maximum interest rate and enabled congress to legislate on this matter by means of specific laws. The Brazilian Congress may now pass bills that regulate the National Financial System.

With the enactment of the Civil Code in 2002, the maximum interest rate applicable to bank loans has been pegged to the SELIC rate as established by the Central Bank, unless the parties have agreed to a different rate or another rate is provided for by law. However, some uncertainty still exists as to whether the SELIC rate or the 12.0% per annum interest rate established in the Brazilian tax code should apply and whether such maximum should apply to financial institutions.

In addition, the STJ has interpreted Article 5 of Provisional Measure No. 2,170-36 of August 23, 2001 as authorizing the capitalization of agreed rates in bank credit certificates, rural, commercial and industrial notes and in standard loan agreements entered into as of March 30, 2000, as long as interest rates are expressly provided for in these agreements. However, the constitutionality of this provision is pending judgement before the STF. In the event that this provision is deemed unconstitutional, prohibition on capitalization of interest rates on a monthly basis under standard loan agreements could be restated.

Termination fees (*comissão de permanência*) are expressly forbidden for rural, commercial and industrial notes and certificates, due to the limitation on default charges. However, the STJ authorises them to be charged under bank credit certificates and standard loan agreements, as long as they are expressly provided for and are in accordance with the STJ Precedent No. 472. This precedent determines that the collection of termination fees may not exceed the sum of the interest and the late fees provided for in the loan agreement, and excludes liability to pay interest, late fees and contractual penalties.

Financial Bills (*Letras Financeiras*)

Law No. 12,249 of June 11, 2010 ("Law No. 12,249") created the financial bill (*letra financeira*, or "LF"), a long-term debt security, enabling a new category of fund raising by Brazilian financial institutions and certain other institutions authorised to operate by the Central Bank. On February 25, 2010 the CMN issued Resolution No. 3,836 ("CMN Resolution No. 3,836") regulating the issuance of LFs. Pursuant to CMN Resolution No. 3,836, LFs must have a minimum nominal amount of R$300,000 and a minimum tenor of 24 months. However, on August 23, 2012, the CMN enacted Resolution No. 4,123, as amended by CMN Resolution No. 4,330 dated May 26, 2014 and by CMN Resolution No. 4,382 dated November 18, 2014 ("CMN Resolution No. 4,123"), which revoked Resolutions Nos. 3,836 and 3,933, respectively of February 25 and of December 16, 2010, and amended and restated the rules applicable to LFs to be issued by certain types of Brazilian financial institutions. Pursuant to CMN Resolution No. 4,123, LFs must have (i) a minimum nominal amount of either R$300,000 (for subordinated LFs) or R$150.000 (for unsubordinated LFs), and (ii) a minimum tenor of 24 months. LFs may be publicly offered in the Brazilian capital markets in accordance with the applicable CVM regulations.

Provisional Measure No. 608, enacted on February 28, 2013, and converted into Law No. 12,838 on July 9, 2013, sets forth certain additional requirements applicable to the issuance of LFs and allows Brazilian

banks to issue subordinated LFs. In addition, LFs may be accounted as part of the regulatory capital, subject to conditions specified by the CMN.

Structured Operations Certificates (Certificados de Operações Estruturadas)

On September 5, 2013, the CMN enacted CMN Resolution No. 4,263, as amended by CMN Resolution No. 4,536 dated November 24, 2016 ("CMN Resolution No. 4,263"), which regulates issuances of Structured Operations Certificates (*Certificados de Operações Estruturadas*, or "COEs"), created by Law No. 12,249 of June 11, 2010. Pursuant to CMN Resolution No. 4,263, a COE is a certificate issued against an initial investment, representative of a single and indivisible set of rights and obligations, with a profitability structure that has characteristics of derivative financial instruments. Only multiple-service banks, commercial banks, investment banks and savings banks are authorised to issue COEs, which must be issued exclusively in book-entry form, through the registration in a registry and clearing system authorised by the Central Bank or CVM. A COE can reference price indices, bond indexes, securities indexes, interest rates, exchange rates, securities and other underlying assets, including those disclosed or traded abroad, with due observance of the same requirements for assets in Brazil, including regarding exchanges and OTC markets, which must be regulated by the competent foreign authorities.

Principal Limitations and Restrictions on Financial Institutions

Activities carried out by financial institutions are subject to several limitations and restrictions. In general terms, such limitations and restrictions are related to credit granting, risk concentration, investments, sales under repurchase agreements, loans in and trading with foreign currency, investment funds management, micro-credit and payroll deductible loans.

Restrictions on Loans and Advances to Related Parties

Financial institutions may not grant loans to, or guarantee the transactions of, their affiliates, except in some limited circumstances. According to CMN Resolution No. 4,693 dated October 29, 2018 and the Banking Reform Law, financial institutions are allowed to performing activities which may constitute the granting of loans or advances, under market conditions, to their following related parties: (i) its controllers, individuals and legal entities, under art. 116 of Law no. 6,404 dated December 15, 1976 (the "Brazilian Corporate Law"); (ii) its officers and members of the corporate or contractual bodies; (iii) the spouse, cohabitant and relatives, by consanguinity or affinity, up to the second degree, of the individuals mentioned in items (i) and (ii); (iv) individuals with a percentage of interest in the corporate capital equal or greater than 15.0% and (v) corporate entities (a) with a percentage of interest in the corporate capital equal or greater than 15.0%; (b) in whose capital, directly or indirectly, there is a percentage of interest in the corporate capital equal or greater than 15.0%; (c) in which there is effective operational control or preponderance in the deliberations, regardless of the equity interest; or (d) who has a director or member of a board of directors in common.. The total balance of loans and advances granted to related parties shall not exceed 10.0% of the value related to adjusted net equity less the amount of the participation held in institutions authorized by the Central Bank and financial institutions abroad, considering the limits of: (i) 1.0% for individuals and (ii) 5.0% for entities.

Restrictions on Credit Operations

CMN Resolution No. 4,589 dated June 29, 2017, as amended, sets forth that the amount of credit operations of each financial institution and other institutions authorised to operate by the Central Bank in favour of public entities and agencies will be limited to 45.0% of their regulatory capital.

Repurchase Transactions

Repurchase transactions (*operações compromissadas*) are transactions involving assets that are sold or purchased subject to the occurrence of certain conditions. Upon the occurrence of any such conditions, and

depending on the terms of the particular agreement, the seller or the buyer may be required to repurchase, or resell the assets, as the case may be. The conditions triggering the repurchase or resale obligation vary from one transaction to the other, and typically must occur within a particular time frame.

Repurchase transactions executed in Brazil are subject to operational capital limits, based on the financial institution's shareholders' equity, as adjusted in accordance with Central Bank regulations. A financial institution may only hold repurchase transactions in an amount up to 30 times its reference shareholders' equity. Within this limit, repurchase transactions involving private securities may not exceed five times the amount of the reference shareholders' equity. Limits on repurchase transactions involving securities backed by Brazilian governmental authorities vary in accordance with the type of security involved in the transaction and the perceived risk of the issuer, as established by the Central Bank.

Foreign Currency Loans

Upon registering with the Central Bank, financial institutions may borrow foreign currency-denominated funds in the international markets without the prior written consent of the Central Bank, including onlending such funds in Brazil to Brazilian corporations and other financial institutions. Banks make those onlending transactions through loans payable in Brazilian currency and denominated in such foreign currency. The terms of the onlending must mirror the exact terms and conditions of the original transaction. The interest rate charged on the underlying foreign loan must also conform to international market practices. In addition to the original cost of the transaction, the financial institution may only charge an onlending commission.

The Central Bank may establish limitations on the term, interest rate and general conditions of foreign-currency loans. It frequently changes these limitations in accordance with the economic environment and the monetary policy of the Brazilian Government.

Substantially all foreign credit operations are subject to registration with the electronic system of the Central Bank, through the so-called RDE-ROF Module. Failure to correctly inform the Central Bank of the terms of such foreign credit transaction may subject the financial institution to warnings and fines.

Asset Management Regulation

As mentioned above, asset management was previously regulated by the Central Bank and the CVM. Pursuant to Law No. 10,198 of February 14, 2001, and Law No. 10,303, the regulation and supervision of both mutual funds and variable income funds were transferred to the CVM. On July 5, 2002, the CVM and the Central Bank entered into a memorandum of understanding under which they agreed on the general terms and conditions for the transfer of such duties to the CVM.

According to CVM Instruction No. 558 of March 26, 2015, as amended, only individuals or entities authorised by the CVM may act as managers of third-party assets. Financial institutions must segregate the management of third-party assets from their other activities. These institutions must appoint an officer as the agent responsible for the management and supervision of such assets and a specialized technical department to perform asset management activities.

Pursuant to a change introduced by the Central Bank in February 2002, fund managers are required to mark their fixed income securities to market and results in such fund's portfolio assets must be accounted for at their fair market value. On December 17, 2014, the CVM enacted Instruction No. 555, as amended, which consolidated the rules applicable to investment funds.

The asset management industry is also self-regulated by the Brazilian Financial and Capital Markets Entities Association (*Associação Brasileira das Entidades dos Mercados Financeiro e de Capital* - ANBIMA),

which enacts additional rules and standards of best practices, primarily with respect to marketing and advertising.

Micro-Credit Regulation

The Brazilian Government has taken several measures intended to encourage lower-income individuals to have greater access to the Brazilian Financial System. Such measures include the requirement for providing credit allocation, the simplification of banking procedures and the liberalisation of credit union (*cooperativas de crédito*) regulations.

Since 2003, commercial banks, full service banks licensed to provide commercial banking services, and Caixa Econônima Federal ("CEF") must allocate 2.0% of their cash deposits to low-interest-rate loan transactions designated for lower-income individuals, small companies and informal entrepreneurships. According to CMN Resolution No. 4,000 of August 25, 2011, as amended ("CMN Resolution No. 4,000"), and CMN Resolution No. 4,424 dated June 28, 2013, interest rates on these loans cannot exceed 2.0% per month (or 4.0% per month in specific production finance transactions), the repayment term cannot be less than 120 days, except in specific circumstances, and the principal amount of the loan cannot exceed R$2,000 for individuals and R$5,000 for micro-enterprises (or R$15,000 in specific production finance transactions).

For the purpose of compliance with CMN Resolution No. 4,000, the CMN enacted Resolution No. 4,050, of January 26, 2012, as amended, which authorises commercial banks, full service banks licensed to provide commercial banking services and CEF to grant credit loans to individuals whose monthly income is equal to or less than ten Brazilian minimum wages; provided that such credit is clearly designated for the acquisition of goods and services to aid disabled persons.

Regulations Aimed at Ensuring the Strength of the Brazilian Financial System

Segmentation of Brazilian Financial Institutions

On January 30, 2017, the CMN enacted Resolution No. 4,553 establishes five segments for financial institutions and other institutions authorized to operate by Central Bank for the purpose of proportional application of prudential regulation. The financial institutions are classified considering their exposition as a percentage of Brazilian GDP and international activity in one of the following Segments: (i) Segment 1 (S1) – compounded by full service banks, commercial banks, banks of investments, foreign exchange banks and saving banks with an exposition equal or greater than 10.0% of Brazilian GDP or exercise relevant international activity, regardless the exposure of the institution; (ii) Segment 2 (S2) – compounded by full service banks, commercial banks, banks of investments, foreign exchange banks, saving banks and other institutions with an exposition equal or greater than 1.0% and less than 10.0% of Brazilian GDP and by the other institutions with an exposition equal or greater than 1% of Brazilian GDP; (iii) Segment 3 (S3) – compounded by institutions with an exposition equal or greater than 0.1% and less than 1.0% of Brazilian GDP; (iv) Segment 4 (S4) - compounded by institutions with an exposition less than 0.1% of Brazilian GDP; and (v) Segment 5 (S5) – compounded by institution with as exposition less than 0.1% of Brazilian GDP that uses a simplified facultative methodology for Reference Equity (PR), Level I and Principal Capital except full service banks, commercial banks, banks of investments, foreign exchange banks and saving banks and by the institutions not subject to the assessment of Reference Equity (PR).

Restrictions on Risk Concentration

Brazilian law prohibits financial institutions from concentrating their risk in only one person or group of related persons. The law prohibits a financial institution from extending credit to any person or group of related persons in an aggregate amount equivalent to 25.0% or more of the financial institution's regulatory capital. This limitation applies to any transaction involving the extension of credit, including those involving:

- loans and advances;
- guarantees; and
- underwriting, purchase and renegotiation of securities.

On July 31, 2018, the CMN enacted Resolution No. 4,677 that improves the rules applicable to maximum exposure limits by client and the maximum limit of exposures concentrated within the scope of the National Financial System that were previously regulated by CMN Resolution No. 2,844. The new rule is a result of the Public Hearing No. 59/2018. The changes brought in by Resolution 4,677 reflect the recommendations of the supervisory framework for measuring and controlling large exposures, published by the Basel Committee on Bank Supervision (*Comitê de Basileia para Supervisão Bancária* or "BIS") in April 2014. The rules of Resolution 4,677 revoke CMN Resolution No. 2,844 and are to be observed from January 1, 2019 for financial institutions classified in the Segments S1 and S2 and from January 1, 2020 for financial institutions classified in the Segments S3 and S4.

Restrictions on Investment

Financial institutions may not, among other prohibited activities:

- hold, on a consolidated basis, permanent assets that exceed 50.0% of their reference shareholders' equity;
- carry out transactions that fail to comply with the principles of selectivity, collateral, liquidity and risk diversification;
- grant loans or advances without appropriate documentation evidencing such debt;
- own real property, other than property for their offices and service outlets except for those received from the settlement of bad debts or when expressly authorized by the Central Bank; or
- acquire equity interests in other financial institutions abroad, without prior approval of the Central Bank, based on certain standards established by the CMN. However, investments are permitted without restrictions through the investment banking unit of a multiple-service bank or a subsidiary of an investment bank.

Internal Compliance Procedures

All financial institutions must establish internal policies and procedures to control their:

- activities;
- financial, operational and management information systems; and
- compliance with all applicable regulations.

The board of executive officers of a financial institution is responsible for implementing an effective structure of internal controls by defining responsibilities and control procedures and establishing corresponding goals at all levels of the institution. The board of executive officers is also responsible for verifying compliance with internal procedures.

An internal audit department, which reports directly to the company's board of directors, must be responsible for monitoring the internal control system.

The financial institutions must designate a technically qualified senior manager to be responsible for compliance with all regulations regarding financial statements and auditing.

According to CMN Resolution No. 4,595 dated August 28, 2017, which regulates compliance policies ("*política de conformidade"*) applicable to financial institutions, both financial institutions and other institutions authorised to operate by the Central Bank must implement and maintain a compliance policy in accordance with such institutions' mission, size, complexity, structure, risk profile and business model, in order to ensure the effective management of its compliance risk. Such policy must be approved by the board of directors of the respective institution.

Independent Accountants and Audit Committee

On May 27, 2004, the CMN enacted Resolution No. 3,198, as amended, ("CMN Resolution No. 3,198") which establishes certain requirements in respect of financial institutions' independent accountants and requires financial institutions to have an audit committee.

All financial institutions must have their accounts audited by independent accountants. Independent accountants can only be hired if they are registered with the CVM, certified in specialised banking analysis by the IBRACON and if they meet several requirements that assure their independence. Moreover, CMN Resolution No. 3,198 requires that financial institutions replace the person, officer, manager, supervisor or any of its members responsible for their independent accounting firm work at least every five years. Former accountants can be reassigned to the audit team only after three complete years have passed since their prior service.

Pursuant to CMN Resolution No. 3,198, all financial institutions: (i) with a regulatory capital or a consolidated regulatory capital equal to or greater than R$1.0 billion; (ii) managing third party assets in the amount equal to or greater than R$1.0 billion; or (iii) managing third party assets and deposits in the aggregate amount equal to or greater than R$5.0 billion, must create an internal audit committee within one year from indicating in its financial statements that any such parameter has been reached. The audit committee must be created pursuant to the financial institution's bylaws and must be composed of, at a minimum, three individuals, at least one of whom is an expert in accounting and auditing. The audit committee must report directly to the board of directors.

The independent accountants, in the course of their audit or review procedures, and the audit committee should notify the Central Bank of the existence or evidence of error or fraud within a maximum period of three business days from the respective identification of the same, represented by:

- non -compliance with legal and regulatory norms that place the continuity of the audited entity at risk;
- fraud of any amount perpetrated by the administration of said institution;
- relevant fraud perpetrated by entity employees or third parties; or
- errors that result in significant errors in the accounting records of the entity.

Audit Committee

Audit committee members of financial institutions with shares traded on a stock exchange may not be or have been in the previous 12 months: (i) an officer of the institution or its affiliates; (ii) an employee of the institution or its affiliates; (iii) the technician responsible, officer, manager, supervisor or any other member of a management post of the team involved in auditing activities at the institution; or (iv) a member of the

institution's fiscal council or that of its affiliates; including as a spouse, blood relative, surety, affinity and second degree relatives of such persons.

Audit committee members of publicly traded financial institutions are also forbidden from receiving any other kind of remuneration from the institution or its affiliates other than that relating to their respective post as a member of the audit committee. In the event an audit committee member of the institution is also a member of the board of directors of the institution or its affiliates, such member must opt for remuneration related to one of the posts.

The audit committee should report to the board of directors or officers, as applicable, and its main duties are to:

- nominate the independent accountants to be elected by the board of directors;
- supervise the work of the independent accountants;
- request that the independent accountants be substituted whenever deemed necessary;
- review the financial records for each half year period as well as the administrative and audit reports;
- supervise accounting and auditing, including compliance with in-house procedures and applicable regulations;
- evaluate the compliance of the financial institution's administration with the guidelines provided by the independent accountant;
- establish procedures for receiving and disclosing information in the event of any noncompliance with in-house procedures or applicable regulations;
- offer guidance to officers and directors with regard to in-house controls and procedures to be adopted; and
- meet every three months with officers and directors, independent accountants and in-house accountants to verify compliance with its guidelines.

Furthermore, Brazilian regulation also permits the creation of a single audit committee for an entire group of companies. In this case, the audit committee should be responsible for any and all financial institutions belonging to the same group.

Financial Reporting Requirements

Brazilian law requires financial institutions to prepare their financial statements in accordance with certain accounting standards adopted in Brazil, based on the accounting guidelines set forth in the Brazilian Corporate Law, and the changes introduced by Law No.11,638/07 and Law No. 11,941/09 for the accounting for transactions, coupled with the standards and instructions of the National Monetary Council ("CMN"), the Central Bank of Brazil ("BACEN"), and the Standard Chart of Accounts for Financial Institutions ("COSIF"), the Brazilian Securities and Exchange Commission ("CVM"), the National Private Insurance Council ("CNSP"), the Private Insurance Authority ("SUSEP"), and Accounting Pronouncements Committee ("CPC"), when applicable. As per the Banking Reform Law, we are required to audit our financial statements every six months and quarterly financial information, as required by CVM regulations, is subject to review by independent accountants.

CMN Regulation for Credit Assignment

CMN Resolution No. 3,533 of January 31, 2008 ("CMN Resolution No. 3,533") changed the manner in which assigned credit rights are to be treated in banks' books (pursuant to CMN Resolution No. 3,809 of October 28, 2009). Pursuant to CMN Resolution No. 3,533, if the assignor substantially retains the risks and benefits of the assigned credits, such credits should not be derecognized from the balance sheet loans. This condition is also applicable to: (i) assignments with repurchase commitments; (ii) assignments in which the assignor undertakes the obligation to compensate the assignee for losses; and (iii) assignments made jointly with the acquisition (or subscription) of subordinated shares in receivables investment funds (*Fundo de Investimento em Direitos Creditórios*, or "FIDCs") by the assignor.

Capital Adequacy Guidelines

Brazilian financial institutions must comply with guidelines established by the Central Bank and CMN that and follow principles recommended by the Basel Committee. The Basel accords are a risk-based guideline that establishes capital requirements for financial institutions. The main principle of the recommendation of the Basel Committee is that financial institutions should maintain a sufficient amount of capital to support the principal risks, including credit, market and operational risks, associated with the level of assets held in their balance sheets, calculated on a consolidated basis.

In June 2004, the Basel Committee approved a framework for risk-based capital adequacy, commonly referred to as the Basel II Accord, which sets out the details for adopting more risk-sensitive minimum capital requirements for financial institutions.

On September 12, 2010, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee, announced a substantial strengthening of existing capital requirements and fully endorsed previous agreements on the overall design of the capital and liquidity reform package, the Basel III Accord, which was endorsed at the Seoul G20 Leaders summit in November 2010. The Basel III Accord recommendations aim to improve the ability of financial institutions to withstand shocks to the financial or of other sectors of the economy, to maintain overall financial stability and to promote sustainable economic growth.

In March 2013, the CMN and the Central Bank issued a new regulatory framework for the implementation of the Basel III Accord in Brazil, which aims to improve the ability of financial institutions to withstand shocks to the financial or of other sectors of the economy, to maintain overall financial stability and to promote sustainable economic growth. The Basel III Accord regulatory capital requirements will be gradually increased by the Central Bank until 2022.

Brazilian financial institutions continue to be required to comply with standardized capital requirements with respect to their market, credit and operational risks. The banks provide the Central Bank with the information necessary for it to perform its supervisory functions, which include supervising the movements in the solvency or capital adequacy of banks.

Basel III Accord

On March 1, 2013, the CMN and the Central Bank enacted four Resolutions and 15 Circulars in order to implement in Brazil the recommendations of the Basel III regulations (the "Basel III Regulations"). These regulations follow the guidelines of Public Hearing No. 40, disclosed on February 17, 2012 with some material changes. CMN Resolution No. 4,192 (as amended by CMN Resolution No. 4,278, of October 31, 2013, CMN Resolution No. 4,311 dated February 20, 2014. CMN Resolution 4,400 dated February 27, 2015, CMN Resolution 4,442 dated October 29, 2015, CMN Resolution No. 4,606 dated October 19, 2017, CMN Resolution 4,679 dated July 31, 2018 and CMN Resolution 4,703 dated December 19, 2018) ("CMN

Resolution No. 4,192"), CMN Resolution No. 4,193, as amended by CMN Resolution No. 4,281, of October 31, 2013, CMN Resolution 4,443 dated October 29, 2015, and CMN Resolution No. 4,704 dated December 19, 2018 ("CMN Resolution No. 4,193"), and CMN Resolution No. 4,194, which has been revoked by CMN Resolution No. 4,606 dated October 19, 2017, became effective on October 31, 2013 and CMN Resolution 4,195, which has also been revoked, as from January 1, 2014, by CMN Resolution No. 4,280 dated October 31, 2013. CMN Resolution No. 4,192 repealed CMN Resolution No. 3,444, CMN Resolution No. 3,532 and CMN Resolution 3,655, as well as articles 2, 3 and 4 of CMN Resolution No. 3,057 and article 6 of CMN Resolution No. 2,723.

The regulatory capital will continue to be composed by two (2) tiers. Tier-1 Capital has a 6.0% minimum (from January 1, 2015), divided into two portions: common equity or *capital principal* (corporate capital and profit reserves, among other inclusions and deductions) of at least 4.5% and additional capital or *capital complementar* (hybrid debt and capital instruments authorised by the Central Bank, with certain deductions). Tier-2 capital will be composed of mostly subordinated debt instruments authorised by the Central Bank, with certain deductions. Current hybrid instruments and subordinated debt approved by the Central Bank as additional capital or Tier-2 Capital are expected to be maintained as such if they also comply with Basel III regulations, including the mandatory conversion clauses into equity as directed by the Basel Committee. If such instruments do not comply with Basel III Regulations, there will be a yearly deduction of 10.0% on the nominal value of such instruments, started as of October 1, 2013 (90.0%) and continuing on an annual basis from January 1, 2014 (80.0%) thereafter, until 0% or until January 1, 2022. CMN Resolution No. 4,193 also repealed CMN Resolution No. 2,772 and 3,490 (all as from October 1, 2013).

One of the most important changes applicable to non-common Tier-1 or Tier-2 instruments is that, to be qualified as additional Tier-1 or Tier-2 Capital, as the case may be, the Basel III Regulations require an instrument to have a provision that requires such instruments to either be written off or converted into common equity upon a "trigger event". A "trigger event" includes: (1) common equity being lower than a certain percentage of the risk-weighted assets of the issuer and (2) the occurrence of the exception provided for in the caput of article 28 of Supplementary Law No. 101, of May 4, 2000, with an executed commitment of contribution to the issuer; imposition of temporary intervention or RAET by the Central Bank on the financial institution; or a discretionary determination by the Central Bank, according to the criteria established in specific regulation, to write off or convert the instrument.

The Basel III Regulations define the criteria for calculation of various elements of a financial institution's risk weighted assets and also address which instruments qualify as regulatory capital, introducing the possibility that regulatory capital can include debt securities that may be written off or that may, in certain circumstances, be converted into equity.

Basel III requires banks to maintain: (i) a minimum common equity capital ratio of 4.5%; (ii) a minimum Tier-1 Capital ratio of 6.0% (from January 1, 2015); and (iii) a minimum regulatory capital ratio of 8.0% (from January 1, 2019). In addition to the minimum capital requirements, Basel III Regulations will require a "capital conservation buffer" of 2.5% (but up to 5.0%, if so determined by the Central Bank). The capital conservation buffer would restrict certain discretionary distributions (such as bonuses to management, dividends, reduction of capital and repurchase of shares). The three basic minimum requirements were phased in first, beginning on October 1, 2013. From January 1, 2019 onwards, with the full implementation of the Basel III Regulations, minimum required regulatory capital will vary between 10.5% and 13.0%, to be determined by the Central Bank.

The following table presents the implementation schedule of the main changes related to capital adequacy and leverage pursuant to Basel III Regulations:

Parameters	10/1/13	1/1/14	1/1/15	1/1/16	1/1/17	1/1/18	1/1/19
Common Equity	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Tier-1	5.5%	5.5%	6.0%	6.0%	6.0%	6.0%	6.0%
Regulatory Capital	11.0%	11.0%	11.0%	9.875%	9.25%	8.625%	8.0%
Conservative Capital	-	-	-	From 0.625% to 1.25%	From 1.25% to 2.5%	From 1.875% to 3.75%	From 2.5% to 5.0%

The verification of regulatory capital and new minimum capital requirements are applicable to entities belonging to a prudential conglomerate (*conglomerado prudencial*). From January 1, 2015, the prudential conglomerate includes the financial institutions authorised to operate by the Central Bank, as well as similar entities controlled by those financial institutions and investment funds in which financial institutions retain relevant risks and benefits.

As of December 31, 2018, 2017 and 2016, the Bank's capital ratio calculated according to the Basel III Regulations was 14.70%, 14.88% and 15.89%, respectively. Our regulatory capital for comparison to risk weighted assets, which consists entirely of Common Equity Tier 1 Capital subject to prudential adjustments, was R$3,383.0 million as of December 31, 2018, R$3,005.3 million as of December 31, 2017 and R$2,653.7 million as of December 31, 2016, reflecting period on period growth in our shareholders' equity from retained profits. The decrease in the Bank's capital ratio as of December 31, 2018 and December 31, 2017 from the previous year's calculation reflected the more significant growth in our risk weighted assets compared to our regulatory capital. Our risk weighted assets were R$23,016.7 million as of December 31, 2018, R$20,191.0 million as of December 31, 2017 and R$16,704.3 million as of December 31, 2016, reflecting the period on period increase in our loan portfolio and credit exposure. See explanatory note 26 to our Financial Statements.

Prudential adjustments deducted from shareholders' equity to constitute Common Equity Tier 1 Capital common equity include, among others: (i) funding instruments issued by financial institutions; (ii) actuarial assets related to defined benefit pension funds net of deferred tax liabilities; (iii) goodwill on investment, net of deferred tax liabilities; (iv) intangible assets acquired from October 2013; (v) superior investments and deferred tax assets resulting from temporary differences that rely on the generation of future taxable profits or revenues to be realized (excess of 15.0%); (vi) deferred tax assets resulting from tax losses and negative tax basis with respect to social contribution on net income from non-controlling interest; (vii) deferred tax assets resulting from temporary differences that require the generation of future taxable profits or revenues for its realization (excess of 10.0%); (viii) deferred tax assets resulting from tax loss from excess depreciation; and (ix) deferred fixed assets.

Additional Circulars from the Central Bank complete the regulations included among the Basel III Regulations and set forth the procedures for calculating the risk-weighted asset (RWA). Such Circulars implement several operations adjustments required for a new capital structure. In addition, derivative transactions in the over-the-counter market will be subject to new capital requirements to face the marked to market adjustment as a result of the variation of the credit risk of the counterparty. The Circulars also improve the treatment to risk exposure to investment funds, securitisation instruments, and credit derivatives (among others). They also implement certain adjustments to risk weighting in order to adjust the system to the Basel III Regulations, in particular in relation to exposures relating to certain real estate credits and large corporate credits.

The Role of Brazilian Government in the Brazilian Banking System

In light of the global financial crisis, Law No. 11.882 of December 23, 2008, was passed to authorise the Central Bank to use currency reserves to provide financial institutions with liquidity through rediscount operations and loan transactions. Furthermore, Law No. 11,908 of March 3, 2009, was enacted to increase the role of the federal government in the Brazilian banking system by authorising: (i) Banco do Brasil and CEF, both state-controlled financial institutions, to directly or indirectly acquire controlling and non-controlling participations in private and public financial institutions in Brazil, including insurance companies, pension institutions and capitalisation companies, (ii) the creation of Caixa Banco de Investimentos S.A., a wholly-owned subsidiary of CEF, with the purpose of conducting investment banking activities, and (iii) the Central Bank to carry out currency swap transactions with central banks of other countries.

On May 23, 2013, the CMN, with Resolution No. 4,222, as amended by CMN Resolution No. 4,312 dated February 20, 2014, CMN Resolution No. 4,426 dated June 25, 2015, CMN Resolution No. 4,439 dated September 24, 2015, CMN Resolution No. 4,469 dated February 25, 2016, CMN Resolution No. 4,653 dated April 26, 2018, CMN Resolution No. 4,688 dated September 25, 2018, and CMN Resolution No. 4,700 dated November 27, 2018 ("CMN Resolution No. 4,222"), amended the bylaws of the Credit Guarantee Fund (*Fundo Garantidor de Crédito*, or "FGC") maintaining the rule that FGC can invest up to 50.0% of its net worth in: (i) the acquisition of credit rights of financial institutions and leasing companies; (ii) fixed-income securities issued by associated institutions, which must be secured by credit rights created or to be created with funds of the respective applications; and (iii) linked transactions (*operações ativas vinculadas*). The FGC may sell any assets acquired in transactions described in items (i), (ii) and (iii) of this paragraph.

Corporate Structure

Except for the cases set forth as exceptions in the law, financial institutions must be organised as corporations (*sociedades por ações*) and be subject to the provisions of the Brazilian Corporations Law and the regulations issued by the Central Bank, and to inspections by the CVM if they are registered as publicly listed corporations.

The capital stock of financial institutions may be divided into voting and non-voting shares, provided that non-voting shares may not exceed 50.0% of the total capital stock, pursuant to the Article 15 of the Brazilian Corporations Law.

Classification of Credit and Allowance for Loan Losses

Under Central Bank regulations, financial institutions are required to classify their loan transactions with companies into nine categories, ranging from AA to H, in accordance with their risks. Risk assessment includes an evaluation of the borrower, the guarantor and the relevant loans. Credit classifications are determined in accordance with Central Bank criteria relating to:

- characteristics of the debtor and the guarantor, such as their economic and financial situation, level of indebtedness, capacity for generating profits, cash flow, delay in payments, contingencies and credit limits; and

- characteristics of the transaction, such as its nature and purpose, the sufficiency of the collateral, the level of liquidity and the total amount of the loan.

The regulations specify, for each loan category, a minimum loss provision as follows:

Loan category	Minimum provision
AA	0.0%

A	0.5%
B	1.0%
C	3.0%
D	10.0%
E	30.0%
F	50.0%
G	70.0%
H[(1)]	100.0%

Note:
(1) Banks must write off any loan within six-months after it is ranked H.

In general, banks must review their loan classifications annually. However, except for loans totalling less than R$50,000, banks must review loans:

- semi-annually, in any case where the aggregate amount of loans extended to a single borrower or economic group exceeds 5.0% of the bank's reference shareholders' equity; and
- monthly, in case the loans become overdue.

A loan may be upgraded if it has credit support or downgraded if it is in default. Loan transactions classified as level H risk should be transferred to a compensation account, with the corresponding debt provision, after six months of its classification at such risk level.

In case of loan transactions with individuals, the loan is graded based on data including the individual's income, net worth and credit history (as well as other personal data).

For loans that are past due, the regulations establish maximum risk classifications, as follows:

Number of Days Past Due[(1)]	Maximum Classification
1 to 14 days	A
15 to 30 days	B
31 to 60 days	C
61 to 90 days	D
91 to 120 days	E
121 to 150 days	F
151 to 180 days	G
More than 180 days	H

Note:
(1) The period may be doubled in the case of loans with maturity in excess of 36 months.

Financial institutions are required to determine, on a monthly basis, whether any loans must be reclassified as a result of these maximum risk classifications, and, if so, must adjust their loss provisions in accordance with the regulations relating to minimum provisions described above.

Also, in accordance with CMN Resolution No. 2,682 dated December 21, 1999, financial institutions cannot recognize through Profit & Loss account interest on loans that are past due for 60 days or more.

Regardless of the risk rating, the income from lending operations past due for 60 days or more is only recognized when received.

In addition, financial institutions are required to make their lending and loan ranking policies available to the Central Bank and to their independent accountants. They must also provide information relating to their loan portfolio along with their financial statements, including:

- a breakdown of lending activities and nature of the borrower and the borrower's line of business;
- maturity of the loans;
- amounts of rolled-over, written-off and recovered loans;
- loan portfolio diversification, in accordance with the risk classification; and
- overdue loans divided between those up to 15 days overdue and those that are more than 15 days overdue.

Central Bank Credit Risk System

Financial institutions are required to provide information to the Central Bank concerning the extension of credit and guarantees rendered to clients. The information is used to:

- strengthen the Central Bank's supervisory capacity;
- make information regarding debtors available to other financial institutions (however, other institutions can only access information upon the client's authorisation); and
- prepare macro-economic analyses.

If the aggregate amount of a client's transactions exceeds R$200.00, the financial institution must provide the Central Bank with information on such credit operations, which are registered in a database called the Credit Information System of the Central Bank (SCR). The SCR is a registry managed by the Central Bank and updated monthly by financial institutions.

Furthermore, CMN, through Resolution No. 3,721 of April 30, 2009 ("CMN Resolution 3,721"), as amended, established standards related to the internal credit risk management structure of financial institutions. CMN Resolution No. 4,557, dated February 23, 2017 ("CMN Resolution 4,557"), however, established new standards related to the internal credit risk management structure of financial institutions, including the Chief Risk Officer (CRO), and repealing Resolution No. 3,721. On March 4, 2013, the Central Bank enacted Circular No. 3,648, as amended, which establishes the minimum requirements for the use of internal credit risk classification systems in the calculation of required regulatory capital, as set forth in Resolution No. 4,193.

Anti-Money Laundering Law

Law No. 9,613, of March 3, 1998, as amended ("the Anti-Money Laundering Law") plays a major role for those engaged in banking and financial activities in Brazil. The Anti-Money Laundering Law sets forth the definition and the penalties for those involved in activities that consist of "laundering" or concealing of property, rights and assets, as well as a prohibition on using the financial system for these illicit acts.

Pursuant to the Anti-Money Laundering Law and Central Bank Circular No. 3,461 as amended by Circular No. 3,654 of March 27, 2013, Circular No. 3,780 of January 21, 2016, Circular No. 3,839 of June 28, 2017, Circular No. 3,858 of November 14, 2017, and Circular 3,889 of March 28, 2018 ("Circular No. 3,461"), financial institutions must:

- identify and maintain up-to-date records regarding their clients;
- maintain internal controls and records;
- review transactions or proposals with characteristics which may indicate the existence of a money laundering crime;
- keep records of transactions involving electronic transfers and checks for a period of at least five years;
- keep records of transactions that exceed R$10,000 in a calendar month, or reveal a pattern of activity that suggests a scheme to avoid identifications, for a period of at least five years;
- keep records of transfers involving electronic transfers, checks, administrative checks or payment orders that exceed R$1,000; and
- inform the appropriate authorities (without the client's knowledge) of any suspicious transaction or set of transactions performed by individuals or entities pertaining to the same group of companies.

In addition, the Anti-Money Laundering Law created the Financial Activity Control Council (*Conselho de Controle de Atividades Financeiras* or "Coaf"). The main role of Coaf is to foster cooperation among the Brazilian governmental agencies responsible for implementing national anti-money laundering policies, in order to stem the performance of illegal and fraudulent acts. Their activities also include imposing administrative fines as well as examining and identifying suspected illegal activities pursuant to the Anti-Money Laundering Law.

On July 24, 2009, the Central Bank issued Circular No. 3,461consolidating the procedures to be adopted by financial institutions in order to prevent the crimes set forth in the Anti-Money Laundering Law. Circular No. 3,461 sets forth requirements for financial institutions relating to (i) internal policies and controls systems, (ii) records of customer information, (iii) records of financial services and transactions, (iv) records of checks and transfer of funds, (v) records of prepaid cards, (vi) records of handling of resources in excess of R$50,000; (vii) reports of material information to the Financial Activity Control Council; and (viii) communications with respect to money laundering through the website of the institution on the internet, branches and points of service. Furthermore, the CMN's Circular-Letter No. 3,430 of February 11, 2010, clarifies concepts relating to customers and politically exposed persons, as well as procedures to be followed in connection with the identification of such customers or persons. On March 12, 2012, CMN enacted Circular-Letter No. 3,542, which discloses a list of transactions and situations which may indicate the occurrence of crimes as provided for in the Anti-Money Laundering Law. These suspicious transactions must be reported to the Coaf.

Also, on March 12, 2012, the Central Bank amended the rules applicable to procedures that must be adopted by financial institutions in relation to the prevention and combat of money laundering and terrorism financing, as a response to the recommendations of the Financial Action Task Force ("FATF"), an inter-governmental body for combatting money laundering, terrorist financing and other related threats to the international financial system. The main measures include: (i) enactment of Circular No. 3,583 of March 12, 2012, which sets forth that (a) financial institutions must not initiate any relationship with clients, or proceed with existing relationships, if it is not possible to fully identify such clients; and (b) anti-money laundering procedures are also applicable to agencies and subsidiaries of Brazilian financial institutions located abroad; and (ii) enactment of Circular No. 3,691 of December 16, 2013, as amended, establishing that the institutions authorised to operate in the Brazilian foreign exchange market with financial institutions located abroad must verify if the other party is physically present in the country where it is organised and licensed or is subject to effective supervision.

Clean Company Law

Law No. 12,846 dated August 1, 2013, known as the "clean company law", sets forth strict liability for companies and prohibits acts such as bribery, fraud in public procurement, bid rigging (and other conduct that aims to restrict competition in public bids), fraud in contracts signed with public bodies, impairing investigations by public officers, influencing or financing others to engage in illegal acts against the government, manipulating the economic and financial balance of a public contract, and gaining any type of advantage from amendments to or extensions of public contracts.

Regulation on Cybersecurity

On April 26, 2018, the CMN issued Resolution No. 4,658, related to cybersecurity and cloud storage policies applicable to financial institutions and other institutions authorised by the Central Bank. According to this new rule, financial institutions must now follow cyber risk management and cloud outsourcing requirements on how such entities must design or adapt their internal controls. Policies and action plans to prevent and respond to cybersecurity incidents must be approved by May 6, 2019, and fully compliant by December 31, 2021. Data location and processing may take place inside or outside the Brazilian territory, but access to data stored abroad must be granted at all times to the Central Bank for inspection and exchange information purposes.

Data Protection Regulation

On August 14, 2018, Law No. 13,709 (the "Brazilian General Data Protection Law") was enacted in response to an increasingly data-driven business environment to create a significantly more robust legal landscape for personal data processing in Brazil, which is currently subject to sectorial rules set out in different statutes, and strengthen the rights for protection of personal data.

On December 28, 2018, Provisional Measure No. 869 of December 27, 2018 ("MP 869") was published, amending certain provisions of the Brazilian General Data Protection Law and creating the National Data Protection Authority ("ANPD"). Among its various competencies, the ANPD will (i) issue regulations and procedures on the protection of personal data; (ii) deliberate, at an administrative level, upon the interpretation of the Brazilian General Data Protection Law; (iii) supervise the compliance with, and assess penalties in the event of data processing performed in violation of, the Brazilian General Data Protection Law; (iv) implement simplified mechanisms for recording complaints about the processing of personal data in violation of the Brazilian General Data Protection Law; and (v) request information, at any time, to controllers and personal data processors that carry out personal data processing operations. MP 869 also assigned to the ANPD the exclusive competence to assess penalties provided for by the Brazilian General Data Protection Law which prevail over any related competencies of other public entities. The Brazilian Congress is required by the Brazilian Federal Constitution to approve MP 869 within 60 days of its enactment (which may be extended once for more 60 days) and, if approved, to convert such provisional measure into law. In the event the Brazilian Congress fails to approve MP 869 within such timeframe, the provisions set forth therein shall automatically become ineffective as of the expiration of such term and the Brazilian Congress shall issue a Legislative Decree to regulate the legal relations arising therefrom. Such Provisional Measure is currently being discussed in the Brazilian Congress.

In addition, the legal basis for sharing personal data from the public sector's databases to private entities has been extended to include, among others, transfers supported by legal provisions or agreements, or to prevent fraud and irregularities.

Regulation on Fintechs

The CMN approved on April 26, 2018, resolutions No. 4.656 and 4.657, which regulate the operation of financial technology companies that operate in the credit market, the so-called "fintechs". With this new

regulation, these start-ups, which today operate as banking correspondents in the credit market, may grant credit without the intermediation of a bank. The new rules are applicable immediately to these entities and allow interested companies to start the authorisation process.

According, to the approved regulation, fintechs could be structured as (A) Direct Credit Companies, which will carry out operations with their own resources through an electronic platform; or (B) Interpersonal Loans Companies, focused on financial intermediation (peer-to-peer). On October 29, 2018, the Brazilian Government enacted Decree No. 9,544 authorising foreign investment up to 100.0% in the capital stock of Direct Credit Companies or Interpersonal Loans Companies.

Open Banking

In Brazil, there is still no specific regulation that obliges banks to disclose data and customer information in an "open banking" model. Although, following a global trend, the Central Bank is moving to adapt Brazilian legislation in this regard, following a process that began with the enactment of Resolution No. 3,401/06.

On March 28, 2018, the CMN approved Resolution No. 4,649, which prohibited banks from limiting or preventing access by payment institutions to different types of banking operations, aiming to stimulate competition in the Brazilian Financial System.

Politically-Exposed Individuals

The Central Bank enacted Circular No. 3,461 of July 24, 2009 ("Circular No. 3,461"), as amended, requiring financial institutions and other institutions authorised to operate by the Central Bank to implement policies, procedures and internal controls in order to improve the prevention and avoidance of activities relating to the crimes described in the Anti-Money Laundering Law.

Circular No. 3,461 sets forth, among other things, that these institutions must take certain actions to establish business relationships with, and to follow up on financial transactions of, clients who are deemed to be politically-exposed individuals. Pursuant to Article 4 of Central Bank Circular No. 3,461, for purposes of such regulation, politically-exposed individuals are public agents, including their immediate family members, spouses, life partners and stepchildren of public agents. Under such regulation, a public agent is defined as a person who occupies or has occupied a relevant public office or position over the past five years in Brazil or other countries, territories and foreign jurisdictions. The five-year term runs retroactively from the initial date of the business relationship or from the date when the client became a politically-exposed individual.

In addition, such institutions must adopt reinforced and continuous surveillance actions with regard to business relationships with politically-exposed individuals, paying special attention to proposed relationships and transactions of such individuals originating from countries with which Brazil has a large volume of financial and commercial transactions, common borders or ethnic, language or political proximity.

Tax Evasion Law

Generally, information protected by bank secrecy laws can only be furnished in compliance with a court order or an order by a Federal Congressional Inquiry Committee (*Comissão Parlamentar de Inquérito*).

However, the Central Bank may provide information generally protected by bank secrecy laws without judicial authorisation within the performance of its supervisory powers, as long as they have sufficient circumstantial evidence that a client has engaged in tax evasion. Such evidence may be represented by, among others:

- the client reporting transactions with a value lower than its market value;

- loans acquired from sources outside the financial system;
- transactions involving "tax havens";
- expenses or investments which exceed the declared available income;
- overseas currency remittances through non-resident accounts in amounts which exceed the declared available income; and
- legal entities that have their registration with the General Taxpayers Registry cancelled or declared invalid.

Additionally, in accordance with Normative Ruling No. 1,571/2015 of the Brazilian Revenue Service, financial institutions must report certain information relating to transactions carried out in Brazil, such as payments and deposits, among others.

Also, as per Decree No. 3,724 of January 10, 2001, as amended by Decree No. 8,303 of September 4, 2014, pursuant to Tax Information Exchange Agreements entered into between Brazil and other countries, tax authorities may also examine information relating to third parties in documents, books and records of financial institutions and related entities, including those related to deposit accounts and investments.

Regulations Affecting Liquidity in the Financial Market

The Central Bank currently imposes compulsory deposit and other related requirements upon financial institutions from time to time. The Central Bank uses reserve requirements on demand deposits, savings deposits and time deposits as a mechanism to control the liquidity of the Brazilian financial system. Historically, those imposed reserves have accounted for substantially all amounts required to be deposited with the Central Bank.

Below are some of the current types of reserves:

Demand Deposits

Pursuant to Circular No. 3,917 of November 22, 2018, banks and other financial institutions are generally required to maintain a mandatory reserve of 21.0% of the average daily balance of the amounts of their demand deposits and certain other amounts, after a deduction of R$500.0 million. If the applicable reserve requirement for a financial institution is equal to or below R$0.5 million, the financial institution will be exempt from setting aside reserve requirements as set forth by Circular No. 3,917, however, it must provide information to the Central Bank regarding demand deposits held by it. Amounts subject to this reserve requirement shall be deposited in cash in a specific account and part of such deposits will bear no interest. At the end of each day, the balance of such account must be equivalent to at least 65.0% of the reserve requirement for the respective calculation period, which begins on Monday of one week and ends on Friday of the following week.

Savings Deposits

Pursuant to Circular No. 3,757 of May 28, 2015, Brazilian financial institutions are generally required to deposit in an interest-bearing account with the Central Bank, on a weekly basis, an amount in cash equivalent to 24.5% of the average aggregate balance of savings accounts during the prior week. In addition, a minimum of 65.0% of the total amount of deposits in saving accounts must be used to finance the real estate sector, of which 80.0% of that percentage must be allocated to the types of transactions dealt with in Article 16 of Resolution 4,676 of July 31, 2018.

Time Deposits

In accordance with Central Bank Circular No. 3,916 of November 22, 2018, as amended ("Central Bank Circular No. 3,916"), banks are subject to a mandatory reserve of 33.0% of the average daily balance of their time deposits and certain other amounts, after a deduction of R$30.0 million, in the amount exceeding: (i) R$3.6 billion, for financial institutions with a Tier I component of regulatory capital below R$3.0 billion; (ii) R$2.4 billion, for financial institutions with a Tier I component of regulatory capital equal or higher than R$3.0 billion and below R$10.0 billion; (iii) R$1,2 billion, for financial institutions with a Tier I component of regulatory capital equal or higher than R$10.0 billion and below R$15.0 billion; and (iv) zero, for financial institutions, such as the Bank, with a Tier I component of regulatory capital higher than R$15.0 billion. If the applicable reserve requirement of a financial institution is below R$0.5 million, such financial institution will be exempt from the reserve requirements set forth by Central Bank Circular No. 3,916 although it must provide information to the Central Bank on time deposits it holds. Amounts subject to this reserve requirement shall be deposited in cash in a specific account and part of such deposits will bear interest at a SELIC-based rate. At the end of each day, deposited amounts shall be equivalent to 100.0% of the applicable reserve requirement.

Foreign Currency and Gold Exposure

Pursuant to CMN Resolution No. 3,488 of August 29, 2007, as amended by CMN Resolution No. 4,388 of December 18, 2014 and CMN Resolution 4,606 of October 19, 2017, the total consolidated exposure of a financial institution in foreign currencies and gold cannot exceed 30.0% of its reference shareholders' equity.

Rural Lending

According to the Manual of Rural Lending, as published by the Central Bank, financial institutions are required to maintain a daily average balance of rural lending not less than 30.0% of the daily balance of all accounts subject to compulsory reserve requirements. Financial institutions must provide the Central Bank with evidence of compliance with such requirement by the fifth business day of each month. A financial institution that does not meet this requirement will be subject to payment of fines calculated over the daily difference between the requirement and the portion actually used for rural lending and a pecuniary penalty or, at the financial institution's discretion, to deposit the unused amount until the last business day of the subsequent month in a non-interest-bearing account maintained with the Central Bank.

Repurchase Agreements, Export Notes, Etc.

The Central Bank at times has established a reserve requirement for certain types of financial transactions, such as repurchase agreements, export notes, derivative transactions and certain types of assignments. Central Bank Circular No. 2,820 of May 27, 1998 currently sets this reserve requirement at zero.

Taxation of Financial Transactions

Financial transactions in Brazil are generally subject to income tax and to the IOF.

The income tax assessed on the income received on financial transactions by Brazilian residents generally depends on: (i) the type of investment (fixed or variable income, as defined by Brazilian law; variable income investments usually being treated more favorably); and (ii) the term of the investment (long-term investments usually have a more favorable tax treatment). The income tax assessed on income deriving from financial transactions is: (a) for Brazilian legal entities, a prepayment of the corporate income tax due by them; and (b) exclusive for individuals that are Brazilian residents. As a general rule, investments in the Brazilian financial and capital markets made by individuals or legal entities resident or domiciled in regular tax

jurisdictions are subject to the same taxation rules applicable to Brazilian. A favourable taxation regime is available to those investments made in accordance with the rules set forth by the CMN (CMN Resolution 4,373/2014). On the other hand, a higher taxation may be applicable if the investments originate from low tax jurisdictions and do not comply with the rules set forth by the CMN.

IOF

IOF is a federal tax levied on foreign exchange, securities/bonds, credit and insurance transactions. Pursuant to Article 153, §1, of the Brazilian Constitution, the IOF rate may be changed by an executive decree within certain limits defined by law. In addition, the IOF rate is not subject to the *ex post facto* principle, which provides that laws increasing the rate of any existing taxes or creating new taxes will only come into effect as of the latter of: (i) the first day of the year following their publication; and (ii) 90 days after their publication. In contrast, an executive decree increasing the IOF rate takes effect from its publication date. Executive Decree No. 6,306 of December 14, 2007, as amended ("IOF Regulations"), currently consolidates the IOF legislation.

IOF on Foreign Exchange Transactions

Pursuant to the IOF Regulations, foreign exchange transactions are subject to the levy of the IOF ("IOF/FX"). The current legislation allows the Minister of Finance to increase the IOF/FX up to a rate of 25.0% at any time. At this point, Article 15-A of the IOF Regulations sets out that the current general IOF/FX rate is 0.38%, although there are some exceptions, such as:

(i) foreign exchange transactions for the inflow of funds, including symbolic transactions, related to external credits, subject to registration with the Central Bank, involving direct external credits or credits obtained by means of issuance of notes in the international market with a minimum average term of up to 180 days, in which case the IOF/FX rate is 6.0% (including ((i) notes with a put/call provision with a term less than an average 180 days; (ii) foreign loans or notes with an average term of more than 180 days which are partially or fully redeemed in a period of less than 180 days from their date of issuance; and (iii) exchange agreements required due to an amendment of the loan agreement in a period of less than 180 days from the previous exchange agreement);

(ii) foreign exchange transactions for the inflow and outflow of funds related to external credits, excluding the transactions mentioned in item (i) above, in which case the IOF/FX rate is 0.0%;

(iii) foreign exchange transactions for the acquisition of goods or services outside Brazil with credit cards, in which case the IOF/FX rate is 6.38% of the amount of the transaction;

(iv) foreign exchange transactions for the acquisition of goods or services outside Brazil with credit cards by the Federal Union, States, Municipalities, Federal District, as well as its foundations and autarchies, in which case the IOF/FX rate is 0.0%;

(v) foreign exchange transactions related to export of goods and services, in which case the IOF/FX rate is 0.0%;

(vi) foreign exchange transactions for the inflow and outflow of funds related to investments made by investment funds that invest in non-Brazilian markets in accordance with the rules set forth by the CVM, in which case the IOF/FX rate is 0.0%;

(vii) foreign exchange transactions for the inflow of funds related to investments made by non-residents in the Brazilian financial market executed on the B3 S.A. – Brasil, Bolsa, Balcão, in which case the IOF/FX rate is 0.0%;

(viii) foreign exchange transactions for the inflow of funds related to investments made by non-residents in the Brazilian capital markets, including the acquisition of shares in public offers and other similar transactions and investments in shares issued by Brazilian private equity (FIP) and venture capital (FIEE) funds, in which case the IOF/FX rate is 0.0%;

(ix) foreign exchange transactions for the symbolic inflow of funds in connection with the cancellation of depository receipts for investment in shares traded on the B3 S.A. – Brasil, Bolsa, Balcão, in which case the IOF/FX rate is 0.0%;

(x) foreign exchange transactions for the symbolic inflow of funds due to conversion of the foreign investor regime from direct investment to investment in shares traded within the Stock Exchange in accordance with the rules set forth by the CMN, in which case the IOF/FX rate is 0.0%;

(xi) foreign exchange transactions for the inflow of funds related to investments made by non-residents in the Brazilian financial and capital markets, in which case the IOF/FX rate is 0.0%;

(xii) foreign exchange transactions for the return (outflow) of funds related to the investments made by non-residents in the Brazilian financial and capital markets in which case the IOF/FX rate is 0.0%;

(xiii) foreign exchange transactions for the remittance of interest on net equity and dividends earned by foreign investors, in which case the IOF/FX rate is 0.0%;

(xiv) foreign exchange transactions performed between financial institutions, in which case the IOF/FX rate is 0.0%;

(xv) foreign exchange transactions made by international air transportation companies, domiciled abroad, for purposes of remitting resources derived from its local revenues, in which case the IOF/FX rate is 0.0%;

(xvi) foreign exchange transactions for the inflow of funds to cover expenses incurred in the country with credit cards issued abroad, in which case the IOF/FX rate is 0.0%;

(xvii) foreign exchange transaction related to the acquisition of foreign currency by financial institutions simultaneously contracted with a foreign currency sale transaction, exclusively when required by regulatory provision, in which case the IOF/FX rate is 0.0%;

(xviii) foreign exchange transactions for the inflow of funds related to donations received by public financial institutions controlled by the federal government and intended to prevent, monitor and combat deforestation and promote the conservation and sustainable use of forests in Brazil, in which case the IOF/FX rate is 0.0%;

(xix) foreign exchange transactions for the inflow of funds, including through simultaneous exchange transactions, to post initial or additional margin requirements, required by stock, futures and commodities exchanges, in which case the IOF/FX rate is 0.0%;

(xx) foreign exchange transactions for the inflow of the funds, including through simultaneous exchange transactions, to invest in Brazilian Depositary Receipts - BDR, in which case the IOF/FX rate is 0.0%;

(xxi) foreign exchange transactions to ensure compliance with the obligations of international credit card managers and commercial or multiple banks that act as credit or debit card issuers relating to withdrawals made abroad by their users, in which case the IOF/FX rate is 6.38%;

(xxii) foreign exchange transactions for the purchase of foreign currency and traveler checks as well as charging prepaid international cards, intended to cover personal expenses on international travels, in which case the IOF/FX rate is 6.38%; and

(xxiii) foreign exchange transactions related to the acquisition of foreign currency in cash or for the transfer of funds by a Brazilian resident to its own foreign bank account, in which case the rate is 1.10%.

IOF on Securities Transactions

Pursuant to Article 25 of the IOF Regulations, IOF may also be levied on transactions involving bonds or securities, including those carried out on Brazilian stock, futures or commodities exchanges as well as Brazilian over-the-counter markets ("IOF/Securities"). Article 29 of the IOF Regulations sets out that the IOF/Securities rate can be increased up to 1.5% per day of the amount of the taxed transaction, during the period in which the investor holds the securities, up to the amount equal to the gain made on the transaction and only from the date of its increase or creation, although certain transactions may be subject to specific rates.

IOF/Securities may be assessed on the national adjusted value of financial derivatives, except in cases of derivatives used as hedges for exports when the ratio between the daily sold exposure in the derivatives is not greater than 1.2 times the amount of total exports in the preceding year. For such transactions involving financial derivatives, the IOF-Securities rate used to be 1.0%, but was reduced to 0.0% as of June 13, 2013.

In addition, IOF/Securities is assessed on gains realised in transactions with terms of less than 30 days consisting of the sale, assignment, repurchase or renewal of fixed-income investments or the redemption of shares of mutual funds or investment pools. The maximum rate of IOF/Securities payable in such cases is 1.0% per day, up to the amount equal to the gain made on the transaction, and decreases with the duration of the transaction, reaching zero for transactions with maturities of at least 30 days, except that the rate for the following types of transactions is currently 0.0%:

- transactions carried out by financial institutions and other institutions chartered by the Central Bank as principals, except the consortium manager;
- transactions carried out by mutual funds or investment pools themselves;
- transactions carried out in the equity markets, including those performed in stock, futures and commodities exchanges and similar entities;
- redemptions of shares in equity funds;
- transactions with certificates of agribusiness credit rights (CDCA), with letters of credit for agribusiness (LCA), and certificates of agribusiness receivables (CRA);
- transactions with debentures, with certificates of real estate receivables (CRI), and financial letters; and

- transactions carried out by governmental entities, political parties and worker's syndicates.

IOF on Credit Transactions

IOF also applies to credit transactions, except for foreign credit ("IOF/Credit"). The IOF levied on credit transactions granted to legal entities is generally assessed at a daily rate of 0.0041%, up to a limit of 1.5%. Additionally, an IOF surtax of 0.38% is currently applicable to most credit transactions.

IOF on Insurance Transactions

In addition, IOF tax is levied on insurance transactions ("IOF/Insurance") at the rate of: (i) 0.0% in the operations of reinsurance, relating to export credits or to the international transport of goods and in operations in which the premiums are allocated to the financing of life insurance plans with coverage for survival, among others; (ii) 0.38% of premiums related to life insurance plans without coverage for survival, among others; (iii) 2.38% of premiums paid in the case of health insurance; and (iv) 7.38% of premiums paid in the case of other types of insurance. Rural insurance, among certain other specific insurance transactions, is exempt from IOF.

Taxation of Brazilian Corporations

Brazilian companies' income tax is made up of two components, a federal income tax and social contribution on taxable profits, which is known as the "Social Contribution on Net Profits". In turn, the federal income tax includes two components: a federal income tax and an additional income tax. The federal income tax is assessed at a combined rate of up to 25.0% of adjusted net income (the normal rate for Brazilian legal entities is 15.0% plus 10.0% for legal entities with annual profits exceeding R$240,000). Pursuant to Law No. 13,169, the CSLL is currently assessed at a rate of 9.0% for non-financial institutions, while it is assessed, for the majority of the financial institutions, including banks, which are subject to the income tax based on the Actual Profit Regime (*lucro real*) – the Deemed Profit Regime (*lucro presumido*) is not an option for financial institutions –, at a rate of 15.0% as from January 01, 2019.

Companies are taxed based on their worldwide income rather than on income produced solely in Brazil. Therefore, profits, capital gains and other income obtained abroad by Brazilian entities will be computed in the determination of their net profits. In addition, profits, capital gains and other income obtained by foreign branches or income obtained from subsidiaries or foreign corporations controlled by a Brazilian entity will also be computed in the calculation of such entity's profits, in proportion to its participation in such foreign companies' capital (Controlled Foreign Corporations – CFC rules). The Brazilian entity is allowed to deduct any income tax paid abroad, up to the amount of Brazilian income taxes imposed on such income.

The recently published Law No. 12,973, dated May 13, 2014 ("Law No. 12,973"), introduced a new set CFC rules applicable to foreign controlled and affiliated companies. As per the new CFC regime, the investment in controlled companies, directly and indirectly held, must be adjusted on a yearly basis to reflect changes in the investment value. Such changes are to be recognized by the investing company in proportion to the investment held in the controlled entity's equity. Positive results relating to profits earned must be subject to IRPJ and CSLL on December 31 of the year they are accrued. As per said Law, in case of affiliated companies, the rules on taxation of foreign profits focus on distributed profits, which are characterized under different circumstances as set forth by legislation. In this case, profits distributed throughout the year are subject to taxation on December 31. Subject to certain restrictions, the Brazilian entity is allowed to deduct any income tax paid abroad, up to the amount of Brazilian income taxes imposed on such income, and the new legislation allows, in certain cases, the consolidation of foreign entity results for tax purposes.

Dividends deriving from profits generated as from January 1, 1996 are not subject to withholding income tax when paid, nor to corporate income tax or individual income tax on the person receiving the

dividend. However, as the payment of dividends is not tax deductible for the company distributing them, there is an alternative regime for shareholder compensation called "interest on net equity" which allows companies to deduct any interest paid to shareholders from net profits for tax purposes. Although controversial, the Brazilian tax authorities have expressed their understanding that exempt dividends would be only those deriving from profits calculated based on accounting rules in force until December 31, 2007, that is, before Brazil changed accounting principles in order to align with IFRS, and any dividends paid in excess would be subject to withholding income tax. This is still a controversial matter and Law No. 12,973 stated that all dividends derived from profits assessed between January 1, 2008 and December 31, 2013, in amounts higher than the amounts calculated in accordance with accounting principles in force until December 31, 2007, are tax exempt. However, the issue remains for dividends derived from profits assessed between January 1, 2014 and December 31, 2014.

Law No. 9,249 dated December 26, 1995 allows a corporation to deduct from its net profits for tax purposes any interest paid to shareholders as remuneration of the shareholders' equity called "interest on net equity" or "interest on shareholder's capital". Distributions may be paid in cash. The interest is calculated on certain net equity accounts in accordance with the daily *pro rata* variation of the TJLP, as determined by the Central Bank from time to time, and cannot exceed the greater of:

- 50.0% of the net income (after social contributions on profit and before the federal income tax provision and the deduction of the interest amount attributable to shareholders) related to the period in respect of which the payment is made; or

- 50.0% of the sum of retained profits and profits reserves as of the date of the beginning of the period in respect of which the payment is made.

Any payment of interest to shareholders is subject to withholding income tax at the rate of 15.0%, or 25.0% in the case of a shareholder who is domiciled in a "tax haven" jurisdiction. These payments may be qualified, at their net value, as part of any mandatory dividend.

Tax losses carried forward are available for offsetting up to 30.0% of the annual taxable income. No time limit is currently imposed on the application of tax losses to offset future taxable income.

Two federal contributions are imposed on the gross revenues of corporate entities: the Social Integration Program (*Programa de Integração Social*, or "PIS") and the Social Security Financing Tax (*Contribuição para Financiamento da Seguridade Social*, or "COFINS").

In May 2003, the Brazilian Congress approved an increase in the rate of COFINS, payable by the financial services sector. Since September 2003, the PIS and COFINS have been imposed over financial institutions' gross revenues at a combined rate of 4.65%, but some specific costs, such as funding cost, are authorised to be deducted from the PIS and COFINS tax bases. The COFINS and the PIS rate for some non-financial companies have increased from 3.0% to 7.6% and from 0.65 to 1.65%, respectively, resulting in a combined rate of 9.25%, although certain deductions for expenses are authorised (non-cumulative PIS and COFINS regime). Pursuant to Section 1 of Decree No. 8,426 of April 1, 2015, legal entities (non-financial institutions) under the non-cumulative PIS/PASEP and COFINS regime are subject to PIS/PASEP and COFINS on financial revenues, which are levied, in most cases, at the combined rate of 4.65%.

Law No. 12, 249 of June 11, 2010

The Brazilian Government has introduced thin capitalisation provisions, effective as of January 1, 2010, through the enactment of Provisional Measure No. 472, enacted by the Brazilian government on December 15, 2009, later converted into Law No. 12,249 of June 11, 2010 ("Law No. 12,249"). As a general

rule, thin capitalisation provisions are intended to limit the tax deductibility of interest payments made by a Brazilian company to: (i) related parties, as set forth in the Brazilian transfer pricing rules; or (ii) a beneficiary that is domiciled or incorporated in a tax haven jurisdiction or that benefits from a privileged tax regime.

Thin capitalisation rules are applicable to transactions with a foreign related party. Hence, the interest paid or credited to a foreign related party is deductible for IRPJ and CSLL purposes if, concurrently:

(i) in the case of indebtedness to a related party that holds a direct equity stake in the Brazilian entity, the relevant indebtedness of the Brazilian legal entity, on the interest accrual date, does not exceed two times the value of the stake held by the related party in the net worth of the Brazilian legal entity (individual limit);

(ii) in the case of indebtedness to a related party that does not hold a direct equity stake in the Brazilian entity: the relevant indebtedness of the Brazilian legal entity, on the interest accrual date, does not exceed two times the value of the net worth of the Brazilian legal entity (individual limit);

(iii) in either (i) or (ii) above, the sum of the indebtedness of the Brazilian legal entity to all related parties, on the interest accrual date, does not exceed two times the aggregate value of the stakes of all related parties in the net worth of the Brazilian legal entity (collective limit). However, pursuant to Law 12,249, this item (iii) does not apply in the event of indebtedness exclusively to foreign related parties which do not hold direct equity stakes in the Brazilian entity, in which case the total indebtedness cannot exceed two times the value of the net worth of the Brazilian legal entity. In cases where the lender is located in a tax haven jurisdiction or benefits from a privileged tax regime, the interest paid or credited to a lender (entity or individual) resident or domiciled in a tax haven jurisdiction or that benefits from a privileged tax regime is deductible for IRPJ and CSLL purposes, if the total indebtedness of the Brazilian legal entity to residents located in tax haven jurisdictions or that benefit from privileged tax regimes does not exceed 30.0% of the net worth of the Brazilian legal entity.

Moreover, pursuant to Law 12,249, there may be room for the tax authorities to interpret that interest payments or credits to an entity or individual resident or domiciled in a tax haven jurisdiction or that benefits from a privileged tax regime will not be deductible unless the following requirements are fulfilled, concurrently: (i) identification of the actual beneficiary abroad; (ii) evidence of the operational capacity of the foreign lender; and (iii) documentary evidence of payment of the respective price or receipt of the assets and rights or use of the service. For such purposes, the actual beneficiary is deemed to be (i) an entity that is not incorporated with the sole or main purpose of achieving tax savings and (ii) which receives such payments on its own account (rather than on behalf of a third party, as an agent or fiduciary manager, etc.). Since the provisions introduced by Law No. 12,249 are recent, it is still unclear how the tax authorities will interpret and apply such provisions. These new regulations may have an impact on the transactions performed by any Brazilian company.

Law No. 12,715 of September 17, 2012 and Law No. 12,766 of December 28, 2012

The Brazilian transfer pricing rules on the deductibility of interest were amended by Law 12,715 and Law 12,766.

Law 12,715 and 12,766 amended Law 9,430/1996, which sets forth transfer pricing rules for loans with related parties abroad or parties domiciled in favourable tax havens jurisdictions and privileged tax regimes as defined under Brazilian law. According to the current rules, interest payments arising from loans executed before January 1st, 2013 and registered with the Central Bank are not subject to transfer pricing

scrutiny. For contracts executed as of January 1st, 2013, interest payments should observe the following benchmark rates ("Reference Rate") plus a spread set by the Ministry of Finance ("Spread") to determine the interest deductibility limits:

- In case of transactions in US dollars with prefixed rates: the Reference Rate will be the market rate of the Brazilian sovereign bonds issued in the international market in US dollars;

- In case of transactions in Brazilian *reais* with prefixed rates: the Reference Rate will be the market rate of the Brazilian sovereign bonds issued in the international market in Brazilian *reais*; and

- In all other cases the Reference Rate will be: Libor for a 6-month period of the currency in which the transaction is contracted, or Libor for a 6-month period for US dollars if there is no Libor for the specific currency of the transaction.

Pursuant to the Ministry of Finance's Ordinance No. 427, of July 30, 2013, the "Spread" for purposes of the deductibility of interest paid by Brazilian legal entities to related parties abroad and to parties located in favourable tax jurisdictions was established at a flat 3.5% rate, so that in order to determine the deductible amount of interest expenses from contracts executed as of January 1 2013,the maximum admitted rate will be calculated as the sum of the "Reference Rate" and the "Spread".

The Ministry of Finance's Ordinance No. 427/2013 also provides for a spread margin of 2.5% for the purposes of recognising minimum revenue in transactions carried out as from August 3, 2013, where the Brazilian company is the lender.

Law 12,766 expressly provides that novation and renegotiation are considered new contracts, which will result in the application of the new transfer pricing rules to the agreement.

The above tax deductibility limitation will only apply to agreements dated as of January 1, 2013, which means that, for all future years, loans executed before this date are considered in compliance with the Brazilian transfer pricing rules, and are therefore not subject to the "Reference Rate" plus "Spread" limitation, on condition that (i) they are registered with the Central Bank and (ii) no further refinancing or novation of the agreement is carried out.

Regulations Affecting the Bank's Relationship with its Clients

The relationship between financial institutions and their clients is regulated in general by laws applicable to all commercial transactions, and by the Brazilian Civil Code, in particular. However, regulations established by the CMN and the Central Bank address specific issues relating to banking activity and contracts, complementing the general regulation.

The Consumer Defense Code and the Banking Client Defense Code

In 1990, the Brazilian Consumer Defense Code (*Código de Defesa do Consumidor*) was enacted to establish rigid rules to govern the relationship between product and service providers and consumers and to protect final consumers. In June 2006, the Brazilian Supreme Court of Justice ruled that the Brazilian Consumer Defense Code also applies to transactions between financial institutions and their clients. Financial institutions are also subject to specific regulation of the CMN, which specifically regulates the relationship between financial institutions and their clients. CMN Resolution No. 3,694 of March 26, 2009, as amended by Resolution No. 4,283 of November 11, 2013, and CMN Resolution No. 4,479 dated April 25, 2016, established procedures with respect to the settlement of financial transactions and to services provided by financial institutions to clients and the public in general, aiming at improving the relationship between market participants by fostering additional transparency, discipline, competition and reliability on the part of financial

institutions. The new regulation consolidates all the previous related rules. The main changes introduced by the Consumer Defense Code are described below:

- financial institutions must ensure that clients are fully aware of all contractual clauses, including responsibilities and penalties applicable to both parties, in order to protect the counterparties against abusive practices. All queries, consultations or complaints regarding agreements or the publicity of clauses must be promptly answered, and fees, commissions or any other forms of service or operational remuneration cannot be increased unless reasonably justified (in any event these cannot be higher than the limits established by the Central Bank);

- financial institutions are prohibited from transferring funds from their clients' various accounts without prior authorisation;

- financial institutions cannot require that transactions linked to one another must be carried out by the same institution. If the transaction is dependent on another transaction, the client is free to enter into the latter with any financial institution it chooses;

- financial institutions are prohibited from releasing misleading or abusive publicity or information about their contracts or services. Financial institutions are liable for any damages caused to their clients by their misrepresentations;

- interest charges in connection with personal credit and consumer directed credit must be proportionally reduced in case of anticipated settlement of debts;

- clients have the right to withdraw up to R$5,000 upon request. For higher amounts, clients are required to give the financial institution at least 24 hours' prior notice; and

- adequate treatment for the elderly and physically disabled.

Claims Department (*Ouvidoria*)

Our claims department complies with the regulatory requirements of CMN Resolution No. 4,433 dated as of July 23, 2015, as amended. Our claims department is responsible for monitoring all our clients' claims, receiving and addressing these claims and suggesting any eventual solutions. Claims are monitored on a daily basis and our Internal Audit Committee, Audit Committee and Executive Officers are informed on the status of all claims received by our claims department on a semi-annual basis.

Bank Secrecy

Financial institutions must maintain the secrecy of their banking operations and services provided to their clients. The duty of secrecy is extended to the Central Bank in relation to the operations that it carries out and regarding the information that it obtains in the exercise of its attributions. According to Supplementary Law No. 105 of January 10, 2001 ("Supplementary Law No. 105") the only circumstances in which information about clients, services or operations of Brazilian financial institutions or credit card companies may be disclosed to third parties are the following: (i) disclosure of information with the express consent of the interested parties; (ii) sharing of information on credit history between financial institutions for record purposes; (iii) supplying to credit reference agencies of information based on data from the records of subscribers of checks drawn on accounts without sufficient funds and defaulting debtors; and (iv) occurrence or suspicion that criminal or administrative illegal activities have been performed. Supplementary Law No. 105 also allows the Central Bank or the CVM to exchange information with foreign governmental authorities, provided that a specific treaty in that respect must have been previously executed.

Auditors of the Brazilian Internal Revenue Service may also inspect an institution's documents, books and financial registry in certain circumstances, provided that it obtains permission from the client or by a court order.

Bank Failure

Intervention, Administrative Liquidation and Bankruptcy

Financial institutions are subject to the proceedings established by Law No. 6,024, enacted on March 13, 1974, as amended, and Decree-Law No. 2,321, enacted on February 25, 1987, as amended by Decree-Law No. 2,327 enacted on April 24, 1987, which establish the applicable provisions in the event of intervention, temporary administration or extra-judicial liquidation by the Central Bank, as well as to bankruptcy proceedings.

Intervention and extra-judicial liquidation occur when a financial institution is in a precarious financial condition or upon the occurrence of events that may impact creditors. Such measures are imposed by the Central Bank in order to avoid the bankruptcy of the entity.

Administrative Liquidation

An administrative liquidation of any financial institution (with the exception of public financial institutions controlled by the Brazilian Government) may be carried out by the Central Bank if it can be established that:

- the debts of the financial institution are not being paid when due;
- the financial institution is deemed insolvent;
- the financial institution has incurred losses that could abnormally increase the exposure of the unsecured creditors;
- management of the relevant financial institution has materially violated Brazilian banking laws or regulations; or
- upon cancellation of its operating authorisation, a financial institution's ordinary liquidation proceedings are not carried out within 90 days or are carried out with delay representing a risk to its creditors, at the Central Bank's discretion. Liquidation proceedings may otherwise be requested, on reasonable grounds, by the financial institution's officers or by the intervener appointed by the Central Bank in the intervention proceeding.

Furthermore, liquidation can be decreed at the request of the financial institution's administrators if their by-laws give them such competence, or by proposal of an intervener, explaining in detail the reasons justifying the measure.

Administrative liquidation proceedings may cease at the discretion of the Central Bank, in the following instances:

- full payment of the unsecured creditors;
- a change in the corporate purpose of the financial institution to a line of business that is not part of the Brazilian banking industry;

- a transfer of the financial institution's corporate control;
- conversion into ordinary liquidation;
- depletion of the financial institution's assets, when full payment of the creditors has not occurred; or
- a liquidity shortage or a difficulty in liquidating assets remaining in the financial institution, recognized by the Central Bank.
- by a declaration of bankruptcy of the institution.

Temporary Special Administration Regime

In addition to the intervention procedures described above, the Central Bank may also establish a Temporary Special Administration Regime (*Regime de Administração Especial Temporária* or "RAET"), which is a less restrictive form of intervention by the Central Bank in private and non-federal public financial institutions. A RAET allows troubled institutions to continue to operate their activities in the ordinary course.

A RAET may be imposed by the Central Bank in the following circumstances:

- a continuous practice of transactions contrary to the economic and financial policies established by federal law;
- the institution fails to comply with the compulsory reserves' rules;
- the institution has operations or circumstances which call for an intervention;
- reckless or fraudulent management;
- the institution faces a shortage of assets; and
- the occurrence of any of the events described above that may result in a declaration of intervention.

The main objective of a RAET is to assist the troubled institution under special administration to recover and avoid intervention and/or liquidation. Therefore, a RAET does not affect the day-to-day business operations, liabilities or rights of the financial institution, which continues to operate in its ordinary course. A RAET also immediately results in the loss of the term of office of the administrators and members of the Audit Committee of the institution.

There is no minimum term for a RAET, which may cease upon the occurrence of any of the following events: (a) acquisition by the Brazilian Government of share control of the financial institution, (b) corporate restructuring, merger, spin-off, amalgamation or transfer of the controlling interest of the financial institution, (c) at the discretion of the Central Bank, or (d) declaration of extra-judicial liquidation of the financial institution.

Repayment of Creditors in Liquidation

According to Law No. 11,101 of February 9, 2005, in case of bankruptcy or liquidation of a financial institution, certain credits, such as credits for salaries up to 150 minimum wages (*salários mínimos*) per labour creditor, among others, will have preference over any other credits.

Under CMN Resolution No. 4,222, the FGC guarantees a maximum amount of R$250,000 of deposits and credit instruments held by an individual against a financial institution (or against financial institutions of the same financial group). In addition, the FGC provides a special guarantee for institutions authorised by the Central Bank in an amount of R$20.0 million. The FGC is funded principally by mandatory contributions from all Brazilian financial institutions that accept client deposits. The payment of unsecured credit and client deposits not payable under the FGC is subject to the prior payment of all secured credits and other credits to which specific laws may grant special privileges.

In addition, two laws affect the priority of repayment of creditors of Brazilian banks in the event of their insolvency, bankruptcy or similar proceedings. First, Law No. 9,069 of June 29, 1995 affects the priority of repayment of creditors of Brazilian banks in the event of their insolvency, bankruptcy or similar proceedings. Such law confers immunity from attachment on compulsory deposits maintained by financial institutions with the Central Bank. Such deposits may not be attached in actions by a bank's general creditors for the repayment of debts. Second, Law No. 9,450 of March 14, 1997 requires that the assets of any insolvent bank funded by loans made by foreign banks under trade finance lines be used to repay amounts owing under such lines in preference to those amounts owing to the general creditors of such insolvent bank.

Cancellation of Banking License

Law No. 13,506 of November 13, 2017, together with specific regulations adopted by Central Bank Circular No. 3,857 of November 14, 2017, as amended by Circular No. 3,910 of August 17, 2018, provides penalties that can be imposed upon financial institutions in certain situations. Among them, a financial institution may be subject to the cancellation of its license to operate and/or perform certain activities or types of operation in case of serious offenses.

Furthermore, the Banking Reform Law, together with specific regulations enacted by Circular No. 3,857 of November 14, 2017, as amended, provides that some penalties can be imposed upon financial institutions in certain situations. Among them, a financial institution may be subject to the cancellation of its license to operate and/or to perform exchange transactions. Such penalties are applicable under certain circumstances established by the Central Bank as, for instance, in case of repeated: (a) violation of the Central Bank regulations by the management of the financial institution, or (b) negligence of the financial institution in pursuing adequate banking practices concerning its exchange activities.

In addition, the Central Bank may, according to CMN Resolution No. 4,122 of August 2, 2012, as amended by CMN Resolution No. 4,279 of October 31, 2013, by CMN Resolution No. 4,308 of January 30, 2014 and by CMN Resolution No. 4,434 of August 5, 2015, cancel the authorisation to operate granted by the Central Bank if one or more of the following situations are verified at any time: (i) lack of customary performance of transactions deemed essential, pursuant to the applicable rules; (ii) operating inactivity; (iii) the institution is not located at the address informed to the Central Bank; (iv) unjustified interruption in sending the Central Bank the statements required under prevailing regulation for over four (4) months; and (v) noncompliance with the business plan. The cancellation of a banking license may only occur after appropriate administrative proceedings carried out by the Central Bank.

Decree-Law No. 2,321 provides that, if a RAET is decreed, the individuals or legal entities that have a control relationship with the administered institution shall be held jointly liable with the former management for the obligations assumed thereby, irrespective of malicious or negligent acts. Such joint liability is limited to the overall uncovered liabilities of the institution according to a balance sheet prepared as at the date when the provisional administration system is ordered.

Brazilian Payment System

The rules for the settlement of payments in Brazil are based on the guidelines adopted by the BIS. The Brazilian Payment and Settlement System (*Sistema de Pagamentos Brasileiro*) ("SPB") comprises the entities, systems and procedures related to the processing and settlement of funds transfer operations, transactions with foreign currency or financial assets and securities. The following entities are members of the SPB: check clearing services, clearing and settlement of electronic orders of debit and credit, money transfer and other financial assets, clearing and settlement of transactions with securities, clearing and liquidation of transactions carried out on commodities and futures exchanges, and others, collectively referred to as Financial Market Infrastructure (IMF) operators. Beginning in October 2013, with the enactment of Law No. 12,865, the arrangements and payment institutions also became part of the SPB.

SPB presents a high degree of automation, with increasing use of electronic media for transfers of funds and settlement of obligations, to replace paper-based instruments. Up until the mid-1990s, changes in the SPB were driven by the need to deal with high inflation rates and, therefore, the technological progress achieved was mainly aimed at increasing the processing speed of financial transactions.

In the remodelling conducted by the Central Bank in 2002, the focus was redirected to risk management. The entry into operation of the Reserve Transfer System ("STR"), in April 2002, as established by Central Bank Circular 3,100 of March 28, 2002, marked the beginning of a new phase of SPB. The STR, managed and operated by the Central Bank, is a real-time gross settlement system for funds transfers in Brazil. The STR is the core system of the SPB, as it settles transactions in the monetary, foreign exchange and capital markets between the financial institutions that hold accounts at the Central Bank. The funds transfers are settled by the STR in the accounts held at the Central Bank. Also, in addition to these financial flows, the net positions of the clearing and settlement systems are settled through the STR. STR's direct participants can issue funds transfer orders on their own behalf or on behalf of a third party. The receiver can be another STR's direct participants or their clients. Funds transfers are final, that is, irrevocable and unconditional. In this sense, it is only possible to undo a transaction through another transaction in the opposite direction. In addition, in order to guarantee the stability of the system, the STR funds transfers are conditioned on the existence of enough assets in the account of the transferring participant.

The Central Bank and institutions authorised by it to operate, the Financial Market Infrastructure (IMF) operators, such as the B3, and the National Treasury Secretariat, are participants of the STR.

With this system, Brazil became part of the group of countries in which transfers of interbank funds can be settled in real time, irrevocably and unconditionally. In order to ensure liquidity and hence better functioning of the payment system in the real-time settlement environment, two aspects are especially important:

- use by banks of the reserve requirement balances throughout the day for bond settlement purposes, since the verification of compliance is based on end of day balances; and

- activation by the Central Bank of a routine to optimize the process of settlement of transfer orders of funds held in queues within the STR.

Financial institutions and other institutions authorised by the Central Bank are also required under these rules to create mechanisms to identify and avoid liquidity risks, in accordance with certain procedures established by the Central Bank. Resolution No. 4,557, issued by the CMN on February 23, 2017, sets forth that institutions are required to include:

- policies and strategies for risk management, clearly documented, which establish limits and procedures to maintain exposure to risks;
- effective processes of tracking and timely reporting of exceptions to risk management policies, limits and levels of risk appetite;
- systems, routines and procedures for risk management;
- periodic evaluation of the adequacy of the systems, routines and procedures mentioned in the items above;
- policies, processes and controls to ensure the identification of risks;
- roles and responsibilities for risk management purposes, clearly documented, that assign responsibilities to the staff of the institution at its various levels, including outsourced service providers;
- a stress testing program;
- continuous evaluation of the effectiveness of the risk mitigation strategies used, considering, among other aspects, the results of the stress tests;
- clearly documented policies and strategies for the management of business continuity; and
- timely management reports for the institution's Board of Directors, Risk Committee and Executive Board.

Acquisition of Companies by Financial Institutions

On March 29, 2012, the CMN enacted Resolution No. 4,062 ("CMN Resolution No. 4,062"), which amended Article 8 of CMN Resolution No. 2,723 of May 31, 2000. Under the previous regulation in force, financial institutions were merely required to inform the Central Bank of their interest in the capital of any other company headquartered in Brazil and the partial or total disposal of their interest in such companies. The new rule, however, requires financial institutions, such as the Bank, and other institutions authorised to operate by the Central Bank. to request prior authorisation from the Central Bank to have direct or indirect interest in the corporate capital of any companies headquartered in Brazil or abroad, except for corporate interests which are typical for investment or development portfolios maintained by investment, development or multiple banks and factoring agencies (*agências de fomento*). CMN Resolution No. 4,062 also establishes that the Central Bank will only allow interests in companies which carry out activities that are complementary or subsidiary to the activities of the financial institution.

On April 26, 2012, the Central Bank enacted Circular No. 3,590, as amended by Circular No. 3,800 of June 29, 2016 and Circular No. 3,922 of December 6, 2018 ("Circular No. 3,590"), which sets forth that the Central Bank will examine certain corporate reorganisations and other acts involving two or more financial institutions not only considering their potential effects on the financial system and its stability but also any potential impacts regarding market concentration and competition. Pursuant to Central Bank Circular No. 3,590, such acts will be subject to the Central Bank's analysis, except in the case of transactions involving institutions of the same economic group, credit assignments which do not involve a business transfer or transactions involving only consortium administrators or payment institutions. The methodology and parameters used in the market concentration analysis of such activity will be included in the Guide for Analysis of Monopolistic Activity in the Financial System, published by the Central Bank. Upon approval of the transaction, the Central Bank may establish certain restrictions thereon and require that the financial institutions execute a market share agreement that sets forth how resources will be shared.

Foreign Investment and the Brazilian Constitution

Foreign Banks

No financial, banking or credit institution may operate in Brazil without the prior approval of the Central Bank. In addition, foreign banks must be expressly authorised to operate in Brazil by Presidential decree as stipulated by Article 52 of the Temporary Constitutional Provisions Act (*Ato das Disposições Constitucionais Transitórias* – ADCT) and Article 18 of the Banking Reform Law. A foreign bank duly authorised to operate in Brazil through a branch or a subsidiary is subject to the same rules, regulations and requirements that are applicable to any Brazilian financial institution.

Foreign Investment in Brazilian Financial Institutions

The Brazilian Constitution permits foreign individuals or companies to invest in the voting shares of Brazilian financial institutions only if they have specific authorisation from the Brazilian Government based on national interest or reciprocity.

Foreign investors may acquire publicly-traded non-voting shares of Brazilian financial institutions negotiated on a stock exchange, or depositary receipts offered abroad representing non-voting shares without specific authorisation.

Consolidation of Exchange Rules

CMN Resolution No. 3,844 consolidated the general provisions relating to foreign capital entering Brazil by way of direct investments and financial transactions. Such rule governs the registry of transactions of direct investments, credits, royalties, transfers of technology and foreign leasing, among other things. The Central Bank, by means of Circular No. 3,689, Circular No. 3,690 and Circular No. 3,691, each dated December 16, 2013 ("Central Bank Circular No. 3,691"), took a step further in order to simplify the registration and classification of foreign exchange transactions and revoked several outdated rules, including the Exchange Market and Foreign Capital Rulebook (*Regulamento do Mercado de Câmbio e Capitais Internacionais*).

The main aspects of the abovementioned rules are the following:

- financial transfers (to and from Brazil), in *reais* or foreign currency, related to the flow of foreign capital pursuant to Resolution No. 3,844 are regulated by the Brazilian foreign exchange market;

- specific approvals or prior consent of the Central Bank are no longer required;

- presentation of certain information relating to the transaction to the Central Bank is no longer required;

- simultaneous exchange agreements are no longer required for payment of premiums and indemnification related to international reinsurance when the flow of funds occurs in a foreign currency account held by an insurance sector company;

- certain institutions operating in the foreign exchange market may now maintain more than one foreign currency account at the same site in Brazil;

- certain records of exchange transactions no longer need to be maintained given that the anti-money laundering rules already cover such requirement; and

- prepayments for goods to be exported from Brazil are no longer limited to being made up to 360 days in advance.

Social-Environmental Policy (PRSA)

All financial institutions are exposed to environmental or social risks, through their clients, whether they are lenders or investors. In this sense, the CMN enacted Resolution No. 4,327 on April 25, 2014 that determines that financial institutions authorised to operate by the Central Bank should establish and implement a social environmental responsibility policy (*política de responsabilidade socioambiental*) or "PRSA").

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions that, subject to completion and amendment and as supplemented or varied in accordance with the provisions of the relevant Final Terms, shall be applicable to the Notes in definitive form (if any) issued in exchange for the Global Note(s) or the Global Certificates representing each Series. Either (i) the full text of these terms and conditions together with the relevant provisions of the Final Terms or (ii) these terms and conditions as so completed, amended, supplemented or varied (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on such Bearer Notes or on the Certificates relating to such Registered Notes. All capitalised terms that are not defined in these Conditions will have the meanings given to them in the relevant Final Terms. Those definitions will be endorsed on the definitive Notes or Certificates, as the case may be. References in the Conditions to "Notes" are to the Notes of one Series only, not to all Notes that may be issued under the Programme.

The Notes are issued pursuant to an amended and restated Agency Agreement (as amended or supplemented as at the Issue Date, the "Agency Agreement") dated December 8, 2010 between the Issuer, The Bank of New York Mellon as fiscal agent and the other agents named in it and with the benefit of a Deed of Covenant (as amended or supplemented as at the Issue Date, the "Deed of Covenant") dated December 8, 2010 executed by the Issuer in relation to the Notes. The fiscal agent, the paying agents, the registrar, the transfer agents, the principal paying agent and the calculation agent(s) for the time being (if any) are referred to below respectively as the "Fiscal Agent", the "Paying Agents" (which expression shall include the Fiscal Agent), the "Registrar", the "Transfer Agents", the "Principal Paying Agent", and the "Calculation Agent(s)". The Noteholders (as defined below), the holders of the interest coupons (the "Coupons") relating to interest bearing Notes in bearer form and, where applicable in the case of such Notes, talons for further Coupons (the "Talons") (the "Couponholders") and the holders of the receipts for the payment of instalments of principal (the "Receipts") relating to Notes of which the principal is payable in instalments are deemed to have notice of all of the provisions of the Agency Agreement applicable to them.

As used in these terms and conditions (the "Conditions"), "Tranche" means Notes which are identical in all respects.

Copies of the Agency Agreement and the Deed of Covenant are available for inspection at the specified offices of each of the Paying Agents, the Registrar and the Transfer Agents.

1. Form, Denomination and Title

The Notes are issued in bearer form ("Bearer Notes") or in registered form ("Registered Notes") in each case in the Specified Denomination(s) shown hereon.

This Note is a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, an Index Linked Redemption Note, an Instalment Note, a Dual Currency Note or a Partly Paid Note, a combination of any of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis shown hereon.

Bearer Notes are serially numbered and are issued with Coupons (and, where appropriate, a Talon) attached, save in the case of Zero Coupon Notes in which case references to interest (other than in relation to interest due after the Maturity Date), Coupons and Talons in these Conditions are not applicable. Instalment Notes are issued with one or more Receipts attached.

Registered Notes are represented by registered certificates ("Certificates") and, save as provided in Condition 2(c), each Certificate shall represent the entire holding of Registered Notes by the same holder.

Title to the Bearer Notes and the Receipts, Coupons and Talons shall pass by delivery. Title to the Registered Notes shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the "Register"). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note, Receipt, Coupon or Talon shall be deemed to be and may be treated as its absolute owner for all purposes, whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate) and no person shall be liable for so treating the holder.

In these Conditions, "Noteholder" means the bearer of any Bearer Note and the Receipts relating to it or the person in whose name a Registered Note is registered (as the case may be), "holder" (in relation to a Note, Receipt, Coupon or Talon) means the bearer of any Bearer Note, Receipt, Coupon or Talon or the person in whose name a Registered Note is registered (as the case may be) and capitalised terms have the meanings given to them hereon, the absence of any such meaning indicating that such term is not applicable to the Notes.

2. No Exchange of Notes and Transfers of Registered Notes

(a) *No Exchange of Notes*: Registered Notes may not be exchanged for Bearer Notes. Bearer Notes of one Specified Denomination may not be exchanged for Bearer Notes of another Specified Denomination. Bearer Notes may not be exchanged for Registered Notes.

(b) *Transfer of Registered Notes*: One or more Registered Notes may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Registered Notes to be transferred, together with the form of transfer endorsed on such Certificate (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Noteholders. A copy of the current regulations will be made available by the Registrar to any Noteholder upon request.

(c) *Exercise of Options or Partial Redemption in Respect of Registered Notes*: In the case of an exercise of an Issuer's or Noteholders' option in respect of, or a partial redemption of, a holding of Registered Notes represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Registered Notes of the same holding having different terms, separate Certificates shall be issued in respect of those Notes of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.

(d) *Delivery of New Certificates*: Each new Certificate to be issued pursuant to Conditions 2(b) or (c) shall be available for delivery within three business days of receipt of the form of transfer or Exercise Notice (as defined in Condition 6(d)) and surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer, Exercise Notice or Certificate shall have been

made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the form of transfer, Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Agent (as defined in the Agency Agreement) the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(d), "business day" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

(e) *Transfer Free of Charge*: Transfers of Notes and Certificates on registration, transfer, partial redemption or exercise of an option shall be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).

(f) *Closed Periods*: No Noteholder may require the transfer of a Registered Note to be registered (i) during the period of 15 days ending on the due date for redemption of, or payment of any Instalment Amount in respect of, that Note, (ii) during the period of 15 days before any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 6(d), (iii) after any such Note has been called for redemption or (iv) during the period of seven days ending on (and including) any Record Date.

3. Status

The Notes, the Receipts and Coupons relating to them constitute (subject to Condition 4) unsecured and unsubordinated obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Notes, the Receipts and the Coupons relating to them shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4, at all times rank at least equally with all other unsecured and unsubordinated indebtedness of the Issuer, present and future.

4. Negative Pledge

The Issuer undertakes that, so long as any of the Notes, Receipts or Coupons remain outstanding (as defined in the Agency Agreement) it will not create any lien, pledge or other charge upon any of its present or future property, rights and assets as security for any notes or bonds denominated in a currency other than the lawful currency of Brazil which are either listed on a stock exchange or capable of being so listed unless the Notes are secured rateably by such lien, pledge or charge.

5. Interest and other Calculations

(a) *Interest on Fixed Rate Notes*: Each Fixed Rate Note bears interest on its outstanding nominal amount from and including the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date.

If a Fixed Coupon Amount or a Broken Amount is specified hereon, the amount of interest payable on each Interest Payment Date will amount to the Fixed Coupon Amount or, if applicable, the Broken Amount so specified and in the case of the Broken Amount will be payable on the particular Interest Payment Date(s) specified hereon.

(b) Interest on Floating Rate Notes and Index Linked Interest Notes:

(i) *Interest Payment Dates*: Each Floating Rate Note and Index Linked Interest Note bears interest on its outstanding nominal amount from and including the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. Such Interest Payment Date(s) is/are either shown hereon as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown hereon, Interest Payment Date shall mean each date which falls the number of months or other period shown hereon as the Specified Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

(ii) *Business Day Convention*: If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

(iii) *Rate of Interest for Floating Rate Notes*: The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified hereon and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified hereon.

(A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-paragraph (A), "ISDA Rate" for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(x) the Floating Rate Option is as specified hereon;

(y) the Designated Maturity is a period specified hereon; and

(z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified hereon.

For the purposes of this sub-paragraph (A), "Floating Rate", "Calculation Agent", "Floating Rate Option", "Designated Maturity", "Reset Date" and "Swap Transaction" have the meanings given to those terms in the ISDA Definitions.

(B) Screen Rate Determination for Floating Rate Notes

(x) Where Screen Rate Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

(I) the offered quotation; or

(II) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at either 11.00 a.m. (London time in the case of LIBOR or Brussels time in the case of EURIBOR) on the Interest Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the applicable Final Terms as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the applicable Final Terms.

(y) if the Relevant Screen Page is not available or, if sub-paragraph (x)(I) applies and no such offered quotation appears on the Relevant Screen Page, or, if sub-paragraph (x)(II) above applies and fewer than three such offered quotations appear on the Relevant Screen Page, in each case as at the time specified above, subject as provided below, the Calculation Agent shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks, to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time), or if the Reference Rate is EURIBOR, at approximately

11.00 a.m. (Brussels time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Accrual Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent; and

(z) if paragraph (y) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time), on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

(iv) *Rate of Interest for Index Linked Interest Notes*: The Rate of Interest in respect of Index Linked Interest Notes for each Interest Accrual Period shall be determined in

the manner specified hereon and interest will accrue by reference to an Index or Formula as specified hereon.

(c) *Zero Coupon Notes*: Where a Note the Interest Basis of which is specified to be Zero Coupon is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note. As from the Maturity Date, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as described in Condition 6(b)(i)).

(d) *Dual Currency Notes*: In the case of Dual Currency Notes, if the rate or amount of interest falls to be determined by reference to a Rate of Exchange or a method of calculating Rate of Exchange, the rate or amount of interest payable shall be determined in the manner specified hereon.

(e) *Partly Paid Notes*: In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified hereon.

(f) *Accrual of Interest*: Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (both before and after judgment) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 8).

(g) *Margin, Maximum/Minimum Rates of Interest, Instalment Amounts and Redemption Amounts and Rounding*:

(i) If any Margin is specified hereon (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with (b) above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin, subject always to the next paragraph.

(ii) If any Maximum or Minimum Rate of Interest, Instalment Amount or Redemption Amount is specified hereon, then any Rate of Interest, Instalment Amount or Redemption Amount shall be subject to such maximum or minimum, as the case may be.

(iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes "unit" means the lowest amount of such currency that is available as legal tender in the country or countries of such currency.

(h) *Calculations*: The amount of interest payable in respect of any Note for any period shall be calculated by multiplying the product of the Rate of Interest and the outstanding nominal amount of such

Note by the Day Count Fraction, unless an Interest Amount (or a formula for its calculation) is specified in respect of such period, in which case the amount of interest payable in respect of such Note for such period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable in respect of such Interest Period shall be the sum of the amounts of interest payable in respect of each of those Interest Accrual Periods.

(i) Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts and Instalment Amounts: The Calculation Agent shall, as soon as practicable on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts in respect of each Specified Denomination of the Notes for the relevant Interest Accrual Period, calculate the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or Instalment Amount, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Accrual Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or any Instalment Amount to be notified to the Fiscal Agent, the Issuer, the Principal Paying Agent, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5(b)(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 10, the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

(j) *Definitions*: In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

"Business Day" means:

(i) in the case of a currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency and/or

(ii) in the case of euro, a day on which the TARGET system is operating (a "TARGET Business Day") and/or

(iii) in the case of a currency and/or one or more Additional Business Centers, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Additional Business

Centre(s) or, if no currency is indicated, generally in each of the Additional Business Centers;

"Day Count Fraction" means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period, the "Calculation Period"):

(i) if "Actual/Actual" or "Actual/Actual - ISDA" is specified hereon, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(ii) if "Actual/365 (Fixed)" is specified hereon, the actual number of days in the Calculation Period divided by 365;

(iii) if "Actual/360" is specified hereon, the actual number of days in the Calculation Period divided by 360;

(iv) if "30/360", "360/360" or "Bond Basis" is specified hereon, the number of days in the Calculation Period divided by 360 calculated on a formula basis as follows:

Day Count Fraction =	$[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)$
	360

where:

"Y_1" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M_2" is the calendar month, expressed as number, in which the day immediately following the last day included in the Calculation Period falls;

"D_1" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D_1 is greater than 29, in which case D_2 will be 30;

(v) if "30E/360" or "Eurobond Basis" is specified hereon, the number of days in the Calculation Period divided by 360 calculated on a formula basis as follows:

Day Count Fraction =	$[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)$
	360

where:

"Y_1" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D_1" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D2 will be 30;

(vi) if "30E/360 (ISDA)" is specified hereon the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

Day Count Fraction =	$[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)$
	360

where:

"Y_1" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D_1" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D_1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D_2 will be 30; and

(vii) if "Actual/Actual-ICMA" is specified hereon:

(A) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and

(B) if the Calculation Period is longer than one Determination Period, the sum of:

(x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and

(y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year,

where:

"Determination Period" means the period from and including a Determination Date in any year to but excluding the next Determination Date;

"Determination Date" means the date specified as such hereon or, if none is so specified, the Interest Payment Date;

"Interest Accrual Period" means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date;

"Interest Amount" means the amount of interest payable, and in the case of Fixed Rate Notes, means the Fixed Coupon Amount or Broken Amount, as the case may be;

"Interest Commencement Date" means the Issue Date or such other date as may be specified hereon;

"Interest Determination Date" means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such hereon or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or (ii) the day falling two Business Days in London for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro;

"Interest Period" means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date;

"Interest Period Date" means each Interest Payment Date unless otherwise specified hereon;

"ISDA Definitions" means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified hereon;

"Rate of Interest" means the rate of interest payable from time to time in respect of this Note and that is either specified or calculated in accordance with the provisions hereon;

"Reference Banks" means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case selected by the Calculation Agent or as specified hereon;

"Reference Rate" means the rate specified as such hereon;

"Relevant Screen Page" means such page, section, caption, column or other part of a particular information service as may be specified hereon;

"Specified Currency" means the currency specified as such hereon or, if none is specified, the currency in which the Notes are denominated; and

"TARGET System" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on 19 November 2007 or any successor thereto.

(k) *Calculation Agent*: The Issuer shall procure that there shall at all times be one or more Calculation Agents if provision is made for them hereon and for so long as any Note is outstanding (as defined in the Agency Agreement). Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Period or Interest Accrual Period or to calculate any Interest Amount, Instalment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Issuer shall appoint a leading bank or investment banking firm engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

6. Redemption, Purchase and Options

(a) *Redemption by Instalments and Final Redemption*:

(i) Unless previously redeemed, purchased and cancelled as provided in this Condition 6 or the relevant Instalment Date (being one of the dates so specified hereon) is extended pursuant to any Issuer's or Noteholder's option in accordance with Condition 6(e) or 6(f), each Note that provides for Instalment Dates and Instalment Amounts shall be partially redeemed on each Instalment Date at the related Instalment Amount specified hereon. The outstanding nominal amount of each such Note shall be reduced by the Instalment Amount (or, if such Instalment Amount is calculated by reference to a proportion of the nominal amount of such Note, such proportion) for all purposes with effect from the related Instalment Date, unless payment of the Instalment Amount is improperly withheld or refused on presentation of the related Receipt, in which case, such amount shall remain outstanding until the Relevant Date relating to such Instalment Amount.

(ii) Unless previously redeemed, purchased and cancelled as provided below or its maturity is extended pursuant to any Issuer's or Noteholder's option in accordance with Condition 6(e) or 6(f), each Note shall be finally redeemed on the Maturity Date specified hereon at its Final Redemption Amount (which, unless otherwise provided, is its nominal amount) or, in the case of a Note falling within paragraph (i) above, its final Instalment Amount.

(b) *Early Redemption*:

(i) *Zero Coupon Notes*:

(A) The Early Redemption Amount payable in respect of any Zero Coupon Note, the Early Redemption Amount of which is not linked to an index and/or a formula, upon redemption of such Note pursuant to Condition 6(c) or 6(d) or upon it becoming due and payable as provided in Condition 10 shall be the Amortised Face Amount (calculated as provided below) of such Note unless otherwise specified hereon.

(B) Subject to the provisions of sub-paragraph (C) below, the Amortised Face Amount of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is shown hereon, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually.

(C) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 6(c) or 6(d) or upon it becoming due and payable as provided in Condition 10 is not paid when due, the Early Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as defined in sub-paragraph (B) above, except that such sub-paragraph shall have effect as though the date on

which the Note becomes due and payable were the Relevant Date. The calculation of the Amortised Face Amount in accordance with this sub-paragraph shall continue to be made (both before and after judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 5(c).

Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown hereon.

(ii) *Other Notes*: The Early Redemption Amount payable in respect of any Note (other than Notes described in (i) above), upon redemption of such Note pursuant to Condition 6(c) or 6(d) or upon it becoming due and payable as provided in Condition 10, shall be the Final Redemption Amount unless otherwise specified hereon.

(c) *Redemption for Taxation Reasons*: The Notes may be redeemed at the option of the Issuer in whole, but not in part, on any Interest Payment Date (if this Note is either a Floating Rate Note or an Index Linked Note) or, at any time (if this Note is neither a Floating Rate Note nor an Index Linked Note), on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable), at their Early Redemption Amount (as described in Condition 6(b)) (together with interest accrued to the date fixed for redemption), if (i) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 8 (I) in excess of the additional amounts the Issuer would be obliged to pay if payments were subject to withholding or deduction at a rate of 15% (the "Minimum Withholding Level") as a result of any change in, or amendment to, the laws or regulations of Brazil or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date in respect of the relevant Series and (II) in the case of Notes issued by the Bank acting through its Cayman Islands Branch, as a result of any change in, or amendment to, the laws or regulations of the Cayman Islands or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date in respect of the relevant Series, and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due. Prior to the publication of any notice of redemption pursuant to this Condition 6(c), the Issuer shall deliver to the Fiscal Agent a certificate signed by two authorised signatories of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment. The Issuer shall not have the right to redeem the Notes in the event that it becomes obliged to pay additional amounts which are less than the additional amounts payable at the Minimum Withholding Level.

(d) *Redemption for Change of Control of the Issuer*: The Issuer shall, at the option of the holder of any Note, upon the holder giving not less than 15 nor more than 30 days' notice to the Issuer redeem such Note on the Redemption Date at its Early Redemption Amount (as described in Condition 6(b)) (together with interest accrued to the date fixed for redemption) if the Issuer ceases to be directly or indirectly owned and controlled by the Members of the Dayan Family as to at least 51% of both of its voting and total share capital (such event, a "Change of Control").

To exercise such option, the holder must deposit such Note (together with all unmatured Receipts and Coupons and unexchanged Talons) with any Paying Agent, together with a duly completed option exercise notice ("Exercise Notice") in the form obtainable from any Paying Agent within the notice period. No Note deposited and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer. The Issuer will give irrevocable notice (a "Change of Control Notice", which shall be published in accordance with Condition 14) to the Noteholders of the occurrence of a Change of Control not less than 15 nor more than 30 days after its occurrence (or such other notice period as may be specified hereon).

In these Conditions, unless the context otherwise requires, the following defined terms shall have the meaning set out below:

"Members of the Dayan Family" means Mr. Ibrahim Dayan and Mr. Sasson Dayan and their respective children and grandchildren, including, in each case, the estate of such person pending distribution thereof.

"Redemption Date" means the date for redemption specified in the Change of Control Notice, being a date not less than 30 nor more than 45 days after the date of the Change of Control Notice or, in the event that no Change of Control Notice is given by the Issuer, the next Interest Payment Date occurring not less than 15 nor more than 30 days after the Change of Control.

(e) *Redemption at the Option of the Issuer*: If Call Option is specified hereon, the Issuer may, on giving not less than 15 nor more than 30 days' irrevocable notice to the Noteholders (or such other notice period as may be specified hereon) redeem all or, if so provided, some, of the Notes on any Optional Redemption Date. Any such redemption of Notes shall be at their Optional Redemption Amount together with interest accrued to the date fixed for redemption. Any such redemption or exercise must relate to Notes of a nominal amount at least equal to the Minimum Redemption Amount to be redeemed specified hereon and no greater than the Maximum Redemption Amount to be redeemed specified hereon.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition.

In the case of a partial redemption the notice to Noteholders shall also contain the certificate numbers of the Bearer Notes or, in the case of Registered Notes, shall specify the nominal amount of Registered Notes drawn and the holder(s) of such Registered Notes, to be redeemed, which shall have been drawn in such place and in such manner as may be fair and reasonable in the circumstances, taking account of prevailing market practices, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements.

(f) *Redemption at the Option of Noteholders*: If Put Option is specified hereon, the Issuer shall, at the option of the holder of any such Note, upon the holder of such Note giving not less than 15 nor more than 30 days' notice to the Issuer (or such other notice period as may be specified hereon) redeem such Note on the Optional Redemption Date(s) at its Optional Redemption Amount together with interest accrued to the date fixed for redemption.

To exercise such option the holder must deposit (in the case of Bearer Notes) such Note (together with all unmatured Receipts and Coupons and unexchanged Talons) with any Paying Agent or (in the case of Registered Notes) the Certificate representing such Note(s) with the Registrar or any Transfer Agent at its specified office, together with a duly completed option exercise notice ("Exercise Notice") in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the notice period. No Note or Certificate so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer.

(g) *Partly Paid Notes*: Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the provisions specified hereon.

(h) *Purchases*: The Issuer and any of its subsidiaries may at any time purchase Notes (provided that all unmatured Receipts and Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith) in the open market or otherwise at any price.

(i) *Cancellation*: All Notes purchased by or on behalf of the Issuer or any of its subsidiaries may be surrendered for cancellation, in the case of Bearer Notes, by surrendering each such Note together with all unmatured Receipts and Coupons and all unexchanged Talons to the Fiscal Agent and, in the case of Registered Notes, by surrendering the Certificate representing such Notes to the Registrar and, in each case, if so surrendered, shall, together with all Notes redeemed by the Issuer, be cancelled forthwith (together with all unmatured Receipts and Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged.

7. Payments and Talons

(a) *Bearer Notes*: Payments of principal and interest in respect of Bearer Notes shall, subject as mentioned below, be made against presentation and surrender of the relevant Receipts (in the case of payments of Instalment Amounts other than on the due date for redemption and provided that the Receipt is presented for payment together with its relative Note), Notes (in the case of all other payments of principal and, in the case of interest, as specified in Condition 6(e)(vi)) or Coupons (in the case of interest, save as specified in Condition 6(e)(vi)), as the case may be, at the specified office of any Paying Agent outside the United States by a check payable in the relevant currency drawn on, or, at the option of the holder, by transfer to an account denominated in such currency with, a Bank. "Bank" means a bank in the principal financial centre for such currency or, in the case of euro, in a city in which banks have access to the TARGET System.

(b) *Registered Notes*:

(i) Payments of principal (which for the purposes of this Condition 7(b) shall include final Instalment Amounts but not other Instalment Amounts) in respect of Registered Notes shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.

(ii) Interest (which for the purpose of this Condition 7(b) shall include all Instalment Amounts other than final Instalment Amounts) on Registered Notes shall be paid to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof (the "Record Date"). Payments of interest on each Registered Note shall be made in the relevant currency by cheque drawn on a Bank and mailed to the holder (or to the first-named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a Bank.

(c) *Payments in the United States*: Notwithstanding the foregoing, if any Bearer Notes are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due, (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (iii) such payment is then permitted by United States law, without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.

(d) *Payments Subject to Laws*: All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives, but without prejudice to the provisions of Condition 8. No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(e) *Appointment of Agents*: The Fiscal Agent, the Paying Agents, the Registrar, the Principal Paying Agent, the Transfer Agents and the Calculation Agent(s) initially appointed by the Issuer and their respective specified offices are listed below:

Fiscal Agent, Paying Agent, Transfer Agent and Calculation Agent

The Bank of New York Mellon
International Corporate Trust
101 Barclay Street – Floor 4E
New York, NY 10286

Paying Agent and Transfer Agent

The Bank of New York Mellon, London Branch
One Canada Square
London E14 5AL

Irish Paying Agent

The Bank of New York Mellon (Ireland) Limited
Hanover Building,
Windmill Lane
Dublin 2
Ireland

Registrar

The Bank of New York Mellon
International Corporate Trust

101 Barclay Street – Floor 4E
New York, NY 10286

Principal Paying Agent

The Bank of New York Mellon Trust (Japan), Ltd.
Fukoku Seimei Building, 6F 2-2-2
Uchisaiwai-cho, Chiyoda-ku
Tokyo 100-0011
Japan

The Fiscal Agent, the Paying Agents, the Registrar, the Principal Paying Agent, the Transfer Agents and the Calculation Agent(s) act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Noteholder or Couponholder. The Issuer reserves the right at any time to vary or terminate the appointment of the Fiscal Agent, any other Paying Agent, the Principal Paying Agent, the Registrar, any Transfer Agent or the Calculation Agent(s) and to appoint additional or other Paying Agents or Transfer Agents, provided that the Issuer shall at all times maintain (i) a Fiscal Agent, (ii) a Registrar in relation to Registered Notes, (iii) a Transfer Agent in relation to Registered Notes, (iv) a Principal Paying Agent that is a Japanese tax resident, (v) one or more Calculation Agent(s) where the Conditions so require, (vi) if and for so long as any Notes are admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system, which requires the appointment of a Paying Agent in any particular place, the Issuer shall maintain a Paying Agent with a specified office in the place required by such listing authority, stock exchange and/or quotation system and (vii) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000.

In addition, the Issuer shall forthwith appoint a Paying Agent in New York City in respect of any Bearer Notes denominated in U.S. dollars in the circumstances described in Condition 7(c).

Notice of any such change or any change of any specified office shall promptly be given to the Noteholders.

(f) *Unmatured Coupons and Receipts and unexchanged Talons*:

(i) Upon the due date for redemption of Bearer Notes which comprise Fixed Rate Notes (other than Dual Currency Notes or Index Linked Notes), they should be surrendered for payment together with all unmatured Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon that the sum of principal so paid bears to the total principal due) shall be deducted from the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, due for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 9).

(ii) Upon the due date for redemption of any Bearer Note comprising a Floating Rate Note, Dual Currency Interest Note or Index Linked Note, unmatured Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.

(iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.

(iv) Upon the due date for redemption of any Bearer Note that is redeemable in instalments, all Receipts relating to such Note having an Instalment Date falling on or after such due date (whether or not attached) shall become void and no payment shall be made in respect of them.

(v) Where any Bearer Note that provides that the relative unmatured Coupons are not to become void upon the due date for redemption of those Notes is presented for redemption without all unmatured Coupons, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.

(vi) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note that only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Bearer Note or Certificate representing it, as the case may be.

(g) *Talons*: On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Fiscal Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 9).

(h) *Non-Business Days*: If any date for payment in respect of any Note, Receipt or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this paragraph, "business day" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as "Additional Financial Centers" hereon, and:

(i) (in the case of a payment in a currency other than euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency; or

(ii) (in the case of a payment in euro) which is a TARGET Business Day.

(i) *Currency Constraint*: If specified hereon that this Note is a Currency Constraint Note, payments by the Issuer on or in respect of this Note and the Receipts and Coupons relating to it are subject to Brazilian foreign exchange controls and restrictions and, notwithstanding the provisions of Conditions 7(a) to (h), the following provisions apply:

(i) If a Relevant Currency Constraint shall have occurred, the Issuer shall give to the Fiscal Agent, within two São Paulo Business Days (as defined below) after such event, a certificate signed by two authorised signatories certifying the existence of the Relevant Currency Constraint. The Issuer shall, as soon as practicable thereafter, give notice of such certification and its contents in accordance with Condition 14 and shall immediately appoint a Brazilian Paying Agent with a specified office in São Paulo, Brazil. In this event, any Noteholder may, for a period of 90 days after the publication of such notice (the "Election Period"), elect to exchange (such exchange, the "Currency Constraint Exchange") this Note (the "Original Note") and the related unmatured Receipts and Coupons and unexchanged Talons for an equivalent nominal amount of Exchanged Notes and related unmatured Receipts and Coupons and unexchanged Talons. To make such election, the holder must deposit the Original Note (together with all related unmatured Receipts and Coupons and unexchanged Talons) with any Paying Agent, together with a duly completed notice of election ("Election Notice") in the form obtainable from any Paying Agent (appropriately completed by such holder) within the Election Period. No Original Note so deposited and election made may be withdrawn without the prior consent of the Issuer. All duly completed and valid Election Notices received by the Paying Agents within the Election Period shall, on receipt, be deemed to have been received on the first day of the Election Period.

In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

"Exchanged Note" means a Note with terms and conditions identical to the terms and conditions of the Original Note for which it was exchanged, save that:

(A) all payments due in respect of such Exchanged Note and related Receipts and Coupons shall be made by the Issuer, to the extent permitted by Brazilian law, in the lawful currency of Brazil when due (the "Due Date") or, where the Due Date occurs before the date of the Currency Constraint Exchange (the "Currency Constraint Exchange Date"), as soon as practicable after the Currency Constraint Exchange Date and without any additional amount in compensation for late payment against presentation (and, if applicable, surrender) of such Exchanged Note or related Receipt or Coupon in accordance with Condition 6(a) except that payments shall be made by transfer to an account in the lawful currency of Brazil maintained by the holder with a bank in São Paulo, Brazil; and

(B) the amount of any payment due in respect of such Exchanged Note and related Receipts and Coupons shall be that amount in the lawful currency of Brazil, as determined by the Brazilian Paying Agent, having regard to the provisions of this Condition 7(i), which would be required to purchase the amount of such payment in the Specified Currency at the rate of exchange

shown on the Brazilian Central Bank computer information system, under the title SISBACEN PTAX-800, Option 5 on the São Paulo Business Day prior to the Due Date (or, where the Due Date precedes the Currency Constraint Exchange Date, on the São Paulo Business Day prior to the date of payment), provided that if no such rate of exchange is available, the applicable rate of exchange shall be an average of the Brazilian currency exchange rates on such São Paulo Business Day for the purchase of the Specified Currency notified to the Brazilian Paying Agent by four leading Brazilian Banks selected by the Brazilian Paying Agent in its discretion;

"Relevant Currency Constraint" means any law, regulation, directive or communication imposed or issued by the Government of Brazil or the Brazilian Central Bank or any other competent authority in Brazil imposing foreign exchange controls or other restrictions or any refusal to act or delay in acting by any such party, which has the effect of prohibiting, preventing or delaying the remittance of the Specified Currency (whether in respect of principal, interest, additional amounts payable pursuant to these Conditions or otherwise) to or by the Principal Paying Agent in respect of the Original Notes when due; and

"São Paulo Business Day" means a day other than a Saturday or Sunday on which commercial banks and foreign exchange markets are open for business in São Paulo, Brazil.

(ii) On termination of the Relevant Currency Constraint, Exchanged Notes and related unmatured Receipts and Coupons and unexchanged Talons shall be exchanged for an equivalent amount of Original Notes and related unmatured Receipts and Coupons and unexchanged Talons provided that, prior to such exchange, all payments due in respect of the Original Notes and related Receipts and Coupons and all payments due in respect of the Exchanged Notes and related Receipts and Coupons shall have been made by the Issuer. Such exchange shall be effected by the holders of Exchanged Notes presenting and surrendering such Exchanged Notes (together with all related unmatured Receipts and Coupons and unexchanged Talons) at any time after such termination at the specified office of any Paying Agent.

(iii) During the period in which a Relevant Currency Constraint is in effect, the Issuer shall take such steps as are legal under the laws and regulations of Brazil to make payments in respect of Original Notes and related Receipts and Coupons not exchanged for Exchanged Notes and related Receipts and Coupons (if any) in the Specified Currency from Brazil, whether to put into effect the terms of any restructuring, refinancing or rescheduling arrangements relating to such payments or otherwise, as promptly as such laws and regulations permit.

(iv) Notwithstanding anything in this Condition 7(i) to the contrary, during the period in which a Relevant Currency Constraint is in effect, any payments of principal of (but not interest on) the Original Notes which are not paid by reason of the imposition of such Relevant Currency Constraint shall bear interest in the Specified Currency at the Rate of Interest until the Relevant Currency Constraint is terminated or, if earlier, such sums are duly paid in full, provided that the Issuer complies at all times with its obligations set forth in this Condition 7(i).

(v) Notwithstanding anything in this Condition 7(i) to the contrary, no Noteholder or Couponholder shall be precluded by this Condition 7(i) from presenting any Note, Receipt or Coupon for payment at a time when a Relevant Currency Constraint is in effect.

(vi) It shall not be an Event of Default under these Conditions to the extent that any event described in Conditions 10(a) and 10(b) shall have occurred with respect to the Issuer solely as a result of a Relevant Currency Constraint, provided that the Issuer shall have fully complied with its obligations under this Condition 7(i). The Issuer shall not be in breach of any payment obligation in the Specified Currency relating to the Notes or the Coupons to the extent payment in the Specified Currency is not made by reason solely of such Relevant Currency Constraint; and no Noteholder or Couponholder shall be entitled to take action against the Issuer to enforce any rights against the Issuer which such Noteholder or Couponholder would, but for the provisions of this Condition 7(i), have had in respect of such payment.

(j) *Payments to Principal Paying Agent*: Every payment of any sum due in respect of the Notes made to the Principal Paying Agent as provided in the Agency Agreement shall, to such extent, be a good discharge to the Issuer. The Issuer will indemnify each Noteholder against any failure on the part of the Principal Paying Agent or any Agent to pay any sum due in respect of the Notes and will pay such sum to such Noteholder on demand. These indemnities constitute a separate and independent obligation from the Issuer's other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Noteholder and shall continue in full force and effect despite any judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note or any judgment or order. No proof or evidence of any actual loss may be required.

8. Taxation

All payments of principal and interest by or on behalf of the Issuer in respect of the Notes, the Receipts and the Coupons shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature (collectively, the "Taxes") imposed by or within Brazil or any authority therein or thereof having power to tax in the case of Notes issued by the Bank acting through its principal office, or by or within the Cayman Islands or any authority therein or thereof having power to tax in the case of Notes issued by the Bank acting through its Cayman Islands Branch (each, a "Taxing Jurisdiction"), unless such withholding or deduction is required by law. In that event, the Issuer shall pay such additional amounts as shall result in receipt by the Noteholders and the Couponholders of such amounts as would have been received by them had no such withholding or deduction been required (the "Additional Amounts"), except that no such Additional Amounts shall be payable with respect to any Note, Receipt or Coupon in respect of:

(a) any Taxes imposed by reason of the existence of any present or former connection between a Noteholder or Couponholder (or beneficial owner of either) (or between a fiduciary, settlor, beneficiary, member or shareholder of such Noteholder or Couponholder (or beneficial owner of either), if such Noteholder or Couponholder (or beneficial owner of either) is an estate, a trust, a partnership or a corporation), on the one hand, and a Taxing Jurisdiction, on the other hand other than merely holding the Notes, Receipts or Coupons or receiving payments thereon (such as citizenship, nationality, residence,

domicile, or existence of a business, a permanent establishment, a dependent agent, a place of business or a place of management present or deemed present within the Taxing Jurisdiction); or

(b) any Taxes imposed as a result of the failure of the Noteholder or Couponholder (or beneficial owner of either), to comply with any certification, identification or other reporting requirements concerning its nationality, residence, identity or connection with the Taxing Jurisdiction, if (1) compliance is required by applicable law, regulation, administrative practice or treaty as a precondition to exemption from all or a part of the Taxes, (2) the Noteholder or Couponholder (or beneficial owner of either) is able to comply with those requirements without undue hardship and (3) at least 30 days prior to the first Payment Date with respect to such requirements under the applicable law, regulation, administrative practice, or treaty shall apply, the Issuer has notified all Noteholders or Couponholders (or beneficial owner of either) that they will be required to comply with such requirements; or

(c) any Taxes imposed by reason of the failure of the Noteholder or Couponholder to present its Note, Receipt or Coupon within 30 days after the Relevant Date; *provided* that the Issuer will pay Additional Amounts to which a Noteholder or Couponholder would have been entitled had the Note, Receipt or Coupon owned by such Noteholder or Couponholder been presented on any day (including the last day) within such 30-day period; or

(d) any estate, inheritance, gift, value added, excise, transfer, personal property, use or sales Taxes or any similar Taxes; or

(e) any Taxes that are only payable otherwise than by deduction or withholding from payments on the Notes, Receipts or Coupons; or

(f) any Taxes where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(g) (except in the case of Registered Notes) any Taxes in respect of any Notes presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to, or requesting that such payment be made by, another Paying Agent in a Member State of the European Union; or

(h) any combination of the above.

In addition, no Additional Amounts shall be paid with respect to any payment to any Noteholder or Couponholder who is a fiduciary or a partnership or other than the sole beneficial owner of such Notes, Receipts or Coupons to the extent that the beneficiary or settlor with respect to such fiduciary, the member of such partnership or the beneficial owner of such Notes, Receipts or Coupons would not have been entitled to Additional Amounts had such beneficiary, settlor, member or beneficial owner held such Notes, Receipts or Coupons directly.

As used in these Conditions, "Relevant Date" in respect of any Note, Receipt or Coupon means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further presentation of the Note (or relative Certificate), Receipt or Coupon being made in accordance with the Conditions, such

payment will be made, provided that payment is in fact made upon such presentation. References in these Conditions to (i) "principal" shall be deemed to include any premium payable in respect of the Notes, all Instalment Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 6 or any amendment or supplement to it, (ii) "interest" shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 5 or any amendment or supplement to it and (iii) "principal" and/or "interest" shall be deemed to include any additional amounts that may be payable under this Condition.

The Issuer, and any other person to or through which any payment with respect to the Notes may be made, will be entitled to withhold or deduct from any payments made with respect to the Notes amounts required to be withheld or deducted under or in connection with FATCA, and, notwithstanding anything herein, Noteholders, Couponholders and beneficial owners of Notes or Coupons will not be entitled to receive any gross up or other additional amounts on account of any such withholding or deduction.

"FATCA" means sections 1471 to 1474 of the U.S. Internal Revenue Code of 1986, as amended (including any regulations or official interpretations issued, agreements or non-U.S. laws entered into or enacted, with respect thereto).

9. Prescription

Claims against the Issuer for payment in respect of the Notes, Receipts and Coupons (which for this purpose shall not include Talons) shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

10. Events of Default

If any of the following events ("Events of Default") (subject as provided in Condition 6(h)) occurs and is continuing, the holder of any Note may give written notice to the Fiscal Agent at its specified office that such Note is immediately repayable, whereupon the Early Redemption Amount of such Note together with accrued interest to the date of payment shall become immediately due and payable:

(a) *Non-Payment*: the Issuer fails to pay an amount payable in respect of the Notes or any of them when due and payable; or

(b) *Breach of Other Obligations*: the Issuer fails to perform or observe any of its other obligations under the Notes; or

(c) *Cross-Default*: (i) any other present or future indebtedness of the Issuer or any of its Subsidiaries (as defined in the Agency Agreement) for or in respect of monies borrowed or raised becomes (or becomes capable of being declared) due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described), or (ii) any such indebtedness is not paid when due or, as the case may be, within any applicable grace period, or (iii) the Issuer or any of its Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any monies borrowed or raised provided that the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this paragraph (c) have occurred equals or exceeds U.S.$5,000,000 or its equivalent (on the basis of the middle spot rate for the relevant currency against the U.S. dollar as quoted by any leading bank on the day on which this paragraph operates); or

(d) *Enforcement Proceedings*: a distress, attachment, execution or other legal process is levied, enforced or sued out on or against any part of the property, assets or revenues of the Issuer or any of its Subsidiaries and is not discharged or stayed within 10 days or unless the same is being contested in good faith by appropriate means; or

(e) *Security Enforced*: any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer or any of its Subsidiaries becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, manager or other similar person); or

(f) *Insolvency*: the Issuer or any of its Subsidiaries is (or is, or could be, deemed by applicable law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of all or a material part of (or of a particular type of) its debts, proposes or makes any agreement for the deferral, rescheduling or other readjustment of all of (or all of a particular type of) its debts (or of any part which it will or might otherwise be unable to pay when due), proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all or any part of (or of a particular type of) the debts of the Issuer or any of its Subsidiaries; or

(g) *Winding-up*: an order is made or an effective resolution passed for the winding-up or dissolution of the Issuer or any of its Subsidiaries, or the Issuer ceases or threatens to cease to carry on all or a material part of its business or operations, except (i) for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger, consolidation or spin-off (A) on terms approved by an Extraordinary Resolution of the Noteholders, or (B) in the case of a Subsidiary, whereby the undertaking and assets of the Subsidiary are transferred to or otherwise vested in the Issuer or another of its Subsidiaries, or (ii) where any such winding-up or dissolution of a Subsidiary or ceasing to carry on business or operations by the Issuer would, if carried out, not have a material adverse effect on the ability of the Issuer to fulfil its obligations under the Notes as they fall due; or

(h) *Authorisation and Consents*: any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable the Issuer lawfully to enter into, exercise its rights and perform and comply with its obligations under the Notes, (ii) to ensure that those obligations are legally binding and enforceable and (iii) to make the Notes admissible in evidence in the courts of England is not taken, fulfilled or done; or

(i) *Illegality*: it is or will become unlawful for the Issuer to perform or comply with any one or more of its obligations under any of the Notes; or

(j) *Analogous Events*: any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs.

11. Meeting of Noteholders, Modifications and Substitution

(a) *Meetings of Noteholders*: The Agency Agreement contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Agency Agreement) of a modification of any of these Conditions. Such a meeting may be convened by Noteholders holding not less than 10% in nominal amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary

Resolution shall be two or more persons holding or representing a clear majority in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Noteholders whatever the nominal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, inter alia, (i) to amend the dates of maturity or redemption of the Notes, any Instalment Date or any date for payment of interest or Interest Amounts on the Notes, (ii) to reduce or cancel the nominal amount of, or any Instalment Amount of, or any premium payable on redemption of, the Notes, (iii) to reduce the rate or rates of interest in respect of the Notes or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any Interest Amount in respect of the Notes, (iv) if a Minimum and/or a Maximum Rate of Interest, Instalment Amount or Redemption Amount is shown hereon, to reduce any such Minimum and/or Maximum, (v) to vary any method of, or basis for, calculating the Final Redemption Amount, the Early Redemption Amount or the Optional Redemption Amount, including the method of calculating the Amortised Face Amount, (vi) to vary the currency or currencies of payment or denomination of the Notes or (vii) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass the Extraordinary Resolution, in which case the necessary quorum shall be two or more persons holding or representing not less than 75%, or at any adjourned meeting not less than 25%, in nominal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.

These Conditions may be amended, modified or varied in relation to any Series of Notes by the terms of the relevant Final Terms in relation to such Series.

(b) *Modification of Agency Agreement*: The Issuer shall only permit any modification of, or any waiver or authorisation of any breach or proposed breach of or any failure to comply with, the Agency Agreement, if to do so could not reasonably be expected to be prejudicial to the interests of the Noteholders.

(c) *Substitution*: The Issuer, or any previous substituted company, may at any time, without the consent of the Noteholders or the Couponholders, substitute for itself as principal debtor under the Notes, the Receipts, the Coupons and the Talons any entity (the "Substitute") that is another office or branch of the Issuer, provided that no payment in respect of the Notes, the Receipts or the Coupons is at the relevant time overdue. The substitution shall be made by a deed poll (the "Deed Poll"), to be substantially in the form of Schedule 8 to the Agency Agreement, and may take place only if (i) the Substitute shall, by means of the Deed Poll, agree to indemnify each Noteholder and Couponholder against any tax, duty, assessment or governmental charge that is imposed on it by (or by any authority in or of) the jurisdiction of the country of the Substitute's residence for tax purposes and, if different, of its incorporation with respect to any Note, Receipt, Coupon, Talon or the Deed of Covenant and that would not have been so imposed had the substitution not been made, as well as against any tax, duty, assessment or governmental charge, and any cost or expense, relating to the substitution, (ii) all action, conditions and things required to be taken, fulfilled and done (including the obtaining of any necessary consents) to ensure that the Deed Poll, the Notes, Receipts, Coupons, Talons and Deed of Covenant represent valid, legally binding and enforceable obligations of the Substitute and are in full force and effect, (iii) if then required as a matter of law of the country in which the Substitute is resident, the Substitute shall have become party to the Agency Agreement and assumed all obligations of the Issuer thereunder, with any appropriate consequential amendments, as if it had been an original party to it, (iv) legal opinions addressed to the Noteholders shall have been delivered to them (care of the Fiscal Agent) from a lawyer or firm of lawyers with a leading securities practice in each jurisdiction referred to in (i) above and in England as to the fulfilment of the preceding conditions of this Condition 11(c) and the other matters specified in the Deed Poll and (vi) the Issuer shall have given at least 14 days' prior notice of such substitution to the Noteholders, stating that copies, or pending execution the agreed text, of all documents in relation to the substitution that are referred to above, or that might otherwise reasonably be regarded as material to

Noteholders, shall be available for inspection at the specified office of each of the Paying Agents. References in Condition 10 to obligations under the Notes shall be deemed to include obligations under the Deed Poll.

12. Replacement of Notes, Certificates, Receipts, Coupons and Talons

If a Note, Certificate, Receipt, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Paying Agent (in the case of Bearer Notes, Receipts, Coupons or Talons) and of the Registrar (in the case of Certificates)_or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, inter alia, that if the allegedly lost, stolen or destroyed Bearer Note, Certificate, Receipt, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Bearer Notes, Certificates, Receipts, Coupons or further Coupons) and otherwise as the Issuer may require. Mutilated or defaced Bearer Notes, Certificates, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

13. Further Issues

The Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further notes having the same terms and conditions as the Notes (so that, for the avoidance of doubt, references in the conditions of such notes to "Issue Date" shall be to the first issue date of the Notes) and so that the same shall be consolidated and form a single series with such Notes, and references in these Conditions to "Notes" shall be construed accordingly.

14. Notices

Notices to the holders of Registered Notes shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. Notices to the holders of Bearer Notes shall be valid if published in a daily newspaper of general circulation in London (which is expected to be the Financial Times). If any such publication is not practicable, notice shall be validly given if published in another leading daily English language newspaper with general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the date of the first publication as provided above.

Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Notes in accordance with this Condition.

15. Currency Indemnity

Any amount received or recovered in a currency other than the currency in which payment under the relevant Note, Coupon or Receipt is due (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the winding-up or dissolution of the Issuer or otherwise) by any Noteholder or Couponholder in respect of any sum expressed to be due to it from the Issuer shall only constitute a discharge to the Issuer, as the case may be, to the extent of the amount in the currency of payment under the relevant Note, Coupon or Receipt that the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If the amount received or recovered is less than the amount expressed to be due to the recipient under any Note, Coupon or Receipt, the Issuer shall indemnify it

against any loss sustained by it as a result. In any event, the Issuer shall indemnify the recipient against the cost of making any such purchase. For the purposes of this Condition, it shall be sufficient for the Noteholder or Couponholder, as the case may be, to demonstrate that it would have suffered a loss had an actual purchase been made. These indemnities constitute a separate and independent obligation from the Issuer's other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Noteholder or Couponholder and shall continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note, Coupon or Receipt or any other judgment or order.

16. Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

17. Governing Law and Jurisdiction

(a) *Governing Law*: The Notes, the Receipts, the Coupons and the Talons and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

(b) *Jurisdiction*: The Courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with any Notes, Receipts, Coupons or Talons and accordingly any legal action or proceedings arising out of or in connection with any Notes, Receipts, Coupons or Talons ("Proceedings") may be brought in such courts. The Issuer irrevocably submits to the jurisdiction of the courts of England and waives any objection to Proceedings in such courts on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. This submission is made for the benefit of each of the holders of the Notes, Receipts, Coupons and Talons and shall not affect the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

(c) *Service of Process*: The Issuer irrevocably appoints TMF Corporate Services Limited at present having its office at Pellipar House, 1st Floor, 9 Cloak Lane, London, EC4R 2RU as its agent in England to receive, for it and on its behalf, service of process in any Proceedings in England. Such service shall be deemed completed on delivery to such process agent (whether or not it is forwarded to and received by the Issuer). If for any reason such process agent ceases to be able to act as such or no longer has an address in London, the Issuer irrevocably agrees to appoint a substitute process agent and shall immediately notify Noteholders of such appointment in accordance with Condition 13. Nothing shall affect the right to serve process in any manner permitted by law.

CLEARANCE AND SETTLEMENT

Book-Entry Ownership

Bearer Notes

The Issuer may make applications to Euroclear and/or Clearstream, Luxembourg for acceptance in their respective book-entry systems in respect of any Series of Bearer Notes. In respect of Bearer Notes, a temporary Global Note and/or a permanent Global Note in bearer form without coupons may be deposited with a common depositary for Euroclear and/or Clearstream, Luxembourg or an Alternative Clearing System as agreed between the Issuer and the Dealer. Transfers of interests in such temporary Global Notes or permanent Global Notes will be made in accordance with the normal Euromarket debt securities operating procedures of Euroclear and Clearstream, Luxembourg or, if appropriate, the Alternative Clearing System.

Registered Notes

The Issuer may make applications to Euroclear and/or Clearstream, Luxembourg and/or DTC for acceptance in their respective book-entry systems in respect of the Notes to be represented by an Unrestricted Global Certificate. Each Unrestricted Global Certificate deposited with a common depositary for, and registered in the name of, a nominee of Euroclear and/or Clearstream, Luxembourg and/or deposited with a Custodian and registered in the name of a nominee for DTC will have an ISIN, a CUSIP and a Common Code.

The Issuer, and a relevant US agent appointed for such purpose that is an eligible DTC participant, may make application to DTC for acceptance in its book-entry settlement system of the Registered Notes represented by a Restricted Global Certificate and/or and Unrestricted Global Certificate. Each Restricted Global Certificate and/or Unrestricted Global Certificate will have a CUSIP number. Each Restricted Global Certificate will be subject to restrictions on transfer contained in a legend appearing on the front of such Global Certificate and/or Unrestricted Global Certificate, as set out under "Transfer Restrictions". In certain circumstances, as described below in "Transfers of Registered Notes", transfers of interests in a Restricted Global Certificate and/or Unrestricted Global Certificate may be made as a result of which such legend may no longer be required.

In the case of a Tranche of Registered Notes to be cleared through the facilities of DTC, the Custodian, with whom the Restricted Global Certificates and/or Unrestricted Global Certificates are deposited, and DTC, will electronically record the nominal amount of the Restricted Notes and/or Unrestricted Notes held within the DTC system. Investors may hold their beneficial interests in a Restricted Global Certificate and/or Unrestricted Global Certificate directly through DTC if they are participants in the DTC system, or indirectly through organisations which are participants in such system.

Payments of the principal of, and interest on, each Restricted Global Certificate and/or Unrestricted Global Certificate registered in the name of DTC's nominee will be to, or to the order of, its nominee as the registered owner of such Restricted Global Certificate and/or Unrestricted Global Certificate. The Issuer expects that the nominee, upon receipt of any such payment, will immediately credit DTC participants' accounts with payments in amounts proportionate to their respective beneficial interests in the nominal amount of the relevant Restricted Global Certificate and/or Unrestricted Global Certificate as shown on the records of DTC or the nominee. The Issuer also expects that payments by DTC participants to owners of beneficial interests in such Restricted Global Certificate and/or Unrestricted Global Certificate held through such DTC participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such DTC participants. Neither the Issuer nor any Paying Agent or any Transfer Agent or the Registrar will have any responsibility or liability for any aspect of the records relating, to

or payments made on account of, ownership interests in any Restricted Global Certificate and/or Unrestricted Global Certificate or for maintaining, supervising or reviewing any records relating to such ownership interests.

All Registered Notes will initially be in the form of an Unrestricted Global Certificate and/or a Restricted Global Certificate. Individual Certificates will only be available, in the case of Notes initially represented by an Unrestricted Global Certificate, in amounts specified in the applicable Final Terms, and, in the case of Notes initially represented by a Restricted Global Certificate, in minimum amounts of U.S.$100,000 (or its equivalent rounded upwards as agreed between the Issuer and the relevant Dealer(s)), or higher integral multiples of U.S.$1,000, in certain limited circumstances described below.

Payments through DTC

Payments in US dollars of principal and interest in respect of a Restricted Global Certificate and/or Unrestricted Global Certificate registered in the name of a nominee of DTC will be made to the order of such nominee as the registered holder of such Note. Payments of principal and interest in a currency other than US dollars in respect of Notes evidenced by a Restricted Global Certificate and/or Unrestricted Global Certificate registered in the name of a nominee of DTC will be made or procured to be made by the Paying Agent in such currency in accordance with the following provisions. The amounts in such currency payable by the Paying Agent or its agent to DTC with respect to Notes held by DTC or its nominee will be received from the Company by the Paying Agent who will make payments in such currency by wire transfer of same day funds to the designated bank account in such currency of those DTC participants entitled to receive the relevant payment who have made an irrevocable election to DTC, in the case of payments of interest, on or prior to the third business day in New York City after the Record Date for the relevant payment of interest and, in the case of payments of principal, at least 12 business days in New York City prior to the relevant payment date, to receive that payment in such currency. The Paying Agent will convert amounts in such currency into US dollars and deliver such US dollar amount in same day funds to DTC for payment through its settlement system to those DTC participants entitled to receive the relevant payment who did not elect to receive such payment in such currency. The Agency Agreement sets out the manner in which such conversions are to be made.

Transfers of Registered Notes

Transfers of interests in Global Certificates within Euroclear, Clearstream, Luxembourg and DTC will be in accordance with the usual rules and operating procedures of the relevant clearing system. The laws of some states in the United States require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Restricted Global Certificate to such persons may be limited. Because DTC can only act on behalf of participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in a Restricted Global Certificate to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate in respect of such interest.

Beneficial interests in an Unrestricted Global Certificate may only be held through Euroclear or Clearstream, Luxembourg. In the case of Registered Notes to be cleared through Euroclear, Clearstream, Luxembourg and/or DTC, transfers may be made at any time by a holder of an interest in an Unrestricted Global Certificate to a transferee who wishes to take delivery of such interest through a Restricted Global Certificate for the same Series of Notes provided that any such transfer made on or prior to the expiration of the distribution compliance period (as used in ‘‘Subscription and Sale’’) relating to the Notes represented by such Unrestricted Global Certificate will only be made upon receipt by any Transfer Agent of a written certificate from Euroclear or Clearstream, Luxembourg, as the case may be, (based on a written certificate from the transferor of such interest) to the effect that such transfer is being made to a person whom the

transferor, and any person acting on its behalf, reasonably believes is a QIB within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States. Any such transfer made thereafter of the Notes represented by such Unrestricted Global Certificate will only be made upon request through Euroclear or Clearstream, Luxembourg by the holder of an interest in the Unrestricted Global Certificate to the Issuing and Paying Agent of details of that account at DTC to be credited with the relevant interest in the Restricted Global Certificate. Transfers at any time by a holder of any interest in the Restricted Global Certificate to a transferee who takes delivery of such interest through an Unrestricted Global Certificate will only be made upon delivery to any Transfer Agent of a certificate setting forth compliance with the provisions of Regulation S and giving details of the account at Euroclear or Clearstream, Luxembourg, as the case may be, and DTC to be credited and debited, respectively, with an interest in each relevant Global Certificate.

Subject to compliance with the transfer restrictions applicable to the Registered Notes described above and under "Transfer Restrictions", cross-market transfers between DTC, on the one hand, and directly or indirectly through Euroclear or Clearstream, Luxembourg accountholders, on the other, will be effected by the relevant clearing system in accordance with its rules and through action taken by the Custodian, the Registrar and the Issuing and Paying Agent.

On or after the Issue Date for any Series, transfers of Notes of such Series between accountholders in Euroclear and/or Clearstream, Luxembourg and transfers of Notes of such Series between participants in DTC will generally have a settlement date five business days after the trade date (T+5). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in Euroclear or Clearstream, Luxembourg and DTC participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Euroclear and Clearstream, Luxembourg, on the other, transfers of interests in the relevant Global Certificates will be effected through the Issuing and Paying Agent, the Custodian, the relevant Registrar and any applicable Transfer Agent receiving instructions (and where appropriate certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. Transfers will be effected on the later of (i) five business days after the trade date for the disposal of the interest in the relevant Global Certificate resulting in such transfer and (ii) two business days after receipt by the Issuing and Paying Agent or the Registrar, as the case may be, of the necessary certification or information to effect such transfer. In the case of cross-market transfers, settlement between Euroclear or Clearstream, Luxembourg accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

For a further description of restrictions on transfer of Registered Notes, see "Transfer Restrictions".

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Registered Notes (including, without limitation, the presentation of Restricted Global Certificates for exchange as described above) only at the direction of one or more participants in whose account with DTC interests in Restricted Global Certificates are credited and only in respect of such portion of the aggregate nominal amount of the relevant Restricted Global Certificates as to which such participant or participants has or have given such direction. However, in the circumstances described above, DTC will surrender the relevant Restricted Global Certificates for exchange for Individual Certificates (which will, in the case of Restricted Notes, bear the legend applicable to transfers pursuant to Rule 144A).

DTC has advised the Issuer as follows: DTC is a limited purpose trust company organised under the laws of the State of New York, a ''banking organisation'' under the laws of the State of New York, a member of the US Federal Reserve System, a ''clearing corporation'' within the meaning of the New York Uniform Commercial Code and a ''clearing agency'' registered pursuant to the provisions of Section 17A of the

Exchange Act. DTC was created to hold securities for its participants and facilitate the clearance and settlement of securities transactions between participants through electronic computerised book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. Direct participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, that clear through or maintain a custodial relationship with a DTC direct participant, either directly or indirectly.

Although Euroclear, Clearstream, Luxembourg and DTC have agreed to the foregoing procedures in order to facilitate transfers of beneficial interests in the Global Certificates among participants and accountholders of DTC, Clearstream, Luxembourg and Euroclear, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. Neither the Issuer, nor any Paying Agent nor any Transfer Agent will have any responsibility for the performance by Euroclear, Clearstream, Luxembourg or DTC or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations.

While a Restricted Global Certificate is lodged with DTC or the Custodian, Restricted Notes represented by Individual Certificates will not be eligible for clearing or settlement through Euroclear, Clearstream, Luxembourg or DTC.

Individual Certificates

Registration of title to Registered Notes in a name other than a depositary or its nominee for Clearstream, Luxembourg and Euroclear or for DTC will be permitted only (i) in the case of Restricted Global Certificates in the circumstances set forth in "Summary of Provisions Relating to the Notes while in Global Form—Exchange—Restricted Global Certificates" or (ii) in the case of Unrestricted Global Certificates in the circumstances set forth in "Summary of Provisions Relating to the Notes while in Global Form— Exchange—Unrestricted Global Certificates". In such circumstances, the Issuer will cause sufficient individual Certificates to be executed and delivered to the Registrar for completion, authentication and despatch to the relevant Noteholder(s). A person having an interest in a Global Certificate must provide the Registrar with:

(i) a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Individual Certificates; and

(ii) in the case of a Restricted Global Certificate only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange, or in the case of a simultaneous resale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A. Individual Certificates issued pursuant to this paragraph (ii) shall bear the legends applicable to transfers pursuant to Rule 144A.

Pre-issue Trades Settlement

It is expected that delivery of Notes will be made against payment therefor on the relevant Issue Date, which could be more than three business days following the date of pricing. Under Rule 15c6-1 of the Exchange Act, trades in the US secondary market generally are required to settle within five business days ("T+5"), unless the parties to any such trade expressly agree otherwise. Accordingly, in the event that an Issue Date is more than three business days following the relevant date of pricing, purchasers who wish to trade Registered Notes in the United States between the date of pricing and the date that is three business days prior to the relevant Issue Date will be required, by virtue of the fact that such Notes initially will settle beyond T+5, to specify an alternative settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of Notes may be affected by such local settlement practices

and, in the event that an Issue Date is more than five business days following the relevant date of pricing, purchasers of Notes who wish to trade Notes between the date of pricing and the date that is five business days prior to the relevant Issue Date should consult their own adviser.

TAXATION

PROSPECTIVE PURCHASERS OF THE NOTES ARE ADVISED TO CONSULT THEIR OWN TAX ADVISERS AS TO THE CONSEQUENCES OF PURCHASING THE NOTES, INCLUDING, WITHOUT LIMITATION, THE CONSEQUENCES OF THE RECEIPT OF INTEREST AND THE SALE, REDEMPTION OR REPAYMENT OF THE NOTES.

Brazilian Tax Considerations

The following discussion is a summary of the Brazilian tax considerations relating to an investment in the Notes by a non-resident of Brazil. The discussion is based on the tax laws of Brazil as in effect on the date hereof and is subject to any change in Brazilian law that may come into effect after such date. The information set forth below is intended to be a general discussion only and does not address all possible tax consequences relating to an investment in the Notes. *Prospective purchasers should consult their tax advisers as to the specific tax consequences of acquiring, holding and disposing of the Notes, in particular with regard to Notes having special features such as Notes denominated in a foreign currency as to the holder and Notes subject to currency constraint, sovereign event or credit event provisions.*

Tax consequences in Brazil are different if the Notes are issued by us acting through our principal office in Brazil or issued through our Grand Cayman branch.

If payment of income is made to a Non-Resident Holder by the Issuer with respect to Notes issued through our Grand Cayman branch, based on the fact that they are considered to be domiciled outside Brazil for tax purposes, such payment will not generally be subject to withholding or deduction with respect to Brazilian income tax or any other taxes, duties, assessments or governmental charges in Brazil, provided that such payments are made with resources held by such entities outside Brazil.

Interest, fees, commissions (including any original issue discount and any redemption premium) and any other income (debt obligations) payable by a Brazilian obligor to an individual, entity, trust or organization domiciled outside Brazil in respect of debt obligations derived from the issuance by a Brazilian issuer of international debt securities previously registered with the Central Bank, such as the Notes, is subject to income tax withheld at source. The rate of withholding tax is generally 15%, unless a lower rate is provided for in an applicable tax treaty between Brazil and the other country where the beneficiary is domiciled.

Notwithstanding the above, it is possible that income tax withheld at source may be tax creditable in the country where the recipient is domiciled, in accordance with the applicable tax regulations of such country.

According to Normative Ruling No. 1,455 of March 6, 2014, in the event that the beneficiary of such payments is domiciled in a tax haven jurisdiction, such payments of interest, fees, commissions (including any original issue discounts and any redemption premiums) and any other income are also subject to withholding with respect to Brazilian income tax at the general rate of 15%. There is a risk, however, that the tax authorities may modify current laws or apply the rate of 25% to beneficiaries domiciled in tax haven jurisdictions. A "tax haven" jurisdiction is deemed to be a jurisdiction which does not impose any tax on income or which imposes such tax at a maximum effective rate lower than 20% (further reduced to 17% in case of countries following international standards of fiscal transparency – Ordinance MF 488/2014 – according to Normative Ruling No. 1,530 of December 19, 2014), or where the laws impose restrictions on the disclosure of ownership composition or securities ownership or do not allow for the identification of the effective beneficiary of the income attributed to non-residents.

A lower withholding rate may be applicable in the event that a tax treaty exists between Brazil and the country where the effective beneficiary of the payment is domiciled. Brazil and Japan are signatories to a treaty (the "Japan Treaty") for the avoidance of double taxation. Under the Japan Treaty, payments of interest

to entities incorporated in Japan (or a branch thereof) or other types of income deemed similar to income from borrowed funds under Brazilian tax law will be subject to a Brazilian withholding tax rate of 12.5%. A Brazilian administrative tax court has ruled that payments made by the Issuer to a Japanese paying agent pursuant to the terms and conditions of the Notes of each Series and provided further that such Japanese paying agent that is a tax resident of Japan is qualified for the treaty benefits since no beneficial ownership test is required under the Japan Treaty. Therefore, interest (including any original issue discount) will likely be subject to Brazilian tax at a rate of 12.5% pursuant to the Japan Treaty. For this purpose, usually the Principal Paying Agent must be granted discharge powers and be authorized to receive payments on behalf of the holders of the Notes, which would release the Brazilian debtor from the payment obligations; provided that, the Issuer's obligation to pay such additional amounts to the Noteholder under the Terms and Conditions is satisfied. If the Issuer is not able to rely on the treaty to make the payments, or the payments are not made by us to the Principal Paying Agent, any such payments will be subject to Brazilian withholding tax at the rates referred to in the preceding paragraph.

In addition, if specified in the applicable Pricing Supplement, the relevant Issuer will make payments with respect to the Notes and will indemnify the Noteholders so that, after payment of all applicable Brazilian taxes collectable by withholding, deduction or otherwise, with respect to principal, interest (including the original issue discount) and additional amounts payable with respect to the Notes (plus any interest and penalties thereon), a Noteholder will retain an amount equal to the amounts that such Noteholder would have retained had no such Brazilian taxes (plus interest and penalties thereon) been payable. If specified in the applicable Pricing Supplement, the relevant Issuer will, subject to certain exceptions, pay Additional Amounts in respect of such withholding or deduction so that the holder receives the net amount due after withholding or deduction of applicable taxes.

However, if under the terms and conditions of the Notes, the Issuer is required to gross up for any Brazilian withholding tax, Brazilian tax laws expressly authorise the Brazilian paying source to pay the income or earnings net of taxes and, therefore, to assume the cost of the applicable tax. The Issuer has the right to redeem the Notes at part in the event that it is required to gross-up for Brazilian withholding income tax at a rate in excess of the withholding income rate in effect on the date of issue of the relevant Notes.

According to Law No. 10,833/03, of December 30, 2003, gains assessed on the sale or other disposal of assets located in Brazil may be subject to tax in Brazil, regardless of whether the sale or disposal is made by a non-resident holder to a resident or person domiciled in Brazil or to a non-resident. If the Notes are issued abroad, by our Grand Cayman branch, we believe that gains on the sale or other disposal of the Notes made outside Brazil by a non-resident holder, other than a branch or a subsidiary of a Brazilian resident, would not fall within the definition of assets located in Brazil for the purpose of Law No. 10,833/03 and consequently would not be subject to Brazilian taxes. However, considering the general and unclear scope of Law No. 10,833/03 and the absence of judicial court rulings in respect thereto, we are unable to predict whether such interpretation would ultimately prevail in the courts of Brazil. If this interpretation does not prevail, gains realized by a non-resident holder from the sale or disposition of the Notes may be subject to income tax in Brazil at, since as of 2017, progressive tax rates of 15% for gains up to R$ 5 million, 17.5% for gains above R$ 5 million and lower than R$ 10 million, 20% for gains above R$ 10 million and lower than R$ 30 million and 22.5% for gains above R$ 30 million, or 25% if the non-resident is located in a tax haven jurisdiction. New capital gains tax rules also have a provision stating that if the sale of a part of the same asset or right occurs in one year (i.e., 2017), and the remaining or other part of the asset or right is sold by the end of the following year (i.e., 2018), the capital gains assessed on the second transaction, shall be combined with the capital gains assessed on the previous transactions for the purposes of determining the applicable tax rate and the income tax due. The taxpayer can deduct any amounts of capital gains tax paid in previous years. There is also a specific provision in the law establishing that shares or quotas of a company are considered part of the same asset or right, but this provision does not expressly apply to debt instruments such as the Notes. An interpretation of a

group of Notes not as part of the same asset or right is possible; however, the Brazilian tax authorities may take a contrary point of view.

On June 23, 2008, Law No. 11,727 was enacted, introducing the concept of a "privileged tax regime." Under this new law, a "privileged tax regime" is considered to apply to a jurisdiction that meets any of the following requirements: (i) it does not tax income or taxes income at a maximum rate lower than 20%; (ii) it grants tax advantages to a non-resident entity or individual (a) without requiring substantial economic activity in the jurisdiction of such non-resident entity or individual or (b) to the extent such non-resident entity or individual does not conduct substantial economic activity in the jurisdiction of such non-resident entity or individual; (iii) it does not tax income generated abroad, or imposes tax on income generated abroad at a maximum rate lower than 20%, or (iv) it restricts the ownership disclosure of assets and ownership rights or restricts disclosure about the execution of economic transactions. The taxes on income at a maximum rate lower than 20% was reduced to 17% in case of jurisdictions following international standards of fiscal transparency – Ordinance MF 488/2014 – according to Normative Ruling No. 1,530 of December 19, 2014.

In addition, on June 4, 2010, Brazilian tax authorities enacted Normative Ruling No. 1,037 listing (i) the countries and jurisdictions considered as tax haven jurisdictions (explained above) and (ii) the privileged tax regimes, which definition is provided by Law No. 11,727, of June 23, 2008. Although we believe that the best interpretation of the current tax legislation should lead to the conclusion that the above-mentioned "privileged tax regime" concept (which is broader in scope than the tax haven jurisdictions concept) should apply solely for purposes of Brazilian transfer pricing and thin capitalization rules, we cannot assure you that the Brazilian tax authorities will not, as a result of subsequent legislation or interpretations by the Brazilian tax authorities regarding the definition of a "privileged tax regime," attempt to apply the "privileged tax regime" concept to payments made by us on the notes to certain Non-Resident Holders, in which case such payments could, in certain circumstances, be subject to withholding at a rate of 25% (absent an applicable tax treaty providing otherwise). On September 14, 2016, Brazilian tax authorities enacted Normative Ruling No. 1,658, which, among other changes, amended Normative Ruling No. 1,037/2010 to include Ireland in the list of countries or locations classified as tax havens. These changes are effective as of October 1, 2016. On December 30, 2016, Brazilian tax authorities enacted Normative Ruling No. 1,683, which amended Normative Ruling No. 1,037/2010 to include Austrian holding companies without substance in the list of privileged tax regimes. This change is effective as of December 30, 2016. In addition, certain regimes in Costa Rica (no longer a tax haven), Portugal (Ilha da Madeira is no longer a tax haven) and Singapore (no longer a tax haven) are considered privileged tax regimes since December 26, 2017.

Individuals domiciled in Brazil and Brazilian companies are taxed on the basis of their worldwide income, which includes profits, capital gains and other income obtained abroad by a Brazilian company or by its foreign branches, subsidiaries or affiliates as defined under Brazilian tax law. The earnings of branches of foreign companies are generally taxed in Brazil in the same manner as Brazilian companies. Non-Brazilian residents are generally taxed in Brazil only when income is derived from Brazilian sources.

Generally, there are no stamp, transfer or other similar taxes in Brazil with respect to the transfer, assignment or sale of the Notes outside Brazil, nor any inheritance, gift or succession tax applicable to the ownership, transfer or disposal of the Notes, except for gift and inheritance tax (*Imposto Sobre Transmissão Causa Mortis e Doação de Quaisquer Bens ou Direitos*) imposed by some Brazilian states on gifts, inheritance and bequests of individuals or entities domiciled or residing within such state.

Pursuant to Decree No. 6,306, of December 14, 2007, the conversion of foreign currency into Brazilian *reais* and the conversion of Brazilian *reais* into foreign currency are subject to the IOF/Exchange. Currently, the IOF/Exchange rate is 0.38% for most transfers of foreign currency into *reais*. According to Section 15-B, XI of the Decree No. 6,306, the settlement of exchange transactions in connection with foreign financing or loans, for both inflow and outflow of proceeds into and from Brazil, are subject to IOF/Exchange

at a zero percent rate. However, according to section 15-B, XII, of this decree the IOF/Exchange rate is 6% for the conversion of foreign currency into Brazilian currency in connection with foreign loans with a minimum average term equal to or lower than 180 days (foreign loans or notes with an average term of more than 180 days which have a put/call provision that does not follow such minimum average term or are partially or fully redeemed in a period of less than 180 days from their issuance or are amendment – with exchange agreements being required – in a period of less than 180 days from the previous exchange agreement, are subject to the IOF/Exchange at the rate of 6% rate plus applicable fines and interest). In any case, foreign exchange transactions related to outflow of proceeds from Brazil in connection with foreign loans are subject to the IOF/Exchange at the rate of 0%. However, the Brazilian government may increase the current IOF/Exchange rate at any time, up to a maximum rate of 25%. Any such new rate would only apply to future foreign exchange transactions.

United States Federal Income Taxation Considerations

The following is a summary of certain material U.S. federal income tax consequences of the purchase, ownership and disposition of the Notes by a "U.S. holder" (as defined below). This summary does not address the material U.S. federal income tax consequences of every type of Note which may be issued under the Programme, and the relevant Final Terms may contain additional or modified disclosure concerning the material U.S. federal income tax consequences relevant to such type of Note as appropriate. The summary deals only with Notes that will be purchased by U.S. holders and held as capital assets. This summary is based upon United States laws, including the U.S. Internal Revenue Code of 1986, as amended (the "Code"), U.S. Treasury Regulations ("Treasury Regulations") (final, proposed and temporary) promulgated thereunder, rulings, judicial decisions and administrative pronouncements, all as currently in effect, and all of which are subject to change or changes in interpretation, possibly on a retroactive basis. The summary is included herein for general information only, and there can be no assurance that the U.S. Internal Revenue Service (the "IRS") will take a similar view of the U.S. federal income tax treatment of an investment in the Notes as described herein.

In particular, this summary does not purport to deal with persons in special tax situations, such as U.S. expatriates, persons subject to the alternative minimum tax, banks and other financial institutions, insurance companies, regulated investment companies, real estate investment trusts and other financial conduit entities, dealers in securities or currencies, traders in securities electing to mark their investments to market, partnerships and other pass-through entities (and investors in such partnerships or entities), tax-exempt entities, persons holding Notes as part of a hedge, straddle, conversion, constructive sale or integrated transaction , persons owning (directly, indirectly or by attribution) 10% or more of the outstanding share capital or voting power of the Issuer, persons whose functional currency is not the U.S. dollar or persons that purchase Notes for a price other than the respective issue prices of the Notes (except where otherwise specifically noted). Moreover, this summary deals only with Notes with a term less than 30 years, and does not address the tax treatment to U.S. holders of bearer Notes. The U.S. federal income tax treatment of any Notes with a term of 30 years or more will be more fully described in the applicable Final Terms. This summary does not address any U.S. federal tax laws (such as the estate tax or gift tax) other than U.S. federal income tax laws and does not address any matters of U.S. state or local law.

Bearer Notes are not being offered to U.S. holders. A U.S. holder who owns a bearer Note may be subject to limitations under U.S. federal income tax laws, including the limitations provided in sections 165(j) and 1287(a) of the Code.

Prospective purchasers of Notes should consult the relevant Final Terms for any additional discussion of tax consequences that may be relevant to that particular issue and are urged to consult their own tax advisors

in determining the particular U.S. federal, state, local and any other tax consequences to them of the purchase, ownership and disposition of Notes.

As used herein, the term "U.S. holder" means a beneficial owner of a Note that is (i) a citizen or individual resident of the United States for U.S. federal income tax purposes, (ii) a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) created or organised in or under the laws of the United States, any state thereof or the District of Columbia, (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source, or (iv) a trust, if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or the income of which is otherwise subject to U.S. federal income taxation regardless of its source.

A "Non-U.S. holder" means a beneficial owner of a Note that is not a U.S. holder.

If a partnership (or an entity treated as a partnership for U.S. federal income tax purposes) holds Notes, the tax treatment of a partner generally will depend upon the status of the partner and the activities of the partnership. A partner in a partnership that holds Notes is urged to consult its tax advisor regarding the specific tax consequences of the purchase, ownership and disposition of the Notes.

For purposes of this summary, a "Foreign Currency Note" means a Note on which all payments which a U.S. holder is entitled to receive are denominated in, or determined by reference to, a single Foreign Currency. For this purpose, "Foreign Currency" means a currency or currency unit other than U.S. dollars.

The discussion in this section applies only to U.S. holders. If you are not a U.S. holder, this section does not apply to you.

Payments of Interest

Except as described below under "— Original Issue Discount", payments of interest on a Note (including additional amounts paid with respect to withholding tax on such Note, if any, and withholding tax on payments of such additional amounts) generally will be taxable to a U.S. holder as ordinary interest income at the time such payments are received or are accrued in accordance with the U.S. holder's method of tax accounting. Thus, a U.S. holder may be required to report income and pay tax on an amount greater than the actual amount of interest and/or OID due to such holder on the Notes if they become subject to withholding tax and additional amounts are paid to such U.S. holder, because, for U.S. federal income tax purposes, U.S. holders would be treated as having received the amount of Brazilian taxes withheld by the Issuer with respect to a Note, and as then having paid over the withheld taxes to the Brazilian taxing authorities.

Subject to certain limitations, a U.S. holder will generally be entitled to a credit against its U.S. federal income tax liability, or a deduction in computing its U.S. federal taxable income, for Brazilian income taxes withheld by the Issuer; provided that, if a U.S. holder elects to deduct Brazilian taxes for any taxable year, such U.S. holder must deduct rather than credit, all foreign taxes for such taxable year. Interest income in respect of the Notes generally will constitute foreign source income, and generally will be treated as either "passive" or, in certain circumstances, "general" category income for purposes of determining whether any foreign tax credit is available to a U.S. holder under the U.S. federal income tax laws. In certain circumstances a U.S. holder may be unable to claim foreign tax credits (and may instead be allowed deductions) for Brazilian taxes imposed on a payment of interest if the U.S. holder has not held the Notes for at least 16 days during the 31-day period beginning on the date that is 15 days before the date on which the right to receive the payment arises. Since a U.S. holder may be required to include OID on the Notes in its gross income in advance of any withholding of Brazilian income taxes from payments attributable to the OID (which would generally occur only when the Note is repaid or redeemed), a U.S. holder may not be entitled to a credit or deduction for these

Brazilian income taxes in the year the OID is included in the U.S. holder's gross income, and may be limited in its ability to credit or deduct in full the Brazilian taxes in the year those taxes are actually withheld by the Issuer. The rules for foreign tax credits are complex and prospective purchasers should consult their own tax advisers concerning the availability of foreign tax credits or deductions in respect of foreign income taxes based on their particular circumstances.

Original Issue Discount

The following summary is a general discussion of the material U.S. federal income tax consequences to U.S. holders of the ownership and disposition of Notes issued with OID ("Discount Notes") under applicable Treasury Regulations (the "OID Regulations"). This summary does not discuss Notes that are characterised as "contingent payment debt instruments" for U.S. federal income tax purposes, which are subject to special provisions with respect to the U.S. federal income tax treatment of OID.

A Note, other than a Note with a term of one year or less (a "Short-Term Note"), will be treated as issued with OID if the amount by which the Note's stated redemption price at maturity exceeds its issue price is more than a *de minimis* amount. Generally, a Note's "issue price" will be the first price at which a substantial amount of Notes included in the issue of which the Note is a part is sold to persons other than bond houses, brokers, or similar persons or organisations acting in the capacity of underwriters, placement agents, or wholesalers. The "stated redemption price at maturity" of a Note is the sum of all payments provided by the Note other than "qualified stated interest" payments.

In general, under a *de minimis* exception, a Note is not treated as issued with OID if the amount by which its stated redemption price at maturity exceeds its issue price is less than the *de minimis* amount of ¼ of 1% of its stated redemption price at maturity multiplied by the number of complete years to its maturity date from its original issue date (or its weighted average maturity if the Note is an instalment obligation).

The term "qualified stated interest" generally means stated interest that is unconditionally payable in cash or property (other than debt instruments of the Issuer) at least annually at a single fixed rate of interest or a variable rate (in the circumstances described below under "— Variable Rate Notes"). In addition, under the OID Regulations, if a Note bears interest for one or more initial accrual periods at a rate below the rate applicable for the remaining term of such Note (e.g., Notes with teaser rates or interest holidays), and if the greater of either the resulting foregone interest on such Note or any "true" discount on such Note (i.e., the excess of the Note's stated principal amount over its issue price) equals or exceeds a specified *de minimis* amount as determined under the OID Regulations, then the stated interest on the Note would be treated as OID rather than qualified stated interest.

A U.S. holder of a Discount Note must include OID in income as ordinary interest income for U.S. federal income tax purposes as it accrues generally under a constant yield method in advance of receipt of the cash payments attributable to such income, regardless of such U.S. holder's regular method of tax accounting. In general, the amount of OID included in income by the initial U.S. holder of a Discount Note is the sum of the daily portions of OID with respect to such Discount Note for each day during the taxable year (or portion of the taxable year) on which the U.S. holder held the Discount Note. The daily portion of OID on any Discount Note is determined by allocating to each day in any accrual period a ratable portion of the OID allocable to that accrual period. Accrual periods may be of any length and may vary in length over the term of the Discount Note, *provided that* each accrual period is no longer than one year and each scheduled payment of principal or interest occurs either on the final day or first day of an accrual period. The amount of OID allocable to each accrual period generally is equal to the difference between (i) the product of the Discount Note's "adjusted issue price" at the beginning of the accrual period and the Discount Note's yield to maturity (determined on the basis of compounding at the close of each accrual period and appropriately adjusted to take

into account the length of the particular accrual period) and (ii) the amount of any qualified stated interest payments allocable to such accrual period. The "adjusted issue price" of a Discount Note at the beginning of any accrual period is the sum of the issue price of the Discount Note plus the amount of OID allocable to all prior accrual periods minus the amount of any prior payments on the Discount Note that were not qualified stated interest payments. Under these rules, U.S. holders generally will have to include in taxable income increasingly greater amounts of OID in successive accrual periods. U.S. holders should consult their own tax advisors concerning the consequences of, and accrual of, OID on the Notes.

A U.S. holder that purchases a Discount Note for an amount less than or equal to the sum of all amounts payable on the Note after the purchase date, other than payments of qualified stated interest, but in excess of its adjusted issue price (any such excess being "acquisition premium") and that does not make the election described below under "Election to Treat All Interest as Original Issue Discount", is permitted to reduce the daily portions of OID by a fraction, the numerator of which is the excess of the U.S. holder's adjusted basis in the Note immediately after its purchase over the Note's adjusted issue price, and the denominator of which is the excess of the sum of all amounts payable on the Note after the purchase date, other than payments of qualified stated interest, over the Note's adjusted issue price.

Amortisable Bond Premium

A U.S. holder that purchases a Note for more than the sum of all amounts payable on the Note after the purchase date, other than payments of qualified stated interest, may elect to amortise the bond premium. If a U.S. holder makes such an election, the amount of interest on the Note otherwise required to be included in the U.S. holder's income will be reduced each year by the amount of amortisable bond premium allocable to such year on a constant yield to maturity basis (except to the extent Treasury Regulations may provide otherwise). If a Note is redeemable prior to maturity, the amount of amortisable bond premium will be determined with reference to the amount payable on the earlier redemption date if such determination results in a smaller premium attributable to the period ending on the earlier redemption date. The election to amortise bond premium cannot be revoked without the consent of the IRS. Amortised bond premium will reduce the U.S. holder's tax basis in the Note by the amount of the premium amortised in any year. An election to amortise bond premium will thereafter apply to bond premium on certain other debt instruments that the U.S. holder then owns or thereafter acquired at a premium, and the election may have different tax consequences depending on when the debt instruments were issued or acquired. Special rules apply to (a) certain Notes payable in or by reference to a currency other than United States dollar (discussed below under "—Non-U.S. Dollar Notes") and (b) certain Notes with contingent interest payments. A U.S. holder that does not elect to take bond premium (other than acquisition premium) into account currently will recognise a loss when the Note matures as described below in "—Sale, Retirement or Other Taxable Disposition of U.S. Dollar Notes." A U.S. holder should consult its own tax advisor regarding the application of the amortizable bond premium rules in their particular circumstances.

Market Discount

A Note, other than a Short-Term Note, generally will be treated as purchased at a market discount (a "Market Discount Note") if the Note's stated redemption price at maturity or, in the case of a Discount Note, the Note's "revised issue price", exceeds the amount for which the U.S. holder purchased the Note by at least 0.25% of the Note's stated redemption price at maturity or revised issue price, respectively, multiplied by the number of complete years to the Note's maturity (or, in the case of a Note that is an instalment obligation, the Note's weighted average maturity). If this excess is not sufficient to cause the Note to be a Market Discount Note, then the excess constitutes "de minimis market discount". For this purpose, the "revised issue price" of a Note generally equals its issue price, increased by the amount of any OID that has accrued on the Note and

decreased by the amount of any payments previously made on the Note that were not qualified stated interest payments.

Any gain recognised on the maturity or disposition of a Market Discount Note (including any payment on a Note that is not qualified stated interest) will be treated as ordinary income to the extent that the gain does not exceed the accrued market discount on the Note. Alternatively, a U.S. holder of a Market Discount Note may elect to include market discount in income currently over the life of the Note. This election shall apply to all debt instruments with market discount acquired by the electing U.S. holder on or after the first day of the first taxable year to which the election applies. This election may not be revoked without the consent of the IRS. A U.S. holder of a Market Discount Note that does not elect to include market discount in income currently will generally be required to defer deductions for interest on borrowings incurred to purchase or carry a Market Discount Note that is in excess of the interest and OID on the Note includible in the U.S. holder's income, to the extent that this excess interest expense does not exceed the portion of the market discount allocable to the days on which the Market Discount Note was held by the U.S. holder.

Market discount will accrue on a straight-line basis unless the U.S. holder elects to accrue the market discount on a constant-yield method. This election applies only to the Market Discount Note with respect to which it is made and is irrevocable.

Prospective purchasers are urged to consult their own tax advisors if such purchasers purchase a Note at a discount or premium from the Note's issue price. In this event, the Notes so purchased may be subject to special U.S. federal income tax rules relating to the treatment of market discount or acquisition or bond premium.

Election to Treat All Interest as Original Issue Discount

A U.S. holder may elect to include in gross income all interest that accrues on a note using the constant yield method discussed above under "— Original Issue Discount", with certain modifications. For purposes of this election, interest includes stated interest, OID, *de minimis* OID, market discount, *de minimis* market discount and unstated interest, as adjusted by any amortisable bond premium or acquisition premium.

Generally, this election will apply only to the Note with respect to which it is made and must be made for the taxable year in which the U.S. holder acquired the Note. However, if a Note subject to an election has amortisable bond premium, the U.S. holder will be deemed to have made an election to apply amortisable bond premium against interest for all debt instruments with amortisable bond premium, other than debt instruments the interest on which is excludible from gross income, that such U.S. holder holds as of the beginning of the taxable year to which the election applies or any taxable year thereafter. Additionally, if a U.S. holder makes the election for a Market Discount Note, such U.S. holder will be treated as having made the election discussed above under "— Market Discount" to include market discount in income currently over the life of all debt instruments that such U.S. holder currently owns or later acquires. A U.S. holder may not revoke any election to apply the constant yield method to all interest on a Note or the deemed elections with respect to amortisable bond premium or Market Discount Notes without the consent of the IRS. U.S. holders are urged to consult their own tax advisors regarding the advisability of making this election.

Variable Rate Notes

A Note that provides for a variable rate of interest (a "Variable Rate Note") may qualify as a "variable rate debt instrument" if the conditions described below are met. In the event a Variable Rate Note qualifies as a "variable rate debt instrument" then payments of interest on such Variable Rate Note are treated as described above under "— Payments of Interest".

Under the OID Regulations, Variable Rate Notes are subject to special rules whereby a Variable Rate Note will qualify as a "variable rate debt instrument" if:

(a) such Variable Rate Note's issue price does not exceed the total noncontingent principal payments by more than the lesser of:

  (i) .015 multiplied by the product of the total noncontingent principal payments and the number of complete years to maturity from the issue date, or

  (ii) 15% of the total noncontingent principal payments; and

(b) such Variable Rate Note provides for stated interest, compounded or paid at least annually, only at:

  (i) one or more qualified floating rates,

  (ii) a single fixed rate and one or more qualified floating rates,

  (iii) a single objective rate, or

  (iv) a single fixed rate and a single objective rate that is a qualified inverse floating rate.

A Variable Rate Note provides for stated interest at a qualified floating rate if:

(a) variations in the value of the rate can reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds in the currency in which such Variable Rate Note is denominated; or

(b) the rate is equal to such a rate multiplied by either:

  (i) a fixed multiple that is greater than 0.65 but not more than 1.35, or

  (ii) a fixed multiple greater than 0.65 but not more than 1.35, increased or decreased by a fixed rate; and

  (iii) the value of the rate on any date during the term of such Variable Rate Note is set no earlier than three months prior to the first day on which that value is in effect and no later than one year following that first day.

If such Variable Rate Note provides for two or more qualified floating rates that are within 0.25 percentage points of each other on the issue date or can reasonably be expected to have approximately the same values throughout the term of such Variable Rate Note, the qualified floating rates together constitute a single qualified floating rate.

A Variable Rate Note will not have a qualified floating rate, however, if the rate is subject to certain restrictions (including caps, floors, governors, or other similar restrictions) unless such restrictions are fixed throughout the term of such Variable Rate Note or are not reasonably expected to significantly affect the yield on such Variable Rate Note.

A Variable Rate Note provides for stated interest at a single objective rate if:

- the rate is not a qualified floating rate,
- the rate is determined using a single, fixed formula that is based on objective financial or economic information that is not within the control of or unique to the circumstances of Banco Daycoval S.A. or a related party, and
- the value of the rate on any date during the term of such Variable Rate Note is set no earlier than three months prior to the first day on which that value is in effect and no later than one year following that first day.

A Variable Rate Note will not be treated as providing for stated interest at an objective rate, however, if it is reasonably expected that the average value of the rate during the first half of such Variable Rate Note's term will be either significantly less than or significantly greater than the average value of the rate during the final half of such Variable Rate Note's term.

An objective rate as described above is a qualified inverse floating rate if:

- the rate is equal to a fixed rate minus a qualified floating rate; and
- the variations in the rate can reasonably be expected to inversely reflect contemporaneous variations in the cost of newly borrowed funds.

A Variable Rate Note will also provide for stated interest at a single qualified floating rate or an objective rate if interest on such Variable Rate Note is stated at a fixed rate for an initial period of one year or less followed by either a qualified floating rate or an objective rate for a subsequent period, and either:

- the fixed rate and the qualified floating rate or objective rate have values on the issue date of such Variable Rate Note that do not differ by more than 0.25% or
- the value of the qualified floating rate or objective rate is intended to approximate the fixed rate.

In general, if a Variable Rate Note provides for stated interest at a single qualified floating rate or objective rate, or one of those rates after a single fixed rate for an initial period (as set forth herein), interest on such Variable Rate Note will be accounted for as described above under "—Payments of Interest." In this case, the amount of OID, if any, is determined by using, in the case of a qualified floating rate or qualified inverse floating rate, the value as of the issue date of the qualified floating rate or qualified inverse floating rate, or, for any other objective rate (other than a qualified inverse floating rate), a fixed rate that reflects the yield reasonably expected for such Variable Rate Note.

If a Variable Rate Note constitutes a variable rate debt instrument but does not provide for stated interest at a single qualified floating rate or a single objective rate, and also does not provide for interest payable at a fixed rate other than a single fixed rate for an initial period, a U.S. holder generally must determine the interest and OID accruals on such Variable Rate Note by:

- determining a fixed rate substitute for each variable rate provided under such Variable Rate Note,

- constructing the equivalent fixed rate debt instrument, using the fixed rate substitute described above,

- determining the amount of qualified stated interest and OID with respect to the equivalent fixed rate debt instrument, and

- adjusting for actual variable rates during the applicable accrual period.

When a U.S. holder determines the fixed rate substitute for each variable rate provided under a Variable Rate Note, it generally will use the value of each variable rate as of the issue date of such Variable Rate Note or, for an objective rate that is not a qualified inverse floating rate, a rate that reflects the reasonably expected yield on such Variable Rate Note.

If a Variable Rate Note provides for stated interest either at one or more qualified floating rates or at a qualified inverse floating rate, and also provides for stated interest at a single fixed rate other than at a single fixed rate for an initial period, a U.S. holder generally must determine interest and OID accruals by using the method described in the previous paragraph. However, a Variable Rate Note will be treated, for purposes of the first three steps of the determination, as if such Variable Rate Note had provided for a qualified floating rate, or a qualified inverse floating rate, rather than the fixed rate. The qualified floating rate, or qualified inverse floating rate, that replaces the fixed rate must be such that the fair market value of such Variable Rate Note as of the issue date approximates the fair market value of an otherwise identical debt instrument that provides for the qualified floating rate, or qualified inverse floating rate, rather than the fixed rate.

If a Variable Rate Note (such as a Note the payments on which are determined by reference to an index) does not qualify as a variable rate debt instrument under the OID Regulations, then the Variable Rate Note would be treated as a contingent payment debt obligation under applicable Treasury Regulations (the "CPDI Regulations"). The CPDI Regulations generally require a U.S. holder of such an instrument to include future contingent and noncontingent interest payments in income as such interest accrues based upon a projected payment schedule, whether or not the U.S. holder has actually received any such payment. Additionally, the CPDI Regulations provide special rules that would affect the character of any gain or loss upon the sale or exchange of a contingent payment debt instrument.

The U.S. federal income tax treatment of any Variable Rate Notes or other Notes that are treated as contingent payment debt obligations will be more fully described in the applicable Final Terms.

Short-Term Notes

In general, an individual or other cash basis U.S. holder of a Short-Term Note is not required to accrue OID (as specially defined below for the purposes of this paragraph) for U.S. federal income tax purposes unless it elects to do so (but may be required to include any stated interest in income as the interest is received). Accrual basis U.S. holders and certain other U.S. holders are required to accrue OID on Short-Term Notes on a straight-line basis or, if the U.S. holder so elects, under the constant-yield method (based on daily compounding). In the case of a U.S. holder not required and not electing to include OID in income currently, any gain realised on the sale or retirement of the Short-Term Note will be ordinary income to the extent of the OID accrued on a straight-line basis (unless an election is made to accrue the OID under the constant-yield method) through the date of sale or retirement. U.S. holders who are not required and do not elect to accrue OID on Short-Term Notes will be required to defer deductions for interest on borrowings allocable to Short-Term Notes in an amount not exceeding the deferred income until the deferred income is realised.

For purposes of determining the amount of OID subject to these rules, all interest payments on a Short-Term Note are included in the Short-Term Note's stated redemption price at maturity (i.e., all payments of interest are OID). A U.S. holder may elect to determine OID on a Short-Term Note as if the Short-Term Note had been originally issued to the U.S. holder at the U.S. holder's purchase price for the Short-Term Note. This election shall apply to all obligations with a maturity of one year or less acquired by the U.S. holder on or after the first day of the first taxable year to which the election applies, and may not be revoked without the consent of the IRS.

Sale, Retirement or Other Taxable Disposition of Notes

Generally, upon the sale, retirement or other taxable disposition of a Note, a U.S. holder will recognise taxable gain or loss equal to the difference between the amount realised on the sale, retirement or other taxable disposition (other than amounts representing accrued and unpaid qualified stated interest, which is taxable as interest) and such U.S. holder's adjusted tax basis in the Note. A U.S. holder's adjusted tax basis in a Note generally equals the cost of the Note, increased by the amount of any OID and *de minimis* OID (and market discount, if an election has been made to include currently) included in the U.S. holder's income with respect to the Note and decreased by the amount of any payments that are not qualified stated interest. Except to the extent described above under "Original Issue Discount — Market Discount", or "Original Issue Discount — Short Term Notes" or described below under "Non-U.S. Dollar Notes", any gain or loss recognised on a sale, retirement or other taxable disposition of a Note, other than amounts attributable to accrued and unpaid interest, will be U.S. source gain or loss and generally will be treated as long-term capital gain or loss if at the time of the sale, retirement or other taxable disposition, the Note was held for more than one year. In the case of a U.S. holder who is an individual (or other non-corporate U.S. holder), long term capital gains, if any, generally will be subject to U.S. federal income taxation at preferential rates. The deductibility of capital losses is subject to significant limitations.

Gain realised by a U.S. holder on the sale, retirement or other taxable disposition of a Note generally will be treated as U.S. source income. Consequently, if Brazilian withholding tax is imposed on such gain, the U.S. holder will not be able to use the corresponding foreign tax credit, unless the holder has other foreign-source income of the appropriate type in respect of which the credit may be used. The U.S. foreign tax credit rules are very complex and your ability to credit foreign taxes may be subject to various limitations. Accordingly, prospective investors should consult their own advisors with respect to the application of these rules to their particular circumstances.

Optional Redemption

In general, if a Note provides for an alternative payment schedule or schedules applicable upon the occurrence of a contingency or contingencies and the timing and amounts of the payments that comprise each payment schedule are known as of the issue date of such Note a U.S. holder must determine the yield and maturity of such Note by assuming that the payments will be made according to the payment schedule, if any, that is significantly more likely than not to occur.

Notwithstanding the general rules for determining yield and maturity, if either a U.S. holder or the Issuer has an unconditional option or options that, if exercised, would require payments to be made on such Note under an alternative payment schedule or schedules, then (i) in the case of an option or options that the Issuer may exercise, the Issuer will be deemed to exercise or not exercise an option or combination of options in the manner that minimises the yield on such Note and (ii) in the case of an option or options that a U.S. holder may exercise, it will be deemed to exercise or not exercise an option or combination of options in the manner that maximises the yield on such Note. If both a U.S. holder and the Issuer hold options described in the preceding sentence, those rules will apply to each option in the order in which they may be exercised.

If a contingency, including the exercise of an option, actually occurs or does not occur contrary to an assumption made according to the above rules, then except to the extent that a portion of a Note is repaid as a result of this change in circumstances and solely to determine the amount and accrual of OID, a U.S. holder must redetermine the yield and maturity of such Note by treating such Note as having been retired and reissued on the date of the change in circumstances for an amount equal to such Note's adjusted issue price on that date.

Substitution of Issuer

The terms of the Notes provide that, in certain circumstances, the obligations of the Issuer under the Notes may be assumed by another entity. Any such assumption might be treated for U.S. federal income tax purposes as a deemed disposition of Notes by a U.S. holder in exchange for new notes issued by the new obligor. As a result of this deemed disposition, a U.S. holder could be required to recognise capital gain or loss for U.S. federal income tax purposes equal to the difference, if any, between the issue price of the new notes (as determined for U.S. federal income tax purposes) and the U.S. holder's tax basis in the Notes. U.S. holders should consult their tax advisers concerning the U.S. federal income tax consequences to them of a change in obligor with respect to the Notes.

Non-U.S. Dollar Notes

As used herein, "Non-U.S. Dollar Notes" means a note denominated in a currency or currency unit other than United States dollars. The discussion below relates to Non-U.S. Dollar Notes the payment of which is denominated in, or determined by reference to, a single currency or currency unit other than the United States dollar ("Non-U.S. Currency"). The U.S. tax treatment of any other type of Non-U.S. Dollar Note will be described in the applicable Final Terms.

Interest — Cash Method

A U.S. holder who uses the cash method of accounting for U.S. federal income tax purposes and who receives a payment of interest on a Note (other than OID, the treatment of which is described below under "— Interest — Accrual Method") will be required to include in income the U.S. dollar value of the Non-U.S. Currency payment, based on the spot exchange rate on the date of receipt, regardless of whether the payment is in fact converted to U.S. dollars at that time. A cash method U.S. holder generally will not realise exchange gain or loss on the receipt of the interest payment but may have exchange gain or loss attributable to a subsequent disposition of the Non-U.S. Currency so received which generally will be U.S. source ordinary income or loss.

Interest — Accrual Method

A U.S. holder who uses the accrual method of accounting for U.S. federal income tax purposes, or who otherwise is required to accrue interest prior to receipt, will be required to include in income the U.S. dollar value of the amount of interest income that has accrued and is otherwise required to be taken into account with respect to a Non-U.S. Dollar Note during an accrual period. The U.S. dollar value of such accrued income will be determined by translating such income at the average rate of exchange in effect for the interest accrual period or, with respect to an accrual period that spans two taxable years, at the average rate for the partial period within the U.S. holder's taxable year. The average rate of exchange for an interest accrual period (or partial period) is the simple average of the spot exchange rates for each business day of such period or other average rate for the period that is reasonably derived and consistently applied by the U.S. holder. A U.S. holder may elect, however, to translate such accrued interest income at the spot rate on the last day of the interest accrual period, or the last day of the accrual period in that taxable year in the case of a partial accrual period. If the last day of the interest accrual period is within five business days of the date of receipt of the accrued interest, a U.S. holder may translate such interest at the spot rate on the date of receipt. The above

election will apply to all debt obligations held by the U.S. holder at the beginning of the first taxable year to which the election applies and may not be revoked without the consent of the IRS. U.S. holders should consult their own tax advisors as to the advisability of making the above election.

A U.S. holder will recognise exchange gain or loss (which will be treated as U.S. source ordinary income or loss) with respect to accrued interest on the date such interest is received, and which generally will not be treated as an adjustment to interest income or expense. The amount of ordinary income or loss so recognised will equal the difference, if any, between the U.S. dollar value of the Non-U.S. Currency payment received (determined on the basis of the spot rate on the date such payment is received) in respect of the accrual period and the U.S. dollar value of interest income that has accrued during such accrual period (as determined above), regardless of whether such U.S. holder actually converts the payment into U.S. dollars.

Original Issue Discount

In the case of a Discount Note that is also a Foreign Currency Note, a U.S. holder must determine OID allocable to each accrual period in units of the Foreign Currency using the constant yield method described in "— U.S. Currency Notes — Original Issue Discount" above. Accrued OID is translated into U.S. dollars and the U.S. holder will recognise Foreign Currency gain or loss on the accrued OID in the same manner as described above in "— Interest — Accrual Method". Such U.S. holder may recognise U.S. source exchange gain or loss (taxable as ordinary income or loss) when it receives an amount attributable to OID in connection with a payment of interest or the sale, retirement or other taxable disposition of such Note. U.S. holders are urged to consult their own tax advisors regarding the interplay between the application of the OID and foreign currency exchange gain or loss rules.

Amortisable Bond Premium

Bond premium on a Note that is denominated in, or determined by reference to, a Non-U.S. Currency will be computed in units of the Non-U.S. Currency, and any such bond premium that is taken into account currently will reduce interest income in units of the Non-U.S. Currency. On the date bond premium offsets interest income, a U.S. holder may recognise U.S. source exchange gain or loss (taxable as ordinary income or loss) measured by the difference between the spot rate in effect on that date and on the date the Notes were acquired by the U.S. holder. A U.S. holder that does not elect to take bond premium into account currently will recognise a loss when the Note matures as described below under "—Sale, Retirement or Other Taxable Disposition of Non-U.S. Dollar Notes".

Market Discount

Market Discount on a Note that is denominated in, or determined by reference to, a Non-U.S. Currency, will be accrued in the foreign currency. If the U.S. holder elects to include market discount in income currently, the accrued market discount will be translated into U.S. dollars at the average exchange rate for the accrual period (or portion thereof within the U.S. holder's taxable year). Upon the receipt of an amount attributable to accrued market discount, the U.S. holder may recognise U.S. source exchange gain or loss (which will be taxable as ordinary income or loss) determined in the same manner as for accrued interest or OID. A U.S. holder that does not elect to include market discount in income currently will recognise, upon the disposition or maturity of the Note, the U.S. dollar value of the amount accrued, calculated at the spot rate on that date, and no part of this accrued market discount will be treated as exchange gain or loss.

Sale, Retirement or Other Taxable Disposition of Non-U.S. Dollar Notes

As discussed above under "Sale, Retirement or Other Taxable Disposition of Notes", a U.S. holder will generally recognise gain or loss on the sale, retirement, or other taxable disposition of a Non-U.S. Dollar

Note equal to the difference between the amount realised on the sale, retirement or other taxable disposition and its adjusted tax basis in the Non-U.S. Dollar Note.

A U.S. holder's initial tax basis in a Non-U.S. Dollar Note will be the U.S. dollar value of the Non-U.S. Currency amount paid for such Non-U.S. Dollar Note, determined on the date of such purchase. If a Non-U.S. Dollar Note is traded on an established securities market, a cash basis U.S. holder (or, upon election, an accrual basis U.S. holder) will determine the U.S. dollar value of the amount paid by translating the Non-U.S. Currency payment at the spot rate on the settlement date of the purchase. (If an accrual basis taxpayer makes such an election, the election must be applied consistently to all debt instruments from year to year and cannot be revoked without the consent of the IRS.) The amount of any subsequent adjustments to such holder's tax basis will be the U.S. dollar value of the Non-U.S. Currency amount of the adjustment, determined as discussed herein. A U.S. holder's adjusted tax basis in a Non-U.S. Dollar Note generally will equal the cost of the Non-U.S. Dollar Note to such holder, increased by the amount of any OID and *de minimis* OID (and market discount if an election has been made to include currently) previously included in income by the holder with respect to such Non-U.S. Dollar Note and reduced by any payments that are not qualified stated interest previously received by the holder.

If a U.S. holder receives Non-U.S. Currency on a sale, retirement or other taxable disposition of a Non-U.S. Dollar Note, the amount realised will be based on the U.S. dollar value of the Non-U.S. Currency on:

- the date of disposition, if it is a cash basis taxpayer and the relevant Non-U.S. Dollar Notes are not traded on an established securities market, as defined in the applicable Treasury Regulations;

- the date of disposition, if it is an accrual basis taxpayer that does not elect to use the settlement date; or

- the settlement date for the sale, if it is a cash basis taxpayer, or an accrual basis taxpayer that so elects, and the relevant Non-U.S. Dollar Notes are traded on an established securities market, as defined in the applicable Treasury Regulations. (If an accrual basis taxpayer makes such an election, the election must be applied consistently to all debt instruments from year to year and cannot be revoked without the consent of the IRS.)

Except as discussed in the following paragraph with respect to exchange gains or losses, any gain or loss recognised upon the sale, retirement or other taxable disposition of a Non-U.S. Dollar Note generally will be capital gain or loss, except to the extent attributable to accrued but unpaid interest and market discount or attributable to changes in the exchange rates as described below and will be treated as long-term capital gain or loss if at the time of sale, retirement or other taxable disposition the Non-U.S. Dollar Note was held for more than one year. If the U.S. holder is an individual (or other non-corporate U.S. holder), any long-term capital gain, if any, generally will be subject to U.S. federal income taxation at preferential rates. The deductibility of capital losses is subject to significant limitations.

Gain realised by a U.S. holder on the sale, retirement or other taxable disposition of a Note generally will be treated as U.S. source income. Consequently, if Brazilian withholding tax is imposed on such gain, the U.S. holder will not be able to use the corresponding foreign tax credit, unless the holder has other foreign-source income of the appropriate type in respect of which the credit may be used. The U.S. foreign tax credit rules are very complex and your ability to credit foreign taxes may be subject to various limitations. Accordingly, prospective investors should consult their own advisors with respect to the application of these rules to their particular circumstances.

Gain or loss realised upon the sale, retirement or other taxable disposition of a Non-U.S. Dollar Note that is attributable to fluctuations in currency exchange rates will constitute exchange gain or loss and will be taxable as U.S. source ordinary income or loss. Such foreign exchange gain or loss will be recognised only to the extent of the total gain or loss realised by the U.S. holder on the sale, retirement or other taxable disposition.

A U.S. holder generally will have a tax basis in any Non-U.S. Currency received as interest or on the sale, retirement or other taxable disposition of a Non-U.S. Dollar Note equal to the U.S. dollar value of such Non-U.S. Currency on the dates described above in "—Interest – Cash Method", "—Interest – Accrual Method" and "—Sale, Retirement or Other Taxable Disposition of Notes". Any exchange gain or loss realised by a U.S. holder on a subsequent conversion or other disposition of Non-U.S. Currency, generally, will be treated as ordinary income or loss.

Foreign Currency Constraint

There are no Treasury Regulations, published rulings or judicial decisions specifically addressing the effect of a Relevant Currency Constraint on the Notes. The Issuer believes that an election or the failure to so elect to request payment in the lawful currency of Brazil (as provided in "Terms and Conditions of the Notes —Foreign Currency Constraint") should not be considered to result in a deemed sale or exchange of the Notes for U.S. federal income tax purposes, potentially resulting in recognition of gains or losses. There can be no assurance that the IRS will agree with this determination. U.S. holders should consult their own tax advisors in this regard.

Tax Return Disclosure Requirement

A U.S. holder may be required to report a sale, retirement or other taxable disposition of its Notes (or, in the case of an accrual basis U.S. holder, a payment of accrued interest) on IRS Form 8886 (Reportable Transaction Disclosure Statement) if it recognises a foreign exchange loss that exceeds U.S.$50,000 in a single taxable year from a single transaction, if such U.S. holder is an individual or trust, or higher amounts for other non-individual U.S. holders. U.S. holders are urged to consult their own tax advisors in this regard.

Certain individual U.S. holders are required to report information with respect to their investment in Notes not held through an account with a U.S. financial institution to the IRS. Investors who fail to report required information could become subject to substantial penalties. Prospective investors are encouraged to consult with their own tax advisors regarding the possible implications of this reporting requirement on their investment in the Notes.

Medicare Contribution Tax on Unearned Income

U.S. holders that are individuals or estates, or trusts that do not fall into a special class of trusts that are exempt from such tax (as well as certain foreign estates and trusts), are subject to a 3.8% tax on the lesser of (1) such holder's "net investment income" (or, in the case of an estate or trust, the "undistributed net investment income") for the relevant taxable year, and (2) the excess of such holder's modified adjusted gross income for the taxable year over a certain threshold (which in the case of individuals will be between U.S.$125,000 and U.S.$250,000, depending on the individual's circumstances). A holder's net investment income will generally include its gross interest income and its net gains from the disposition of the Notes, unless such interest or net gains are derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive trading activities). Holders that are individuals, estates or trusts are urged to consult their own tax advisors regarding the applicability of this tax to their income and gains in respect of their investment in the Notes.

U.S. Information Reporting and Backup Withholding

Payments of principal, premium, if any, and interest (including OID) on, and proceeds from the sale, retirement or other taxable disposition of the Notes may be subject to information reporting to the IRS and possibly backup withholding. Backup withholding of U.S. federal income tax may apply to payments made in respect of the Notes to holders who fail to make any required certification or who are not exempt recipients and who fail to provide certain identifying information (such as the holder's taxpayer identification number). Payments made in respect of the Notes to a U.S. holder must be reported to the IRS, unless the U.S. holder is an exempt recipient or otherwise establishes an exemption. U.S. persons who are required to establish their exempt status, generally, must provide an IRS Form W-9.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules from a payment to a U.S. holder would be allowed as a refund or a credit against such U.S. holder's U.S. federal income tax, *provided that* the required information is furnished to the IRS in a timely manner. U.S. holders should consult their tax advisors regarding information reporting requirements relating to their ownership of the Notes.

THE UNITED STATES FEDERAL INCOME TAX DISCUSSION SET FORTH ABOVE IS INCLUDED FOR GENERAL INFORMATION ONLY AND MAY NOT BE APPLICABLE DEPENDING UPON A HOLDER'S PARTICULAR SITUATION. HOLDERS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THE TAX CONSEQUENCES TO THEM OF THE OWNERSHIP AND DISPOSITION OF THE NOTES, INCLUDING THE TAX CONSEQUENCES UNDER STATE, LOCAL, AND OTHER TAX LAWS AND THE POSSIBLE EFFECTS OF CHANGES IN U.S. FEDERAL INCOME OR OTHER TAX LAWS.

Cayman Islands Tax Considerations

The following is a discussion on certain Cayman Islands income tax consequences of an investment in the Notes. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It is not intended as tax advice, does not consider any investor's particular circumstances, and does not consider tax consequences other than those arising under Cayman Islands law.

Payments of interests, principal and other amounts on the Notes will not be subject to taxation in the Cayman Islands and no withholding will be required on the payment of interest, principal and other amounts on the Notes or a distribution to any holder of the Notes, nor will gains derived from the disposal of the Notes be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax.

No stamp duty is payable in respect of the issue or transfer of the Notes although duty may be payable if the Notes are executed in or brought into the Cayman Islands or produced before the courts of the Cayman Islands.

Certificates evidencing the Notes, in registered form, to which title is not transferable by delivery, should not attract Cayman Islands stamp duty. However, an instrument transferring title to a Note, if brought to or executed in the Cayman Islands, would be subject to Cayman Islands stamp duty.

CERTAIN UNITED STATES ERISA CONSIDERATIONS

To ensure compliance with U.S. Treasury Department rules, we inform you that this summary was not intended or written to be used, and it cannot be used by any taxpayer, for the purpose of avoiding penalties that may be imposed on any taxpayer. This summary was written to support the promotion or marketing of the transactions addressed by this Offering Memorandum. Each taxpayer should seek advice based on such taxpayer's particular circumstances from an independent tax advisor.

The U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA") imposes certain requirements on "employee benefit plans" (as defined in Section 3(3) of ERISA) subject to Title I of ERISA, including entities such as collective investment funds and separate accounts whose underlying assets include the assets of such plans, pursuant to ERISA ("ERISA Plans"), and on those persons who are fiduciaries with respect to ERISA Plans. Investments by ERISA Plans are subject to ERISA's general fiduciary requirements, including the requirement of investment prudence and diversification and the requirement that an ERISA Plan's investments be made in accordance with the documents governing the ERISA Plan.

In addition, Section 406 of ERISA and Section 4975 of the Code prohibit certain transactions involving the assets of an ERISA Plan (as well as those plans that are not subject to ERISA but which are subject to Section 4975 of the Code, such as individual retirement accounts (together with ERISA Plans, "Plans")) and certain persons (referred to as "parties in interest" or "disqualified persons") having certain relationships to such Plans, unless a statutory or administrative exemption or exception is applicable to the transaction. A party in interest or disqualified person who engages in a prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Code and the prohibited transaction itself may have to be rescinded.

Prohibited transactions within the meaning of Section 406 of ERISA or Section 4975 of the Code may arise if any Notes are acquired by a Plan with respect to which we, the Arrangers or any dealer or any of their respective affiliates are a party in interest or a disqualified person. Certain exemptions from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code may be applicable, however, depending in part on the type of Plan fiduciary making the decision to acquire Notes and the circumstances under which such decision is made. There can be no assurance that any exemption will be available with respect to any particular transaction involving the Notes, or that, if an exemption is available, it will cover all aspects of any particular transaction.

Accordingly, except as otherwise provided in any Final Terms, by its purchase and holding of any Notes (or any interests therein), the purchaser thereof will be deemed to have represented and agreed either that (i) it is not and for so long as it holds Notes will not be (and is not acquiring the Notes directly or indirectly with the assets of a person who is or, while the Notes are held, will be) an ERISA Plan or other Plan, an entity whose underlying assets include, or are deemed for the purposes of ERISA or the Code to include, the assets of any such ERISA Plan or other Plan, or a governmental or other employee benefit plan which is subject to any U.S. federal, state or local law, or non-U.S. law, that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code, or (ii) its purchase and holding of the Notes (or any interests therein) will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of such a governmental or other employee benefit plan, a violation of any substantially similar U.S. federal, state or local law, or non-U.S. law). Similarly, each transferee of any Notes (or any interests therein), by virtue of the transfer of such Notes to such transferee, will be deemed to have represented and agreed either that (i) it is not and for so long as it holds Notes will not be (and is not acquiring the Notes directly or indirectly with the assets of a person who is or while the Notes are held will be) an ERISA Plan or other Plan, an entity whose underlying assets include, or are deemed for the purposes of ERISA or the

Code to include, the assets of any such ERISA Plan or other Plan, or a governmental or other employee benefit plan which is subject to any U.S. federal, state or local law, or non-U.S. law, that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code, or (ii) its purchase and holding of the Notes will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of such a governmental or other employee benefit plan, a violation of any such substantially similar U.S. federal, state or local law, or non-U.S. law).

Governmental plans and certain church and other plans, while not subject to the fiduciary responsibility provisions of ERISA or the prohibited transaction provisions of ERISA and Section 4975 of the Code, may nevertheless be subject to state, local or other federal or non-U.S. laws that are substantially similar to ERISA and the Code. Fiduciaries of any such plans should consult with their counsel before purchasing any Notes.

The foregoing discussion is general in nature and not intended to be all-inclusive. Any Plan fiduciary who proposes to cause a Plan to purchase any Notes should consult with its counsel regarding the applicability of the fiduciary responsibility and prohibited transaction provisions of ERISA and Section 4975 of the Code to such an investment, and to confirm that such investment will not constitute or result in a non-exempt prohibited transaction or any other violation of an applicable requirement of ERISA or the Code.

In addition, any insurance company proposing to use assets of its general account to purchase Notes should consider the implications of the United States Supreme Court's decision in *John Hancock Mutual Life Insurance Co. v. Harris Trust and Savings Bank*, 510 U.S. 86, 114 S. Ct. 517 (1993), which in certain circumstances treats such general account assets as assets of a Plan that owns a policy or other contract with such insurance company, as well as the effect of Section 401© of ERISA as interpreted by regulations issued by the United States Department of Labour in January 2000.

The sale of Notes to a Plan is in no respect a representation by us or any dealers that such an investment meets all relevant requirements with respect to investments by Plans generally or any particular Plan, or that such an investment is appropriate for Plans generally or any particular Plan.

SUBSCRIPTION AND SALE

Subject to the terms and on the conditions contained in a dealer agreement dated December 8, 2010 (the "Dealer Agreement") between the Issuer, the Permanent Dealers and the Arranger, the Notes will be offered on a continuous basis by the Issuer to the Permanent Dealers. However, the Issuer has reserved the right to sell Notes directly on its own behalf to Dealers that are not Permanent Dealers. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Notes may also be sold by the Issuer through the Dealers, acting as agents of the Issuer. The Dealer Agreement also provides for Notes to be issued in syndicated Tranches that are jointly and severally underwritten by two or more Dealers.

The Issuer will pay each relevant Dealer a commission as agreed between them in respect of Notes subscribed by it. The Issuer has agreed to reimburse the Arranger for its expenses incurred in connection with the establishment of the Programme and the Dealers for certain of their activities in connection with the Programme. The commissions in respect of an issue of Notes on a syndicated basis will be stated in the relevant Final Terms.

The Issuer has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

Selling Restrictions

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Notes in bearer form having a maturity of more than one year are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended, and regulations thereunder. In addition, unless the Purchase Information or the Subscription Agreement relating to one or more Tranches specifies that the applicable TEFRA exemption is either "C Rules" or "not applicable", each Dealer represents and agrees in relation to each Tranche of Notes in bearer form:

(a) except to the extent permitted under the D Rules:

1. it has not offered or sold, and during a 40 day restricted period shall not offer or sell, Notes in bearer form to a person who is within the United States or its possessions or to a United States person and

2. it has not delivered and shall not deliver within the United States or its possessions definitive Notes in bearer form that are sold during the restricted period;

(b) it has and throughout the restricted period shall have in effect procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling Notes in bearer form are aware that such Notes may not be offered or sold during the restricted period to a person who is within the United States or its possessions or to a United States person, except as permitted by the D Rules;

(c) if it is a United States person, it is acquiring the Notes in bearer form for purposes of resale in connection with their original issuance and if it retains Notes in bearer form for its own account, it

shall only do so in accordance with the requirements of U.S. Treas. Reg. §1.163-5(c)(2)(i)(D)(6) or the applicable successor regulations under Section 4701 of the Code; and

(d) with respect to each affiliate that acquires from it Notes in bearer form for the purpose of offering or selling such Notes during the restricted period, it either (i) repeats and confirms the representations contained in paragraphs (a), (b) and (c) above on behalf of such affiliate, or (ii) agrees that it shall obtain from such affiliate for the benefit of the Issuer the representations contained in such paragraphs (a), (b) and (c).

Terms used herein have the meanings given to them by Regulation S under the Securities Act.

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to agree that, except as permitted by the Dealer Agreement, it has not offered, sold or delivered and will not offer, or sell or, in the case of Notes sold in bearer form, deliver the Notes of any identifiable Tranche, (i) as part of their distribution at any time or (ii) otherwise until 40 days after completion of the distribution of such Tranche as determined, and certified to the Issuer, by the Fiscal Agent, or in the case of Notes issued on a syndicated basis, the Lead Manager, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Notes during the distribution compliance period (other than resales pursuant to Rule 144A) a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

The Notes are being offered and sold outside the United States to non-US persons in reliance on Regulation S. The Dealer Agreement provides that the Dealers may directly or through their respective US broker-dealer affiliates arrange for the offer and resale of Registered Notes within the United States only to QIBs in reliance on Rule 144A.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

This Offering Memorandum has been prepared by the Issuer for use in connection with the offer and sale of the Notes outside the United States and for the resale of the Notes in the United States. The Issuer and the Dealers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Offering Memorandum does not constitute an offer to any person in the United States or to any U.S. person, other than any QIB to whom an offer has been made directly by one of the Dealers or its U.S. broker-dealer affiliate. Distribution of this Offering Memorandum by any non-U.S. person outside the United States or by any QIB in the United States to any U.S. person or to any other person within the United States, other than any QIB and those persons, if any, retained to advise such non-U.S. person or QIB with respect thereto, is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any such U.S. person or other person within the United States, other than any QIB and those persons, if any, retained to advise such non-U.S. person or QIB, is prohibited.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), each Dealer has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date") it has not made and will not make an offer of Notes to the public which are the subject of the offering contemplated by this Offering Memorandum as completed by the final terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

(i) if the final terms in relation to the Notes specify that an offer of those Notes may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a "Non-exempt Offer"), in the period beginning on following the date of publication of a prospectus in relation to such offer such Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State, or final terms in relation to such offer, as applicable, and notified to the competent authority in that Relevant Member State, provided that any such prospectus has subsequently been completed by the final terms contemplating such Non-exempt Offer, all in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or final terms, as applicable;

(ii) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(iii) at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(iv) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (ii) to (iv) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of Notes to the public" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "Prospectus Directive" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression "2010 PD Amending Directive" means Directive 2010/73/EC.

Prohibition of Sales to EEA Retail Investors

From 1 January 2018, unless specifically permitted in any Final Terms, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Offering Memorandum as completed by the Final Terms in relation thereto to any retail investor in the European Economic Area.

For the purposes of this provision, the expression "retail investor" means a person who is one (or more) of the following:

(i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "MiFID II"); or

(ii) a customer within the meaning of Directive 2002/92/EC (as amended, the "Insurance Mediation Directive"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

United Kingdom

Each Dealer has represented and agreed that:

(i) in relation to any Notes which have a maturity of less than one year, (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (b) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of section 19 of the FSMA by the Issuer;

(ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and

(iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to such any Notes in, from or otherwise involving the United Kingdom.

The Federative Republic of Brazil

The Notes have not been and will not be issued nor placed, distributed, offered or negotiated in the Brazilian capital markets. Neither we nor the issuance of the Notes have been or will be registered with the CVM. Therefore, each of the Dealers represents, warrants and agrees that it has not offered or sold, and will not offer or sell, the Notes in Brazil, except in circumstances which do not constitute a public offering, placement, distribution or negotiation of securities in the Brazilian capital markets regulated by Brazilian legislation.

Persons wishing to offer or acquire the Notes within Brazil should consult with their own counsel as to the applicability of registration requirements or any exemption therefrom.

Canada

The Notes may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of Notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws. Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Offering Memorandum (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor. Pursuant to section 3A.3 of National Instrument 33-105 Underwriting Conflicts ("NI 33-105"), the Dealers are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with any offering of Notes.

Cayman Islands

No invitation may be made, whether directly or indirectly, to members of the public in the Cayman Islands to subscribe for the Notes unless the Issuer is listed on the Cayman Islands Stock Exchange. Notes may, however, be offered and sold to ordinary non-resident and exempted companies of the Cayman Islands.

Chile

Neither the Issuer nor the Notes are registered in the Securities Registry (*Registro de Valores*) or the Foreign Securities Registry (*Registro de Valores Extranjeros*) of the Chilean Securities and Insurance Commission (*Superintendencia de Valores y Seguros de Chile* or "SVS"), or subject to the control and supervision of the SVS.

This Offering Memorandum does not constitute a public offer of, or an invitation to subscribe for or purchase, the Notes in the Republic of Chile, other than to individually identified purchasers pursuant to a private offering within the meaning of Article 4 of the Chilean Securities Market Act (*Ley de Mercado de Valores*) (an offer that is not "addressed to the public at large or to a certain sector or specific group of the public").

Colombia

The Notes may not be offered, sold or negotiated in Colombia, except under circumstances which do not constitute a public offering of securities under applicable Colombian securities laws and regulations. Furthermore, foreign financial entities must abide by the terms of Decree 2555 of 2010 to offer privately the Notes to their Colombian clients.

Hong Kong

The Notes may not be offered or sold by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), or (ii) to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a "prospectus" within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), and no advertisement, invitation or document relating to the Notes may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong) and any rules made thereunder.

Ireland

The Notes are not, nor will they be, offered directly or indirectly to the general public in Ireland and no offers or sales of any securities under or in connection with the Programme may be effected except in conformity with the provisions of Irish law including the Irish Companies Act 1963 to 2009, the Prospectus (Directive 2003\71\EC) Regulations 2005 of Ireland, the European Communities (Markets in Financial Instruments) Regulations 2007 (Nos 1 to 3) of Ireland and the Market Abuse (Directive 2003\6\EC) Regulations of Ireland.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Act No. 25 of 1948, as amended, the "FIEL"). Each of the Dealers represents, warrants and agrees that it has not offered or sold and will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for reoffering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an

exemption from the registration requirements of, and otherwise in compliance with, the FIEL and any other applicable laws, regulations and ministerial guidelines of Japan.

Korea

The Notes are not, nor will they be, offered, sold or delivered, directly or indirectly, in Korea, or to, or for the account or benefit of, any resident of Korea (as defined in the Foreign Exchange Transaction Law of Korea), except as otherwise permitted by applicable Korean laws and regulations.

Peru

The Notes and the information contained in this Offering Memorandum are not being publicly marketed or offered in Peru and will not be distributed or caused to be distributed to the general public in Peru. Peruvian securities laws and regulations on public offerings will not be applicable to the offering of the Notes and therefore, the disclosure obligations set forth therein will not be applicable to the Issuer or the Dealers of the Notes before or after their acquisition by prospective investors. The Notes and the information contained in this Offering Memorandum have not been and will not be reviewed, confirmed, approved or in any way submitted to the Peruvian National Supervisory Commission of Companies and Securities (*Comisión Nacional Supervisora de Empresas y Valores*) nor have they been registered under the Securities Market Law (*Ley del Mercado de Valores*) or any other Peruvian regulations.

Accordingly, the Notes cannot be offered or sold within Peruvian territory except to the extent any such offering or sale qualifies as a private offering under Peruvian regulations and complies with the provisions on private offerings set forth therein.

Singapore

This Offering Memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this Offering Memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA") under Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 by a relevant person which is: (a) a corporation (which is not an accredited investor as defined in Section 4A of the SFA) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an individual who is an accredited investor, securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the Notes under Section 275 except: (1) to an institutional or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA,; (2) where no consideration is given for the transfer; (3) where the transfer is by operation of law; (4) as specified in

Section 276(7) of the SFA; or (5) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

General

Other than with respect to the admission to listing, trading and/or quotation by such one or more listing authorities, stock exchanges and/or quotation systems as may be specified in the relevant Final Terms, no action has been or will be taken in any jurisdiction by the Dealers or by the Issuer that would permit a public offering of any of the Notes, or possession or distribution of this Offering Memorandum, or any part thereof including any Final Terms, or any other offering or publicity material relating to the Notes, in any country or jurisdiction where action for that purpose is required. Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will comply with all applicable laws and regulations in each jurisdiction in which it acquires, offers, sells, or delivers Notes or has in its possession or distributes this Offering Memorandum, or any part thereof including any Final Terms, or any such other material, in all cases at its own expense. Each Dealer agrees and each further Dealer appointed under the Programme will be required to agree that it will also procure that no obligations are imposed on the Issuer in any such jurisdiction as a result of any of the foregoing actions (except to the extent that such actions are the Issuer's actions). The Issuer will have no responsibility for, and each Dealer agrees and each further Dealer appointed under the Programme will be required to agree that it will obtain any consent, approval or permission required by it for, the acquisition, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in or from which it may make any acquisition, offer, sale or delivery.

No Dealer is authorised to make any representation or use any information in connection with the issue, offering and sale of the Notes other than as contained in this Offering Memorandum, including the applicable Final Terms, and any other information or document supplied.

Selling restrictions may be supplemented or modified with the Issuer's agreement and the agreement of the relevant Dealers. Any such supplement or modification will be set out in the relevant Final Terms (in the case of a supplement or modification relevant only to a particular Tranche of Notes) or (in any other case) in a supplement to this Offering Memorandum.

TRANSFER RESTRICTIONS

Restricted Notes

Each purchaser of Restricted Notes, by accepting delivery of this Offering Memorandum, will be deemed to have represented, agreed and acknowledged that:

1. It is (a) a QIB, (b) acquiring such Restricted Notes for its own account, or for the account of one or more QIBs, and (c) aware, and each beneficial owner of the Restricted Notes has been advised, that the sale of the Restricted Notes to it is being made in reliance on Rule 144A.

2. (i) The Restricted Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it, and any person acting on its behalf, reasonably believes is a QIB purchasing for its own account or for the account of one or more QIBs, (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, or (c) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available) in each case in accordance with any applicable securities laws of any State of the United States and (ii) it will, and each subsequent holder of the Restricted Notes is required to, notify any purchaser of the Restricted Notes from it of the resale restrictions on the Restricted Notes.

3. The Restricted Notes, unless the Issuer determines otherwise in accordance with applicable law, will bear a legend (the ''Rule 144A Legend'') in or substantially in the following form:

   ''THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT ("RULE 144A") TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A "QIB") THAT IS ACQUIRING THE NOTES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBS, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT, (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER RULE 144 UNDER THE SECURITIES ACT ("RULE 144"), IF AVAILABLE, OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 FOR RESALES OF THE NOTES.

   EXCEPT AS OTHERWISE PROVIDED IN A FINAL TERMS, BY ITS PURCHASE AND HOLDING OF THIS NOTE (OR ANY INTEREST HEREIN), THE PURCHASER OR HOLDER WILL BE DEEMED TO HAVE REPRESENTED AND AGREED THAT EITHER (A) IT IS NOT AND FOR SO LONG AS IT HOLDS THIS NOTE (OR ANY INTEREST HEREIN) WILL NOT BE (I) AN "EMPLOYEE BENEFIT PLAN" AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA") THAT IS SUBJECT TO TITLE I OF ERISA, (II) A "PLAN" AS DEFINED IN AND SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"), (III) AN ENTITY WHOSE UNDERLYING ASSETS INCLUDE, OR ARE

DEEMED FOR PURPOSES OF ERISA OR THE CODE TO INCLUDE, "PLAN ASSETS" BY REASON OF SUCH EMPLOYEE BENEFIT PLAN'S OR PLAN'S INVESTMENT IN THE ENTITY, OR (IV) A GOVERNMENTAL OR OTHER EMPLOYEE BENEFIT PLAN WHICH IS SUBJECT TO ANY U.S. FEDERAL, STATE, LOCAL, OR NON-U.S. LAW, THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE, OR (B) ITS PURCHASE AND HOLDING OF THIS NOTE (OR ANY INTEREST HEREIN) WILL NOT CONSTITUTE OR RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR, IN THE CASE OF SUCH A GOVERNMENTAL OR OTHER EMPLOYEE BENEFIT PLAN, A VIOLATION OF ANY SUCH SUBSTANTIALLY SIMILAR U.S. FEDERAL, STATE, LOCAL, OR NON-U.S. LAW) FOR WHICH AN EXEMPTION IS NOT AVAILABLE."

4. It understands that the Issuer, the Registrar, the relevant Dealer(s) and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements. If it is acquiring any Notes for the account of one or more QIBs, it represents that it has sole investment discretion with respect to each of those accounts and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

5. It understands that the Restricted Notes will be represented by a Restricted Global Certificate. Before any interest in a Restricted Global Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Unrestricted Global Certificate or as the case may be, Global Note, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.

Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Unrestricted Notes

Each purchaser of Unrestricted Notes and each subsequent purchaser of such Unrestricted Notes in resales prior to the expiration of the distribution compliance period, by accepting delivery of this Offering Memorandum and the Unrestricted Notes, will be deemed to have represented, agreed and acknowledged that:

(i) It is, or at the time Unrestricted Notes are purchased will be, the beneficial owner of such Unrestricted Notes and (a) it is not a US person and it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of the Issuer or a person acting on behalf of such an affiliate.

(ii) It understands that such Unrestricted Notes have not been and will not be registered under the Securities Act and that, prior to the expiration of the distribution compliance period, it will not offer, sell, pledge or otherwise transfer such Unrestricted Notes except (a) in accordance with Rule 144A under the Securities Act to a person that it and any person acting on its behalf reasonably believes is a QIB purchasing for its own account, or for the account of one or more QIBs or (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States.

(iii) It understands that the Unrestricted Notes, unless otherwise determined by the Issuer in accordance with applicable law, will bear a legend in or substantially in the following form:

"THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE "SECURITIES ACT") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT."

(iv) It understands that the Issuer, the Registrar, the relevant Dealer(s) and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

(v) It understands that the Unrestricted Notes will be represented by an Unrestricted Global Certificate, or as the case may be, a Global Note. Prior to the expiration of the distribution compliance period, before any interest in an Unrestricted Global Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in a Restricted Global Certificate, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.

(vi) Delivery of the Notes may be made against payment therefor on or about a date which will occur more than three business days after the date of pricing of the Notes which date may be specified in the Final Terms. Pursuant to Rule 15c6-1 under the Exchange Act, trades in the secondary market generally are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes on the date of pricing or the next succeeding business day will be required, by virtue of the fact that the Notes may initially settle on or about a date which will occur more than three business days after the date of pricing of the Notes to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of Notes who wish to trade Notes on the date of pricing or the next succeeding business day should consult their own advisor.

INDEPENDENT ACCOUNTANTS

Our consolidated financial statements as of and for the years ended December 31, 2018, 2017 and 2016 included in this Offering Memorandum have been prepared in accordance with Brazilian accounting practices applicable to entities authorised to operate by Central Bank and audited by Deloitte Touche Tohmatsu Auditores Independentes, independent accountants, in accordance with Brazilian and international audit standards, as stated in its reports included in this Offering Memorandum, which reports express an unqualified opinion.

GENERAL INFORMATION

(1) Banco Daycoval S.A. is a corporation incorporated with limited liability (*sociedade anônima*) in accordance with Brazilian corporations law (Law No. 6,404 dated December 15, 1976, as amended). The establishment of the Programme and the execution of all documents in connection therewith was ratified by a resolution of our board of directors (*ata de reunião da diretoria*) passed on January 11, 2011.

(2) The Issuer has obtained all necessary consents, approvals and authorisations under the laws of Brazil and the Cayman Islands for the establishment of the Programme, the issue and performance of the Notes under the Programme and the execution of the Agency Agreement, all of which are in full force and effect, except that the issue of any Series of Notes under the Programme from Brazil (or the substitution of the principal office in Brazil if a Series of Notes is initially issued by the Cayman Islands Branch) requires (i) the approval by the Central Bank of the terms and conditions of the Series of Notes and registration of the Schedule of payments applicable to such Series, which will enable the Issuer to make remittances from Brazil in the relevant currency of the principal of and interest on the Notes in relation to such Series and (ii) the approval of the Central Bank for the Issuer to make any payment in the relevant currency not set forth in the relevant schedule of payments or to make any payment provided for therein earlier than the due date therefor. Reference to the consents, approvals and authorisations obtained by the Issuer in connection with each issue of Notes under the Programme and performance thereunder is included in the Final Terms prepared in connection with such issue.

(3) Application has been made to Euronext Dublin (Global Exchange Market) for the approval of this Offering Memorandum and for Notes issued under the Programme for the period of 12 months from the date of this Offering Memorandum to be admitted to the official list of Euronext Dublin and to trading on the Global Exchange Market. There can be no assurance that listing of a Series of Notes on Euronext Dublin (Global Exchange Market) will be achieved prior to the issue date of any Notes or otherwise or that, if obtained, such listing will be maintained.

(4) Except as disclosed in this Offering Memorandum, there has been no significant change in the financial or trading position of Banco Daycoval S.A. or any of its subsidiaries since March 31, 2019, being the date of its last published interim financial statements, and no material adverse change in the financial position or prospects of Banco Daycoval S.A. or any of its subsidiaries since December 31, 2018, being the date of its last published audited annual financial statements.

(5) Except as disclosed in this Offering Memorandum, neither Banco Daycoval S.A. nor any of its subsidiaries is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Banco Daycoval S.A. is aware) during the 12 months preceding the date of this Offering Memorandum which may have or have had in the recent past significant effects on the financial position or profitability of the Issuer.

(6) Each Note issued in bearer form having a maturity of more than one year, and each related Receipt, Coupon and Talon will bear the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code".

(7) Notes have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems. The Common Code, the International Securities Identification Number (ISIN) and (where applicable) the identification number for any other relevant clearing system for each Series of Notes will be set out in the relevant Final Terms.

(8) The issue price and the amount of the relevant Notes will be determined, before filing of the relevant Final Terms of each Tranche, based on then prevailing market conditions. Other than as may be required by applicable law, regulation or stock exchange requirement, the Issuer does not intend to provide any post-issuance information in relation to any issues of Notes.

(9) For so long as the Programme remains in effect or any Notes shall be outstanding, physical copies of the following documents may be inspected during normal business hours (i) at the specified offices of any Paying Agent and (ii) at the registered office of Banco Daycoval S.A. in São Paulo, Brazil, namely:

(a) the constitutive documents of Banco Daycoval S.A.;

(b) each Final Terms (save that Final Terms relating to a Note which is neither admitted to trading on a regulated market within the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Issuing and Paying Agent as to its holding of Notes and identity);

(c) the Agency Agreement;

(d) the Deed of Covenant;

(e) the Dealer Agreement; and

(f) the most recent publicly available audited consolidated and non-consolidated annual financial statements of Banco Daycoval S.A. beginning with such financial statements as of and for the years ended December 31, 2018, 2017 and 2016.

In addition, copies of the items listed in (b) and (f) above will be provided free of charge at the Specified Offices of the Paying Agents and the Listing Agent upon oral or written request.

(10) Deloitte Touche Tohmatsu Auditores Independentes is registered with the Brazilian federal accounting council (*Conselho Federal de Contabilidade*) and the CVM.

FORM OF FINAL TERMS

The form of Final Terms that will be issued in respect of each Tranche, subject only to the deletion of non-applicable provisions, are set out below:

[BANCO DAYCOVAL S.A.

Issue of [Aggregate Nominal Amount of Tranche]
[Title of Notes]
under its U.S.$2,000,000,000
Euro Medium-Term Note Programme

FINAL TERMS

The date of these Final Terms is [●]]

This document constitutes the Final Terms relating to the issue of Notes described herein. Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Offering Memorandum dated [●] [and the supplemental Offering Memorandum dated [●]] which [together] constitute[s] base listing particulars for the purposes of the Irish Stock Exchange Plc Guidelines. This document constitutes the Final Terms of the Notes described herein for the purposes of the Irish Stock Exchange Plc Guidelines and must be read in conjunction with such Offering Memorandum [as so supplemented]. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Offering Memorandum. These Final Terms do not constitute final terms under Article 5(4) of the Prospectus Directive.

[The following alternative language applies if the first tranche of an issue which is being increased was issued under an Offering Memorandum with an earlier date.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "**Conditions**") set forth in the Offering Memorandum dated [●] [and the supplemental Offering Memorandum dated [●]]. This document constitutes the Final Terms of the Notes described herein for the purposes of the Irish Stock Exchange Plc Guidelines and must be read in conjunction with the Offering Memorandum dated [●] [and the supplemental Offering Memorandum dated [●]], which [together] constitute[s] base listing particulars for the purposes of the Irish Stock Exchange Plc Guidelines save in respect of the Conditions which are extracted from the Offering Memorandum dated [●] [and the supplemental Offering Memorandum dated [●]] and are attached hereto. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Offering Memorandum dated [●] and [current date] [and the supplemental Offering Memorandum dated [●] and [●]]. [The Offering Memorandum [and the supplemental Offering Memorandum] are available for viewing at [address] [and] [website] and copies may be obtained from [address].]

[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs. Italics denote guidance for completing the Final Terms.]

[When completing final terms or adding any other final terms or information consideration should be given as to whether such terms or information constitute "significant new factors" and consequently trigger the need for a supplement to the Offering Memorandum under Irish Stock Exchange Guidelines.]

1	(i)	Issuer:	Banco Daycoval S.A., acting through its [principal office in the Federative Republic of Brazil] [Cayman Islands Branch]
	(ii)	Substitution of Issuer	[The Issuer may substitute its [principal office in the Federative Republic of Brazil] [Cayman Islands Branch] as Issuer/ Not Applicable]
2	(i)	Series Number:	[●]
	(ii)	Tranche Number:	[●]
		(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible).	

3	Specified Currency or Currencies:	[●]
3A	Currency Constraint (Condition 6(h)):	[Applicable/Not Applicable]
4	Aggregate Nominal Amount:	
	[(i)] Series:	[●]
	[(ii) Tranche:	[●]]
5	[(i)] Issue Price:	[●] %. of the Aggregate Nominal Amount [plus accrued interest from [*insert date*] (*in the case of fungible issues only, if applicable*)]
	[(ii) Net proceeds:	[●] (Required only for listed issues)]
6	Specified Denominations:	[●][1]
7	[(i)] Issue Date:	[●]
	[(ii) Interest Commencement Date (if different from the Issue Date):	[●]]
8	Maturity Date:	[specify date or (for Floating Rate Notes) Interest Payment Date falling in the relevant month and year]
9	Interest Basis:	[[●] %. Fixed Rate] [[*specify reference rate*] +/- [•] %. Floating Rate] [Zero Coupon] [Index Linked Interest] [Other (*specify*)] (further particulars specified below)

[1] Notes (including Notes denominated in sterling) in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the FSMA and which have a maturity of less than one year must have a minimum denomination of £100,000 (or its equivalent in other currencies).

10	Redemption/Payment Basis:	[Redemption at par] [Index Linked Redemption] [Dual Currency] [Partly Paid] [Instalment] [Other (*specify*)] [(N.B. If the Final Redemption Amount is less than 100% of the nominal value, the Notes will constitute derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation No.809/2004 will apply and the Issuer will prepare and publish a supplement to the Offering Memorandum.)]
11	Change of Interest or Redemption/ Payment Basis:	[Specify details of any provision for convertibility of Notes into another interest or redemption/payment basis]
12	Put/Call Options:	[Put] [Call] [(further particulars specified below)]
13	Status of the Notes:	[Senior/[Subordinated/Dated/Perpetual][2]]
14	Listing:	[Ireland/Other (*specify*)/None]
15	Method of distribution:	[Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

16	Fixed Rate Note Provisions	[Applicable/Not Applicable] (If not applicable, delete the remaining sub-paragraphs of this paragraph)
	Rate[(s)] of Interest:	[●] %. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]
	(i) Interest Payment Date(s):	[●] in each year

[2] Please add appropriate provisions to terms and conditions if included

	(ii) Fixed Coupon Amount[(s)]:	[●] per [●] in nominal amount
	(iii) Broken Amount:	[Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount [(s)] and the Interest Payment Date(s) to which they relate]
	(iv) Day Count Fraction (Condition 4(j)):	[●] (Day count fraction should be Actual/Actual-ICMA for all fixed rate issues other than those denominated in U.S. dollars, unless the client requests otherwise)
	(v) Determination Date(s) (Condition 4(j)):	[Insert day(s) and month(s) on which interest is normally paid (if more than one, then insert such dates in the alternative)] in each year[3]
	(vi) Other terms relating to the method of calculating interest for Fixed Rate Notes:	[Not Applicable/*give details*]
17	Floating Rate Provisions	[Applicable/Not Applicable] (If not applicable, delete the remaining sub-paragraphs of this paragraph. Also consider whether EURO BBA LIBOR or EURIBOR is the appropriate reference rate for Notes denominated in euro)
	(i) Specified Period(s)/Specified Interest Payment Dates:	[●]
	(ii) Business Day Convention:	[Floating Rate Business Day Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (*give details*)]
	(iii) Additional Business Centre(s) (Condition 4(j)):	[●]
	(iv) Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination/other (*give details*)]
	(v) Interest Period Date(s):	[Not Applicable/*specify dates*]
	(vi) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the	[●]

[3] Only to be completed for an issue where Day Count Fraction is Actual/Actual-ICMA

	[Calculation Agent]):	
	(vii) Screen Rate Determination (Condition (b)(iii)(B)):	
	– Reference Rate:	[●]
	– Interest Determination Date:	[[●] [TARGET] Business Days in *[specify city]* for *[specify currency]* prior to [the first day in each Interest Accrual Period/each Interest Payment Date]]
	– Relevant Screen Page:	[●]
	– Primary Source for Floating Rate:	[Specify relevant screen page or "Reference Banks"]
	– Reference Banks (if Primary Source is "Reference Banks"):	[Specify four]
	– Benchmark:	[LIBOR, LIBID, LIMEAN, EURIBOR or other benchmark]
	(viii) ISDA Determination (Condition 4(b)(iii)(A)):	
	– Floating Rate Option:	[●]
	– Designated Maturity:	[●]
	– Reset Date:	[●]
	– ISDA Definitions: (if different from those set out in the Conditions)	[●]
	(ix) Margin(s):	[+/-] [●] %. per annum
	(x) Minimum Rate of Interest:	[●] %. per annum
	(xi) Maximum Rate of Interest:	[●] %. per annum
	(xii) Day Count Fraction (Condition 4(j)):	[●]
	(xiii) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[●]
18	Zero Coupon Note Provisions	[Applicable/Not Applicable] (If not applicable, delete the remaining sub-paragraphs of this paragraph)

	(i) Amortisation Yield (Condition 5(b)):	[●] %. per annum
	(ii) Day Count Fraction (Condition 4(j)):	[●]
	(iii) Any other formula/basis of determining amount payable:	[●]
19	Index Linked Interest Note Provisions	[Applicable/Not Applicable] (If not applicable, delete the remaining sub-paragraphs of this paragraph)
	(i) Index/Formula:	[Give or annex details]
	(ii) Calculation Agent responsible for calculating the interest due:	[●]
	(iii) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable:	[●]
	(iv) Specified Period(s)/Specified Interest Payment Dates:	[●]
	(v) Business Day Convention:	[Floating Rate Business Day Convention/ Following Business Day Convention/ Modified Following Business Day Convention/Preceding Business Day Convention/other (*give details*)]
	(vi) Additional Business Centre(s) (Condition 4(j)):	[●]
	(vii) Minimum Rate of Interest:	[●] %. per annum
	(viii) Maximum Rate of Interest:	[●] %. per annum
	(ix) Day Count Fraction (Condition 4(j)):	[●]
20	Dual Currency Note Provisions	[Applicable/Not Applicable] (If not applicable, delete the remaining sub-paragraphs of this paragraph)
	(i) Rate of Exchange/Method of calculating Rate of Exchange:	[Give details]
	(ii) Calculation Agent, if any, responsible for calculating the principal and/or interest due:	[●]
	(iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	[●]

	(iv) Person at whose option Specified Currency(ies) is/are payable:	[●]
	(v) Day Count Fraction (Condition 4(j)):	[●]

PROVISIONS RELATING TO REDEMPTION

21	Call Option	[Applicable/Not Applicable] (If not applicable, delete the remaining sub-paragraphs of this paragraph)
	(i) Optional Redemption Date(s):	[●]
	(ii) Optional Redemption Amount(s) and method, if any, of calculation of such amount(s):	[●]
	(iii) If redeemable in part:	
	(a) Minimum nominal amount to be redeemed:	[●]
	(b) Maximum nominal amount to be redeemed:	[●]
	(iv) Option Exercise Date(s):	[●]
	(v) Description of any other Issuer's option:	[●]
	(vi) Notice period (if other than as set out in the Conditions):	[●]
22	Put Option	[Applicable/Not Applicable] (If not applicable, delete the remaining sub-paragraphs of this paragraph)
	(i) Optional Redemption Date(s):	[●]
	(ii) Optional Redemption Amount(s) and method, if any, of calculation of such amount(s):	[●]
	(iii) Option Exercise Date(s):	[●]
	(iv) Description of any other Noteholders' option:	[●]
	(v) Notice period (if other than as set out in the Conditions):	[●]

23	Final Redemption Amount	[Nominal amount/Other/See Appendix]
24	Early Redemption Amount	
	(i) Early Redemption Amount(s) payable on redemption for taxation reasons (Condition 5(c)), redemption for change of control of the Issuer (Condition 5(d)) or an event of default (Condition 9) and/or the method of calculating the same (if required or if different from that set out in the Conditions):	[●]
	(ii) Redemption for taxation reasons permitted on days other than Interest Payment Dates (Condition 5(c)):	[Yes/No]
	(iii) Unmatured Coupons to become void upon early redemption (Condition 6(e)):	[Yes/No/Not Applicable]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

25	Form of Notes:	[Bearer Notes/Registered Notes]
	[(i) Temporary or permanent global Note:]	[temporary Global Note/ permanent Global Note]
	[(ii) Permanent Global Note in respect of Exchanged Notes (Condition 6(h)):]	[Yes/Not Applicable]
	[(iii) Applicable TEFRA exemption:][delete (i) to (iii) if Registered Notes]	[C Rules/D Rules/Not Applicable]
	[Certificate] [delete if Bearer Notes]	[Certificate available on Issue Date]
26	Additional Financial Centre(s) (Condition 6(g)) or other special provisions relating to payment dates:	[Not Applicable/Give details. Note that this paragraph relates to the place of payment, and not interest period end dates, to which paragraph 17(iii) relates]]
27	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	[Yes/No. If yes, give details]
28	Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on	[Not Applicable/*give details*]

	which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:	
29	Details relating to Instalment Notes:	[Not Applicable/*give details*]
	(i) Instalment Amount(s):	[●]
	(ii) Instalment Date(s):	[●]
	(iii) Minimum Instalment Amount:	[●]
	(iv) Maximum Instalment Amount:	[●]
30	Redenomination, renominalisation and reconventioning provisions:	[Not Applicable/The provisions [in Condition [•]] [annexed to these Final Terms] apply]
31	Consolidation provisions:	[Not Applicable/The provisions [in Condition [•]] [annexed to these Final Terms] apply]
32	Other final terms or special conditions:[4]	[Not Applicable/*give details*]

DISTRIBUTION

33	(i) If syndicated, names of Managers	[Not Applicable/*give names*]
	(ii) Stabilising Manager (if any):	[Not Applicable/*give name*]
	(iii) Dealer's Commission:	[●]
34	If non-syndicated, name of Dealer:	[Not Applicable/*give name*]
35	Additional selling restrictions:	[Not Applicable/*give details*]

[4] If full terms and conditions are to be used, please add the following here:
"The full text of the Conditions which apply to the Notes [and which will be endorsed on the Notes in definitive form] are set out in [the Annex hereto], which Conditions replace in their entirety those appearing in the Offering Memorandum for the purposes of these Notes and such Conditions will prevail over any other provision to the contrary".
The first set of bracketed words is to be deleted where there is a permanent global Note instead of Notes in definitive form. The full Conditions should be attached to and form part of the final terms.

OPERATIONAL INFORMATION

36	ISIN Code:	[●]
37	Common Code:	[●]
38	Any clearing system(s) other than Euroclear and Clearstream, Luxembourg and the relevant identification number(s):	[Not Applicable/give name(s) and number(s)]
39	Delivery:	Delivery [against/free of] payment
40	The Agents appointed in respect of the Notes are:	[●]

GENERAL

41	Additional steps that may only be taken following approval by an Extraordinary Resolution in accordance with Condition 10(a):	[Not Applicable/*give details*]
42	The aggregate nominal amount of Notes issued has been translated into [U.S. dollars] at the rate of [•], producing a sum of (for Notes not denominated in [U.S. dollars]):	[Not Applicable/[U.S.$][•]]

[RATING

The Notes are expected to be rated "[●]" by [●].

A Note rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency without notice.]

[LISTING APPLICATION

Application has been made to Euronext Dublin for any Notes issued under the Programme for the period of 12 months from the date of the Offering Memorandum to be listed on the Official List of Euronext Dublin and to be admitted for trading on its Global Exchange Market.

These Final Terms comprise the final terms required to list and have admitted to trading the issue of Notes described herein pursuant to the U.S.$2,000,000,000 Euro Medium-Term Note Programme of Banco Daycoval S.A.]

[INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

[*Description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest*][So far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer].

[STABILISING

In connection with this issue, [*insert name of Stabilising Manager*] (the "Stabilising Agent") or any person acting for him may over-allot or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail for a limited period after the issue date. However, there may be no obligation on the Stabilising Agent or any agent of his to do this. Such stabilising, if commenced, may be discontinued at any time, and must be brought to an end after a limited period.]

MATERIAL ADVERSE CHANGE STATEMENT

[Except as disclosed in this document, there/There][5] has been no significant change in the financial or trading position of the Issuer, or of the Issuer's Group since [*insert date of last audited accounts or interim accounts (if later)*] and no material adverse change in the financial position or prospects of the Issuer, or of the Issuer's Group since [*insert date of last published annual accounts.*]

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in these Final Terms which, when read together with the Offering Memorandum [and the supplemental Offering Memorandum] referred to above, contains all information that is material in the context of the issue of the Notes.

Signed on behalf of the Issuer:

By: _____

Duly authorised

By: _____

Duly authorised

[5] If any change is disclosed in the Final Terms, it will require approval by the Stock Exchange(s). Consideration should be given as to whether or not such disclosure should be made by means of a supplemental Offering Memorandum rather than in Final Terms.

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(Convenience Translation into English from
the Original Previously Issued in Portuguese)

Banco Daycoval S.A.

Individual and Consolidated
Financial Statements
for the Six-month Period and for the
Year Ended December 31, 2018 and
Independent Auditor's Report

Deloitte Touche Tohmatsu Auditores Independentes

(Convenience Translation into English from the Original Previously Issued in Portuguese)

INDEPENDENT AUDITOR'S REPORT

To the Management and Shareholders of
Banco Daycoval S.A.

Opinion

We have audited the accompanying individual and consolidated financial statements of Banco Daycoval S.A. ("Bank" or "Daycoval") and its subsidiaries ("Consolidated"), which comprise the balance sheet as at December 31, 2018 and the income statement, statement of changes in equity and statement of cash flows for the six-month period and for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the individual and consolidated financial statements present fairly, in all material respects, the individual and consolidated financial position of Banco Daycoval S.A. as at December 31, 2018, and its individual and consolidated financial performance and its individual and consolidated cash flows for the six-month period and for the year then ended, in accordance with accounting practices adopted in Brazil, applicable to financial institutions authorized to operate by the Central Bank of Brazil ("BACEN").

Basis for opinion

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the individual and consolidated financial statements" section of our report. We are independent of the Bank and its subsidiaries in accordance with the relevant ethical requirements in the Code of Ethics for Professional Accountants and the professional standards issued by the Federal Accounting Council ("CFC"), and we have fulfilled our other ethical responsibilities in accordance with these standards. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the individual and consolidated financial statements as a whole, and in forming our opinion thereon, and, therefore, we do not provide a separate opinion on these matters.

Allowance for loan losses on the corporate segment

Allowances for loan losses are recognized pursuant to the regulations issued by BACEN, notably the National Monetary Council (CMN) Resolution 2682, and are based on the analyses of outstanding lending transactions (past-due and current), in accordance with the internal policies that consider the determination of credit ratings.

The estimate of the allowance for loan losses involves internal models while determining the borrower's rating, that take into account the financial and economic data, market inputs, masterfile information, restricted collaterals, and default level, among others. The borrower's rating is also revised by the Bank's Management when the financial condition of a specific company or a given economic sector changes. As such revision involves a high level of judgment in the estimate of the loss by Management, we believe that this matter is a key audit matter in our audit approach, including the involvement of senior members of our staff.

How our audit addressed this matter

Our audit procedures included, but were not limited to: (i) understanding the internal model used to determine the rating; (ii) understanding the provisioning criteria adopted by the Bank; (iii) reading the Bank's provisioning policy; (iv) testing the design, implementation and effectiveness of internal controls; (v) challenging the main assumptions and significant judgments made by Management while determining the credit rating; and (vi) recalculating the amounts provisioned on a sampling basis.

Based on the audit procedures performed, we believe that the criteria adopted by the Bank's Management and the policy used to determine the allowance for loan losses were appropriate, within the context of the financial statements taken as a whole.

Other matters

Statements of value added

The individual and consolidated statements of value added ("DVA") for six-month period and for the year ended December 31, 2018, prepared under the responsibility of the Bank's Management, were subject to audit procedures performed together with the audit of the Bank's financial statements. In forming our opinion, we assess whether these statements are reconciled with the financial statements and accounting records, as applicable, and whether their form and content are in accordance with the criteria set out in technical pronouncement CPC 09 - Statement of Value Added.

In our opinion, these statements of value added were fairly prepared, in all material respects, in accordance with the criteria set out in such technical pronouncement and are consistent in relation to the individual and consolidated financial statements taken as a whole.

Other information accompanying the individual and consolidated financial statements and the independent auditor's report

Management is responsible for such other information. The other information comprises the Management Report.

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

In connection with our audit of the individual and consolidated financial statements, our responsibility is to read the Management Report and, in doing so, consider whether such report is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the Management Report, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and those charged with governance for the individual and consolidated financial statements

Management is responsible for the preparation and fair presentation of the individual and consolidated financial statements in accordance with accounting practices adopted in Brazil, applicable to institutions authorized to operate by BACEN, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the individual and consolidated financial statements, Management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Bank and its subsidiaries or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's and its subsidiaries' financial reporting process.

Auditor's responsibilities for the audit of the individual and consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the individual and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Brazilian and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Brazilian and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the individual and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's and its subsidiaries' internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's and its subsidiaries' ability to continue as going concerns. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the individual and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank and its subsidiaries to cease to continue as going concerns.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the individual and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and, where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The accompanying individual and consolidated financial statements have been translated into English for the convenience of readers outside Brazil.

São Paulo, February 7, 2019

DELOITTE TOUCHE TOHMATSU
Auditores Independentes

Carlos Claro
Engagement Partner

BALANCE SHEETS
AS AT DECEMBER 31, 2018 AND 2017
(In thousands of Brazilian reais - R$)

ASSETS	Note	Bank		Consolidated	
		2018	2017	2018	2017
CURRENT ASSETS		**18,710,582**	**15,055,548**	**18,977,088**	**15,395,584**
Cash		**151,733**	**114,709**	**153,172**	**117,096**
Interbank investments	**Note 5**	**5,561,479**	**4,628,900**	**5,190,943**	**4,460,547**
Money market investments		4,702,402	3,973,111	4,702,402	3,973,111
Interbank deposits		690,921	507,599	320,385	339,246
Foreign currency investments		168,156	148,190	168,156	148,190
Securities and derivatives	**Note 6**	**516,762**	**87,505**	**742,889**	**288,379**
Own portfolio		72,426	58,728	228,467	198,682
Linked to repurchase commitments		139,474	23,255	139,474	23,255
Derivatives		304,862	5,522	304,862	5,522
Asset-backed technical reserves		-	-	70,086	60,920
Interbank accounts		**42,639**	**148,723**	**42,639**	**148,723**
Restricted deposits - Central Bank of Brazil		42,509	148,555	42,509	148,555
Correspondents		130	168	130	168
Lending operations		**7,441,612**	**6,400,449**	**7,474,760**	**6,409,566**
Lending operations - public sector	Note 7.a)	38,183	19,786	38,183	19,786
Lending operations - private sector	Note 7.a)	7,946,219	6,794,720	7,980,424	6,804,582
(Allowance for loan losses)	Note 9	(542,790)	(414,057)	(543,847)	(414,802)
Leasing operations		**-**	**-**	**351,000**	**275,995**
Leases receivable	Note 7.a)	-	-	357,253	283,640
(Allowance for lease losses)	Note 9	-	-	(6,253)	(7,645)
Other receivables		**4,890,837**	**3,541,216**	**4,917,224**	**3,563,485**
Guarantees and collaterals		-	34,656	-	34,656
Foreign exchange portfolio	Note 10.a)	1,064,558	590,979	1,064,558	590,979
Income receivable		11,660	8,034	10,775	8,577
Trading account	Note 6.f)	1,779	2,404	1,779	2,404
Insurance premiums	Note 19.a)	-	-	2,029	442
Other	Note 10.b)	3,951,976	3,145,587	3,977,219	3,166,871
(Allowance for other loan losses)	Note 9	(139,136)	(240,444)	(139,136)	(240,444)
Other assets	**Note 11**	**105,520**	**134,046**	**104,461**	**131,793**
Repossessed assets		92,832	103,784	92,873	104,380
(Allowance for repossessed assets losses)		(8,422)	(10,532)	(8,447)	(10,532)
Prepaid expenses		21,110	40,794	20,035	37,945
NONCURRENT LONG-TERM ASSETS		**9,406,614**	**8,025,826**	**9,922,919**	**8,304,840**
Interbank investments	**Note 5**	**6,711**	**16,468**	**6,711**	**16,468**
Interbank deposits		6,711	16,468	6,711	16,468
Securities and derivatives	**Note 6**	**1,907,165**	**1,316,296**	**1,957,556**	**1,368,421**
Own portfolio		1,595,899	976,397	1,646,290	1,026,470
Linked to repurchase commitments		-	129,662	-	129,662
Derivatives		95,719	88,292	95,719	88,292
Linked to guarantees		215,547	121,945	215,547	121,945
Funds used to guarantee technical reserves		-	-	-	2,052
Lending operations		**5,161,949**	**4,522,352**	**5,189,498**	**4,530,157**
Lending operations - public sector	Note 7.a)	71,994	97,931	71,994	97,931
Lending operations - private sector	Note 7.a)	5,493,477	4,685,750	5,521,505	4,694,060
(Allowance for loan losses)	Note 9	(403,522)	(261,329)	(404,001)	(261,834)
Leasing operations		**-**	**-**	**423,997**	**237,054**
Leases receivable	Note 7.a)	-	-	430,132	242,558
(Allowance for lease losses)	Note 9	-	-	(6,135)	(5,504)
Other receivables		**2,328,540**	**2,086,477**	**2,342,908**	**2,104,276**
Foreign exchange portfolio	Note 10.a)	-	-	-	-
Other	Note 10.b)	2,329,066	2,086,722	2,343,434	2,104,521
(Allowance for other loan losses)	Note 9	(526)	(245)	(526)	(245)
Other assets	**Note 11**	**2,249**	**84,233**	**2,249**	**48,464**
Prepaid expenses		2,249	84,233	2,249	48,464
PERMANENT ASSETS		**1,267,751**	**1,149,606**	**79,727**	**85,877**
Investments		**1,192,436**	**1,067,338**	**1,343**	**619**
Equity in domestic subsidiaries	Note 12	1,191,273	1,066,892	-	-
Other investments		1,163	446	1,343	619
Property and equipment in use		**75,315**	**82,268**	**78,318**	**85,113**
Other property and equipment in use	Note 14	103,274	100,937	108,958	106,438
(Accumulated depreciation)	Note 14	(27,959)	(18,669)	(30,640)	(21,325)
Intangible assets		**-**	**-**	**66**	**145**
TOTAL ASSETS		**29,384,947**	**24,230,980**	**28,979,734**	**23,786,301**

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

BALANCE SHEETS
AS AT DECEMBER 31, 2018 AND 2017
(In thousands of Brazilian reais - R$)

LIABILITIES	Note	Bank		Consolidated	
		2018	2017	2018	2017
CURRENT LIABILITIES		**15,794,804**	**10,767,653**	**15,379,714**	**10,860,162**
Deposits	**Note 15**	**3,219,471**	**3,585,127**	**3,218,434**	**3,582,377**
Demand deposits		864,844	736,540	863,807	735,496
Interbank deposits		373,667	337,395	373,667	337,395
Time deposits		1,973,639	2,506,517	1,973,639	2,504,811
Foreign currency deposit		7,321	4,675	7,321	4,675
Money market funding	**Note 15**	**2,992,328**	**1,860,116**	**2,992,328**	**1,860,116**
Own portfolio		136,333	152,610	136,333	152,610
Third parties		2,855,995	1,674,825	2,855,995	1,674,825
Freely portfolio		-	32,681	-	32,681
Funds from acceptance and issuance of securities		**6,405,886**	**3,545,362**	**5,833,047**	**3,545,137**
Mortgage loan notes	Note 16.1)	648,667	415,483	648,667	415,483
Agribusiness letters of credit	Note 16.1)	617,665	462,328	617,665	462,328
Financial bills	Note 16.1)	3,232,736	2,636,234	2,689,289	2,636,234
Securities issued abroad	Note 16.2)	1,906,818	31,317	1,877,426	31,092
Interbank accounts		**1,181**	**1,906**	**1,181**	**1,906**
Interbranch accounts		**107,529**	**63,797**	**107,529**	**63,797**
Borrowings	**Note 17**	**1,675,209**	**759,309**	**1,675,209**	**759,309**
Foreign borrowings		1,675,209	759,309	1,675,209	759,309
Domestic onlendings - official institutions	**Note 18**	**193,481**	**264,747**	**193,481**	**264,747**
BNDES		151,383	214,580	151,383	214,580
FINAME		42,098	50,167	42,098	50,167
Derivatives	**Note 6.f)**	**29,662**	**8,829**	**29,662**	**8,829**
Technical reserves - insurance	**Note 19.b)**	**-**	**-**	**67,854**	**60,838**
Other payables		**1,170,057**	**678,460**	**1,260,989**	**713,106**
Collected taxes and other		8,562	8,362	8,600	8,378
Foreign exchange portfolio	Note 20.a)	501,455	142,708	501,455	142,708
Social and statutory	Note 20.b)	118,434	72,945	119,715	74,063
Tax and social security	Note 20.c)	330,106	229,199	380,389	245,870
Trading account	Note 6.f)	3,035	1,685	3,035	1,685
Other	Note 20.d)	208,465	223,561	247,795	240,402
NONCURRENT LONG-TERM LIABILITIES		**10,300,464**	**10,415,773**	**10,243,815**	**9,820,283**
Deposits	**Note 15**	**2,247,127**	**1,567,368**	**2,177,260**	**1,480,270**
Interbank deposits		21,813	-	21,813	-
Time deposits		2,225,314	1,567,368	2,155,447	1,480,270
Funds from acceptance and issuance of securities		**4,964,814**	**5,448,491**	**4,941,903**	**4,905,716**
Mortgage loan notes	Note 16.1)	125,237	91,317	125,237	91,317
Agribusiness letters of credit	Note 16.1)	46,168	20,173	46,168	20,173
Financial bills	Note 16.1)	4,772,807	3,665,592	4,749,896	3,136,883
Securities issued abroad	Note 16.2)	20,602	1,671,409	20,602	1,657,343
Borrowings	**Note 17**	**371,839**	**973,244**	**371,839**	**973,244**
Foreign borrowings		371,839	973,244	371,839	973,244
Domestic onlendings - official institutions	**Note 18**	**173,089**	**207,271**	**173,089**	**207,271**
BNDES		108,234	140,011	108,234	140,011
FINAME		64,855	67,260	64,855	67,260
Derivatives	**Note 6.f)**	**-**	**553**	**-**	**553**
Other payables		**2,543,595**	**2,218,846**	**2,579,724**	**2,253,229**
Tax and social security	Note 20.c)	245,597	216,929	262,817	222,982
Other	Note 20.d)	2,150,684	2,001,917	2,169,593	2,030,247
Subordinated debts	Note 21	147,314	-	147,314	-
DEFERRED INCOME		**52,641**	**38,526**	**118,179**	**95,884**
NONCONTROLLING INTERESTS		**-**	**-**	**988**	**944**
EQUITY		**3,237,038**	**3,009,028**	**3,237,038**	**3,009,028**
Capital -		**2,253,595**	**1,892,143**	**2,253,595**	**1,892,143**
Residents in Brazil	Note 24.a)	2,253,595	1,892,143	2,253,595	1,892,143
Earnings reserves	Note 24.f)	979,426	1,111,764	979,426	1,111,764
Valuation adjustments to equity -					
Available-for-sale marketable securities		4,017	5,121	4,017	5,121
TOTAL LIABILITIES		**29,384,947**	**24,230,980**	**28,979,734**	**23,786,301**

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

INCOME STATEMENTS
FOR THE SIX-MONTH PERIOD ENDED DECEMBER 31, 2018 AND
FOR THE YEAR ENDED DECEMBER 31, 2018 AND 2017
(In thousands of Brazilian reais - R$)

	Note	2nd half of 2018		Bank		Consolidated	
		Bank	Consolidated	2018	2017	2018	2017
INCOME FROM FINANCIAL INTERMEDIATION		**1,802,083**	**2,012,599**	**4,068,617**	**3,519,538**	**4,459,625**	**3,845,433**
Lending operations	Note 25.a)	1,510,190	1,513,766	3,014,856	2,779,916	3,020,400	2,780,991
Leasing operations	Note 25.b)	-	201,361	-	-	376,630	313,667
Securities transactions	Note 25.c)	246,840	250,272	487,257	662,127	491,926	673,280
Derivatives	Note 25.d)	(42,427)	(42,427)	372,918	(59,411)	372,918	(59,411)
Foreign exchange transactions	Note 25.e)	83,283	85,430	189,389	136,906	191,536	136,906
Sale transactions or transfer of financial assets		4,197	4,197	4,197	-	6,215	-
EXPENSES ON FINANCIAL INTERMEDIATION		**(934,985)**	**(1,043,140)**	**(2,508,446)**	**(2,185,291)**	**(2,710,105)**	**(2,367,568)**
Funding operations	Note 25.f)	(581,017)	(558,379)	(1,392,550)	(1,394,782)	(1,347,880)	(1,358,821)
Borrowings and onlending	Note 25.g)	(64,021)	(64,021)	(399,724)	(191,662)	(399,724)	(191,662)
Leasing operations	Note 25.b)	-	(129,690)	-	-	(245,759)	(214,680)
Financial assets sale or transfer		(7,200)	(7,200)	(17,831)	(48,773)	(17,831)	(48,773)
Allowance for loan losses	Note 9	(282,747)	(283,850)	(698,341)	(550,074)	(698,911)	(553,632)
GROSS PROFIT FROM FINANCIAL INTERMEDIATION		**867,098**	**969,459**	**1,560,171**	**1,334,247**	**1,749,520**	**1,477,865**
OTHER OPERATING INCOME (EXPENSES)		**(273,967)**	**(336,679)**	**(510,427)**	**(528,752)**	**(628,433)**	**(631,404)**
Income from services provided		77,497	83,774	148,940	125,040	160,267	134,290
Income from insurance operations	Note 19.d)	-	1,752	-	-	3,994	3,929
Personnel expenses	Note 25.h)	(139,272)	(160,404)	(291,691)	(269,753)	(329,735)	(304,601)
Other administrative expenses	Note 25.i)	(290,782)	(276,400)	(528,018)	(468,617)	(506,779)	(455,288)
Tax expenses	Note 25.j)	(66,102)	(76,729)	(127,719)	(111,164)	(148,459)	(123,090)
Equity in subsidiaries	Note 12	67,463	-	122,139	61,690	-	-
Other operating income	Note 25.k)	216,447	235,711	389,477	379,461	429,457	391,896
Other operating expenses	Note 25.l)	(139,218)	(144,383)	(223,555)	(245,409)	(237,178)	(278,540)
OPERATING INCOME		**593,131**	**632,780**	**1,049,744**	**805,495**	**1,121,087**	**846,461**
NONOPERATING INCOME		**488**	**491**	**5,115**	**12,985**	**5,245**	**16,034**
Income		12,012	12,015	21,673	28,897	21,803	31,947
Expenses		(11,524)	(11,524)	(16,558)	(15,912)	(16,558)	(15,913)
INCOME BEFORE INCOME TAXES		**593,619**	**633,271**	**1,054,859**	**818,480**	**1,126,332**	**862,495**
INCOME TAX AND SOCIAL CONTRIBUTION	**Note 22.a)**	**(196,007)**	**(234,365)**	**(332,709)**	**(237,030)**	**(401,996)**	**(279,249)**
Provision for income tax		(121,372)	(140,142)	(209,133)	(131,117)	(245,556)	(159,114)
Provision for social contribution		(102,823)	(114,785)	(175,744)	(111,123)	(199,076)	(128,417)
Deferred tax assets		28,188	20,562	52,168	5,210	42,636	8,282
PROFIT SHARING	**Note 27.a)**	**(43,510)**	**(44,786)**	**(76,315)**	**(59,976)**	**(78,454)**	**(61,716)**
NONCONTROLLING INTERESTS		**-**	**(18)**	**-**	**-**	**(47)**	**(56)**
NET INCOME FOR THE SIX-MONTH PERIOD / YEAR		**354,102**	**354,102**	**645,835**	**521,474**	**645,835**	**521,474**
Number of shares	Note 24.c)	230,820,429	230,820,429	230,820,429	204,123,780	230,820,429	204,123,780
Earnings per share - R$		1.53410	1.53410	2.79800	2.55469	2.79800	2.55469

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

STATEMENTS OF CHANGES IN EQUITY
FOR THE SIX-MONTH PERIOD ENDED DECEMBER 31, 2018 AND
FOR THE YEAR ENDED DECEMBER 31, 2018 AND 2017
(In thousands of Brazilian reais - R$)

	Note	Capital	Earnings reserves		Adjustments of equity valuation	Retained earnings	Total
			Legal	Bylaws			
BALANCE AS AT JUNE 30, 2018		**1,892,143**	**186,034**	**940,317**	**(188)**	**178,264**	**3,196,570**
Capital increase		361,452	-	-	-	-	361,452
Adjustment to fair value-							
Available-for-sale marketable securities		-	-	-	4,205	-	4,205
Net income for the six month period		-	-	-	-	354,102	354,102
Allocations:							
Legal reserve		-	17,705	-	-	(17,705)	-
Statutory reserve		-	-	415,770	-	(415,770)	-
Dividends		-	-	(580,400)	-	-	(580,400)
Interest on capital	Note 24.e.2)	-	-	-	-	(98,891)	(98,891)
BALANCE AS AT DECEMBER 31, 2018		**2,253,595**	**203,739**	**775,687**	**4,017**	**-**	**3,237,038**
BALANCE AS AT DECEMBER 31, 2017		**1,892,143**	**171,447**	**940,317**	**5,121**	**-**	**3,009,028**
Capital increase		361,452	-	-	-	-	361,452
Adjustment to fair value-							
Available-for-sale marketable securities		-	-	-	(1,104)	-	(1,104)
Net income for the year		-	-	-	-	645,835	645,835
Allocations:							
Legal reserve		-	32,292	-	-	(32,292)	-
Statutory reserve		-	-	415,770	-	(415,770)	-
Dividends		-	-	(580,400)	-	-	(580,400)
Interest on capital	Note 24.e.2)	-	-	-	-	(197,773)	(197,773)
BALANCE AS AT DECEMBER 31, 2018		**2,253,595**	**203,739**	**775,687**	**4,017**	**-**	**3,237,038**
BALANCE AS AT DECEMBER 31, 2016		**1,892,143**	**145,373**	**633,223**	**(13,301)**	**-**	**2,657,438**
Adjustment to fair value-							
Available-for-sale marketable securities		-	-	-	18,422	-	18,422
Net income for the year		-	-	-	-	521,474	521,474
Allocations:							
Legal reserve		-	26,074	-	-	(26,074)	-
Statutory reserve		-	-	307,094	-	(307,094)	-
Interest on capital	Note 24.e.2)	-	-	-	-	(188,306)	(188,306)
BALANCE AS AT DECEMBER 31, 2017		**1,892,143**	**171,447**	**940,317**	**5,121**	**-**	**3,009,028**

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

STATEMENTS OF CASH FLOWS
FOR THE SIX-MONTH PERIOD ENDED DECEMBER 31, 2018 AND
FOR THE YEAR ENDED DECEMBER 31, 2018 AND 2017
(In thousands of Brazilian reais - R$)

	2nd half of 2018		Bank		Consolidated	
	Bank	Consolidated	2018	2017	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES						
PROFIT FOR THE PERIOD / YEAR	**354,102**	**354,102**	**645,835**	**521,474**	**645,835**	**521,474**
Adjustments to reconcile profit for the six-month period / year net cash provided by operating activities						
Depreciation and amortization	5,031	5,147	10,032	4,103	10,271	4,329
Deferred taxes	(28,188)	(20,562)	(52,168)	(5,210)	(42,636)	(8,282)
Provision for risks	157,924	151,452	250,865	245,219	241,444	266,441
Provision for guarantees and collaterals	3,181	3,181	10,922	1,859	10,922	1,859
Allowance for loan losses	320,383	320,599	799,368	475,051	800,699	482,381
Allowance for leasing losses	-	887	-	-	(761)	(3,772)
Allowance for other loan losses	(37,636)	(37,636)	(101,027)	75,023	(101,027)	75,023
Allowance for losses on other assets	(2,243)	(2,218)	(2,110)	(2,706)	(2,085)	(2,706)
Exchange rate changes on cash and cash equivalents	(55,058)	(55,058)	(88,006)	60,591	(88,006)	60,591
Gains on disposal of permanent assets	3,125	5,998	3,538	(3,427)	6,285	(3,427)
Share of profit (loss) of subsidiaries	(67,463)	-	(122,139)	(61,690)	-	-
TOTAL RECONCILIATION ADJUSTMENTS	**299,056**	**371,790**	**709,275**	**788,813**	**835,106**	**872,437**
ADJUSTED PROFIT FOR THE PERIOD	**653,158**	**725,892**	**1,355,110**	**1,310,287**	**1,480,941**	**1,393,911**
CHANGES IN ASSETS AND LIABILITIES	**(1,683,365)**	**(1,754,505)**	**(2,469,819)**	**753,652**	**(2,580,921)**	**170,836**
(Increase) Decrease in interbank investments	(131,405)	(13,658)	(173,565)	(222,128)	28,618	(125,323)
(Increase) Decrease in securities and derivates	(137,638)	(145,996)	(999,846)	982,007	(1,023,365)	913,908
(Increase) Decrease in interbank and interbranch accounts	108,475	108,475	149,091	2,349	149,091	2,349
(Increase) Decrease in lending operations	(1,842,272)	(1,857,809)	(2,480,127)	(1,054,071)	(2,525,233)	(1,074,051)
(Increase) Decrease in leasing operations	-	(163,734)	-	-	(261,187)	(117,336)
(Increase) Decrease in other receivables	(1,492,796)	(1,503,373)	(1,400,027)	(856,512)	(1,399,079)	(858,663)
(Increase) Decrease in other assets	72,447	35,923	112,619	104,813	75,631	100,988
Increase (Decrease) in deposits	632,052	640,300	314,103	(162,050)	333,047	(165,413)
Increase (Decrease) in money market funding	42,931	42,931	(48,958)	141,085	(48,958)	141,085
Increase (Decrease) in funds from acceptance and issuance of securities	891,414	872,503	1,626,789	2,080,036	1,589,140	1,604,454
Increase (Decrease) in borrowings and onlendings	(22,457)	(22,458)	103,989	32,223	103,988	32,223
Increase (Decrease) in other payables	267,972	322,215	447,438	(171,719)	522,365	(149,974)
Income tax and social contribution paid	(75,687)	(85,023)	(135,441)	(135,865)	(147,274)	(140,902)
Increase (Decrease) in deferred income	3,599	15,199	14,116	13,484	22,295	7,491
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	**(1,030,207)**	**(1,028,613)**	**(1,114,709)**	**2,063,939**	**(1,099,980)**	**1,564,747**
CASH FLOWS FROM INVESTING ACTIVITIES						
Disposal of property and equipment in use	-	-	-	7,231	-	7,231
Capital increase in subsidiaries	-	-	-	(500,000)	-	-
Acquisition of property and equipment in use	(2,193)	(2,683)	(3,286)	(80,186)	(3,862)	(80,240)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	**(2,193)**	**(2,683)**	**(3,286)**	**(572,955)**	**(3,862)**	**(73,009)**
CASH FLOWS FROM FINANCING ACTIVITIES						
Increase (Decrease) in funds from acceptance and issuance of securities	10,204	9,221	750,058	(354,892)	734,957	(354,583)
Increase (Decrease) in borrowings and onlendings	(101,908)	(101,908)	105,058	439,400	105,058	439,400
Increase (decrease) of subordinated debts	137,060	137,060	147,314	-	147,314	-
Dividends and interest on capital paid	(317,315)	(317,315)	(367,330)	(143,032)	(367,330)	(143,032)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	**(271,959)**	**(272,942)**	**635,100**	**(58,524)**	**619,999**	**(58,215)**
EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**55,058**	**55,058**	**88,006**	**(60,591)**	**88,006**	**(60,591)**
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(1,249,301)**	**(1,249,180)**	**(394,889)**	**1,371,869**	**(395,837)**	**1,372,932**
Cash and cash equivalents at beginning of six-month period / year	3,415,597	3,416,915	2,561,185	1,189,316	2,563,572	1,190,640
Cash and cash equivalents at end of six-month period / year	2,166,296	2,167,735	2,166,296	2,561,185	2,167,735	2,563,572
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(1,249,301)**	**(1,249,180)**	**(394,889)**	**1,371,869**	**(395,837)**	**1,372,932**

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

STATEMENTS OF VALUE ADDED
FOR THE SIX-MONTH PERIOD ENDED DECEMBER 31, 2018 AND
FOR THE YEAR ENDED DECEMBER 31, 2018 AND 2017
(In thousands of Brazilian reais - R$)

	2nd half of 2018		Bank		Consolidated	
	Bank	Consolidated	2018	2017	2018	2017
REVENUES	**1,674,365**	**1,905,909**	**3,690,061**	**3,351,670**	**4,122,307**	**3,682,283**
Income from financial intermediation	1,802,083	2,012,599	4,068,617	3,519,538	4,459,625	3,845,433
Revenue from services	77,497	83,774	148,940	125,040	160,267	134,290
Allowance for loan losses	(282,747)	(283,850)	(698,341)	(550,074)	(698,911)	(553,632)
Other	77,532	93,386	170,845	257,166	201,326	256,192
EXPENSES	**(652,238)**	**(759,290)**	**(1,810,105)**	**(1,635,217)**	**(2,011,194)**	**(1,813,936)**
Expenses on financial intermediation	(652,238)	(759,290)	(1,810,105)	(1,635,217)	(2,011,194)	(1,813,936)
INPUTS PURCHASED FROM THIRD PARTIES	**(277,819)**	**(260,653)**	**(502,385)**	**(447,912)**	**(476,853)**	**(431,893)**
Materials, electric power and other	(50,021)	(54,671)	(89,431)	(67,985)	(96,614)	(72,941)
Outside services	(227,983)	(206,167)	(413,147)	(380,526)	(380,432)	(359,551)
Asset recovery	185	185	193	599	193	599
GROSS VALUE ADDED	**744,308**	**885,966**	**1,377,571**	**1,268,541**	**1,634,260**	**1,436,454**
DEPRECIATION AND AMORTIZATION	**(5,031)**	**(5,147)**	**(10,032)**	**(4,103)**	**(10,271)**	**(4,329)**
TOTAL WEALTH CREATED BY THE CONSOLIDATED	**739,277**	**880,819**	**1,367,539**	**1,264,438**	**1,623,989**	**1,432,125**
WEALTH RECEIVED IN TRANSFER	**67,463**	**-**	**122,139**	**61,690**	**-**	**-**
Equity in subsidiaries	67,463	-	122,139	61,690	-	-
WEALTH FOR DISTRIBUTION	**806,740**	**880,819**	**1,489,678**	**1,326,128**	**1,623,989**	**1,432,125**
DISTRIBUTION OF WEALTH	**806,740**	**880,819**	**1,489,678**	**1,326,128**	**1,623,989**	**1,432,125**
EMPLOYEES	**166,879**	**186,625**	**329,012**	**286,706**	**364,094**	**331,290**
Salaries and wages	93,689	107,594	197,239	180,257	221,927	216,317
Benefits	67,601	72,721	121,214	97,650	130,125	104,862
Severance pay fund (FGTS)	5,589	6,310	10,559	8,799	12,042	10,111
TAXES	**278,012**	**329,659**	**499,423**	**501,944**	**594,550**	**560,838**
Federal	270,194	317,757	485,479	491,448	572,328	548,482
State	680	684	1,659	1,482	1,706	1,516
Municipal	7,138	11,218	12,285	9,014	20,516	10,840
LENDERS AND LESSORS	**7,747**	**10,415**	**15,408**	**16,004**	**19,463**	**18,467**
Rentals	7,747	10,415	15,408	16,004	19,463	18,467
SHAREHOLDERS	**354,102**	**354,102**	**645,835**	**521,474**	**645,835**	**521,474**
Interest on capital	98,891	98,891	197,773	188,306	197,773	188,306
Retained earnings of six-month period / year	255,211	255,211	448,062	333,168	448,062	333,168
NONCONTROLLING INTERESTS	**-**	**18**	**-**	**-**	**47**	**56**

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In thousands of Brazilian reais - R$, unless otherwise stated)

1. GENERAL INFORMATION

Bank Daycoval S.A. (the "Bank" or "Daycoval") is a publicly-held entity, organized as a full-service bank authorized to operate commercial, foreign exchange, investment, and lending and financing portfolios, through its direct and indirect subsidiaries, and also leasing portfolio, asset management, life insurance, pension plans and provision of services. The Bank is part of Daycoval Group and conducts its businesses on an integrated basis.

2. APRESENTAÇÃO DAS DEMONSTRAÇÕES FINANCEIRAS

The Bank's financial statements information, including its foreign branch, and the consolidated financial statements information ("Consolidated"), approved by Management on February 07, 2019, has been prepared in accordance with the accounting practices adopted in Brazil, based on the accounting guidelines set forth in the Brazilian Corporate Law (Law 6404/76), and the changes introduced by Law 11638/07 and Law 11941/09 for the accounting for transactions, coupled with the standards and instructions of the National Monetary Council ("CMN"), the Central Bank of Brazil ("BACEN"), and the Standard Chart of Accounts for Financial Institutions ("COSIF"), the Brazilian Securities and Exchange Commission ("CVM"), the National Private Insurance Council ("CNSP"), the Private Insurance Authority ("SUSEP"), and Accounting Pronouncements Committee ("CPC") , when applicable.

All relevant information in the Financial Statements Information of Banco Daycoval S.A., and only such information, is being disclosed and corresponds to the information used by the Bank's Management in managing the Bank.

As part of the process of convergence with the International Financial Reporting Standards (IFRS), the Accounting Pronouncements Committee (CPC) has issued several pronouncements related to the international accounting convergence process that have been approved by the CVM but not all of them have been ratified by the BACEN. Thus, in the preparation of the Financial Statements, the Bank has adopted the following pronouncements that have been approved by the BACEN, s follows:

Pronouncements of CPC	Resolution BACEN / CVM
CPC 00 (R1) - Conceptual Framework to Prepare and Disclose the Financial Report	4144/12
CPC 01 (R1) - Impairment of Assets	3566/08
CPC 02 (R2) - Effects of Changes in Exchange Rates and Translation of Financial Statements	4524/16
CPC 03 (R2) - Statements of Cash Flows	3604/08
CPC 04 (R1) - Intangible Assets	4534/16
CPC 05 (R1) - Related-party Disclosures	3750/09
CPC 10 (R1) - Share-based Payment	3989/11
CPC 23 - Accounting Policies, Changes in Accounting Estimates and Errors	4007/11
CPC 24 - Events After the Reporting period	3973/11
CPC 25 - Provisions, Contingent Liabilities and Contingent Assets	3823/09
CPC 27 - Property, Plant and Equipment	4535/16
CPC 33 (R1) - Employee Benefits	4424/15

The consolidated financial statements comprise the Bank, its foreign branch and the following direct and indirect subsidiaries:

	Ownership interest - %	
	2018	2017
Leasing operations		
Daycoval Leasing – Banco Múltiplo S.A. ("Daycoval Leasing")	100.00	100.00
Financial activity - Foreign branch		
Banco Daycoval S.A. - Cayman Branch	100.00	100.00
Insurance and pension plan activity		
Dayprev Vida e Previdência S.A. ("Dayprev")	97.00	97.00
Non-financial activity		
ACS Participações Ltda. ("ACS")	99.99	99.99
Daycoval Asset Management Administração de Recursos Ltda. ("Daycoval Asset")	99.99	99.99
IFP Promotora de Serviços de Consultoria e Cadastro Ltda. ("IFP")	99.99	99.99
SCC Agência de Turismo Ltda. ("SCC")	99.99	99.99
Treetop Investments Ltd. ("Treetop")	99.99	99.99

In the consolidated financial statements, the balances and transactions between the Bank, its foreign branch, and its direct and indirect subsidiaries have been eliminated. Profit and equity amounts related to noncontrolling interests were disclosed in a separate caption.

3. SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies adopted by Banco Daycoval in the preparation of the individual and consolidated financial Statements information can be summarized as follows:

a) Income and expenses are recorded on the accrual basis. Fixed-rate transactions are stated at the final amount, and income and expenses for future period are recognized as a reduction of the related assets and liabilities. Finance income and costs are recorded on a pro rata basis and calculated based on the exponential method, except those related to discounted notes or foreign transactions, which are calculated under the straight-line method. Floating-rate transactions or those indexed to foreign currencies are adjusted through the balance sheet date.

b) Interbank investments and other receivables, except securities and derivatives, are stated at cost, plus inflation adjustment, exchange rate changes and contractual interest. When the realizable amount of an asset is lower than its carrying amount, an allowance for impairment is recorded to adjust such asset to its realizable amount.

c) Under BACEN Resolution 3604/08, cash and cash equivalents are represented by cash and bank deposits, recorded in captions “Cash and cash equivalents”, “Interbank investments”, and “Securities - own portfolio”, with original investment term of 90 days or less; the risk of change in their fair value is considered immaterial.

d) Securities are stated at cost plus income earned, as follows: (i) fixed-income securities are adjusted at the applicable interest rate based on the respective maturities; (ii) shares are adjusted based on the average price informed by the Stock Exchange where the shares are more traded; and (iii) investments in investment funds are adjusted based on the share price informed by the fund managers.

Securities are classified in conformity with BACEN Circular Letter 3068/01 into one of the following categories:

• Trading securities - securities acquired for the purpose of being actively and frequently traded, adjusted to fair value as a contra-entry to profit or loss.

• Available-for-sale securities - securities not acquired for the purpose of being actively and frequently traded, which Management does not intend to hold to maturity. The adjustments to fair value (unrealized gains and losses) are recorded as a separate component of equity, net of taxes, and are recognized in profit or loss when realized.

• Held-to-maturity securities - securities that the Bank has the positive intent and ability to hold to maturity and stated at cost, plus income earned, as a contra-entry to profit or loss.

• Bonuses arising from investments in shares issued by publicly-traded companies are recorded in the securities portfolio only according to the respective quantities, without modifying the amount of investments, when the corresponding shares are considered “ex-rights” on the stock exchange.

Dividends and interest on capital arising from investments in shares issued by publicly-traded companies are recorded as income when the related shares are considered “ex-rights” on the stock exchange.

e) Derivatives consist of forward, futures and swap options and are recorded in conformity with BACEN Circular Letter 3082/02, which provides for the adoption of the following criteria:

• Option transactions - premiums received or paid are recorded at fair value in caption “Derivatives” in assets or liabilities, respectively, until the option is exercised, and recorded as a decrease or increase in the cost of the asset subject to the option, for the exercise of the option, or as income or expense in the event of non-exercise;

• Futures transactions - daily adjustments are recorded at fair value in caption “Trading account” in assets or liabilities and allocated daily to profit or loss as income (when relating to gains) or expense (when relating to losses);

• Currency swap and forward transactions (NDF) - differential receivable or payable is recorded at fair value in caption “Derivatives” in assets or liabilities, respectively, and allocated to profit or loss as income (when relating to gains) or expense (when relating to losses); and

• Forward transactions - recorded at the final contractual amount, less the difference between such amount and the cash price of the asset, adjusted to fair value, income and expenses being recognized over the contractual terms.

Derivative transactions are stated at fair value, with gains and losses recorded as described below:

• Derivatives not qualified as hedge - in income or expense in profit or loss; and

• Derivatives qualified as hedge - classified as market risk hedge or cash flow hedge.

Market risk hedges are used to offset the risks arising from the exposure to changes in the fair value of the hedged item, with gains or losses recorded as a contra-entry to income or expense in profit or loss.

Cash flow hedges are used to offset the changes in estimated future cash flows, the effective portion used in such offset being recorded as a contra-entry to a separate item of equity, net of taxes, and any other change as a contra-entry to income or expense in profit or loss.

f) Leasing operations were reclassified so as to reflect its financial position in conformity with the financial method.

g) Lending and leasing operations are classified based on Management's risk assessment, considering the past experience with prior borrowers, the risk rating of such borrowers and their guarantors, the economic environment, and specific and overall portfolio risks, pursuant to CMN Resolution 2682/99, which requires a periodic analysis of the portfolio and its classification into nine risk rating levels from AA (minimum risk) to H (maximum risk - loss).

Also according to CMN Resolution 2682/99, the income from lending operations past due for more than 60 days, regardless of the risk rating, is only recognized when received, and H-rated loans remain as such for 180 days, after which period they are written off against the existing allowance and are controlled in memorandum accounts, no longer being recorded in the balance sheet.

h) A financial asset is derecognized, as prescribed by CMN Resolution 3533/08, when the contractual rights to the financial asset's cash flows expire or when the asset is sold or transferred, which should be classified into the following categories:

• Transactions with substantial transfer of the risks and rewards: the assignor substantially transfers all the risks and rewards of ownership of the financial asset as follows: (i) unconditional sale of the financial asset; (ii) sale of the financial asset with repurchase option at its fair value on the repurchase date; and (iii) sale of the financial asset with call or put options, whose exercise is unlikely to occur;

• Transactions with substantial retention of the risks and rewards: the assignor substantially retains all the risks and rewards of ownership of the financial asset as follows: (i) sale of the financial asset with repurchase commitment at a fixed price or at the sales price plus any yields; (ii) securities lending agreements; (iii) sale of the financial assets with total return rate swap agreement, which transfers the market risk exposure back to the assignor; (iv) sale of the financial asset with call or put options whose exercise is likely to occur; and (v) sale of receivables, when the losses incurred by the buyer or assignee, if any, are compensated by the seller or assignor, or whose sale is made together with the acquisition of subordinated units of the buyer Receivables Investment Fund (FIDC); and

• Transactions with no substantial transfer or retention of the risks and rewards: transactions in which the assignor neither transfers nor substantially retains all the risks and rewards of ownership of the financial asset.

The transfer or retention of the risks and rewards of ownership of the financial asset is analyzed by comparing Daycoval's exposure, before and after the sale or transfer, with the changes in the present value of the financial asset's expected cash flows, adjusted at the appropriate market interest rate.

The allowance for loan losses is recorded as prescribed by CMN Resolution 2682/99.

i) Foreign exchange transactions are stated at realizable values, plus income and exchange rate changes calculated on a daily pro rata basis, and the allowance for other loan losses, pursuant to CMN Resolution 2682/99, when applicable.

j) Prepaid expenses related to commissions paid to bank correspondents are controlled by contract and accounted for in caption "Prepaid expenses in assets, in the balance sheet". Such expenses are recognized as "Other administrative expenses" in profit or loss on a pro rata basis, over the respective contractual terms, or fully recognized, when such contracts are settled in advance.

Upon enactment of BACEN Circular 3738/14, the Bank opted for recognizing prepaid expenses as follows:

(i) Two-thirds of the amount of commissions paid beginning January 1, 2015 were recorded as "Prepaid expenses" in assets, in the balance sheet, being amortized within up to 36 months as from the initial recognition and the remaining amount directly recognized as expense;

(ii) One-third of the amount of commissions paid beginning January 1, 2016 was recorded as "Prepaid expenses" in assets, in the balance sheet, being amortized within up to 36 months as from the initial recognition and the remaining amount directly recognized as expense; and

(iii) For commissions paid beginning January 1, 2017, the total amount is recognized as expense.

As set forth in §4, Art. 1 of BACEN Circular 3693/13, as amended by BACEN Circular Letter 3738/14, beginning January 1, 2020, all amounts potentially recorded in assets, relating to the compensation of domestic corresponding referred to in the main paragraph, must be immediately written down, as a contra entry to an appropriate expense account for the period, it being prohibited any additional recognition or the maintenance of amounts of such nature in assets.

k) Investments in subsidiaries are stated under the equity method, which is applied to all associates over which the Bank has significant influence, that is, in which the Bank holds at least 20% of the voting capital.

l) Other investments are stated at cost, less allowance for loss, when applicable.

m) Assets and rights, classified in property, plant and equipment for use, are stated at acquisition cost. Depreciation is calculated under the straight-line method at the annual rates stated in note 14, which take into consideration the economic useful lives of the assets.

n) Intangible assets correspond to rights acquired in intangible assets used in the maintenance of the Bank's and its subsidiaries' activities or exercised for such purpose; intangible assets with finite lives are amortized on a straight-line basis over the estimated period they will generate economic benefits.

o) The impairment of non-monetary assets is recognized as a loss when the carrying amount of an asset or a cash-generating unit is higher than its recoverable or realizable value. A cash-generating unit is the smallest identifiable group of assets that generates cash flows substantially independent from other assets or groups of assets. Impairment losses are recorded in profit or loss for the period they are recognized, when applicable.

The amounts of non-financial assets, except those recorded in captions "Other assets" and "Other receivables - tax credits", are periodically tested for impairment, at least annually.

As at December 31, 2018, the allowance for impairment of repossessed assets was recognized in the amount of R$8,422 (R$10,532 in 2017) (Note 11). No evidence of impairment of other non-financial assets was identified.

p) Known or estimated liabilities, charges and risks, including tax charges calculated based on profit or loss, are stated at the adjusted amount through the balance sheet date. Liabilities denominated in foreign currencies are translated into local currency at the exchange rates in effect on the balance sheet date, as informed by BACEN, and liabilities subject to inflation adjustments are stated at the adjusted amount through the balance sheet date. Hedged liabilities are adjusted to fair value.

q) The provision for income tax is recorded at the rate of 15%, plus a 10% surtax, when applicable. The social contribution was calculated on adjusted profit at the rate of 20%. Law 13169/15, which amends Law 7689/88, raised the social contribution rate to 20% on profit for the period from September 1, 2015 to December 31, 2018. Beginning January 1, 2019, such rate will return to 15%.

r) Income tax credits are recognized on temporary additions and deductions and Daycoval Leasing's prior-year tax losses, based on the legislation in effect on the date of recognition. Due to the amendment to Law 7689/88, mentioned in item "q)" above, social contribution tax credits were recorded as follows: (i) applying the 15% rate on temporary additions and deductions calculated through August 31, 2015 and on those additions and deductions that are expected to be realized after December 31, 2018; and (ii) 20% rate on temporary additions and deductions that are expected to be realized from September 1, 2015 to December 31, 2018. Beginning January 1, 2019, the tax rate will return to 15%. These tax credits will be realized when the amounts on which they were recognized are utilized and/or reversed.

s) Technical reserves for insurance and unsettled claims - refer to Dayprev's share in DPVAT Insurance Consortium and recorded in accordance with the statements received from Seguradora Líder.

t) Contingent assets and liabilities and legal, tax and social security obligations:

Contingent assets and liabilities and legal, tax and social security obligations are recognized, measured, and disclosed, as follows:

• Contingent assets - not recorded in the financial statements information, except when there is evidence that they will be realized and will not be subject to appeals;

Contingent liabilities - recorded in the financial statements information when the risk of loss in an administrative or legal proceeding is assessed by the legal counsel and Management as probable, with probable outflow of funds to settle obligations, and when the related amounts can be reliably measured. Contingent liabilities assessed as possible loss by the legal counsel are only disclosed in the explanatory information, whereas those assessed as remote loss do not require the recognition of a provision and disclosure; and

• Legal obligations (tax and social security) - refer to lawsuits challenging the legality and constitutionality of certain taxes and contributions. The amount under litigation is determined, accrued and adjusted on a monthly basis, regardless of its likelihood of loss.

u) Deferred income refer to: (i) income received in advance for which there are no prospects of future collection, which is recognized in the income statements as a result of the term of the transactions that originated them and that, as at December 31, 2018, amount to R$52,641 (R$38,526 in 2017) for the Bank and R$70,439 (R$41,242 in 2017) for the Consolidated; and (ii) the negative goodwill on the acquisition of Banco CIT Brasil, for purposes of consolidation of the financial statements is being reclassified from "Investments", in permanent assets, to "Deferred income", in the amount of R$47,740 (R$54,642 in 2017) for the Consolidated.

v) Earnings per share are calculated based on the number of shares at the balance sheet dates.

w) Uses of estimates - The preparation of the financial statements information requires Management to make estimates and adopts assumptions that, in its best judgment, affect the reported amounts of certain assets and liabilities (financial or not), revenues, expenses and other transactions, such as: (i) depreciation rates of property and equipment items and lease property and equipment; (ii) amortization of deferred assets; (iii) allowance for loan and lease losses; (iv) measurement of financial instruments; and (v) provisions for contingencies. Actual results could differ from those estimates.

x) Fixed-rate financial assets and financial liabilities are adjusted to present value by unearned income and unearned expenses, which adjust these instruments to the amounts that would be obtained upon realization should they be cash transactions, as well as floating-rate financial instruments, which are realized at their cash value and are periodically adjusted by their respective transactions rates.

y) Functional and reporting currency, foreign currency-denominated transactions and share of profit (loss) of foreign entities:

I - Functional and reporting currency:
Daycoval's Financial Statements Information is stated in Brazilian reais (R$), which is the Bank's functional and reporting currency.
As prescribed by CMN Resolution 4524/16, Daycoval has defined that the functional and reporting currency for each of its direct and indirect subsidiaries, including foreign entities, will also be the Brazilian real (R$).

II – Translation of foreign currency-denominated transactions:
If foreign investees conduct transactions in a currency different from their respective functional currencies, these transactions will be translated by applying the exchange rates of the respective trial balance or balance sheet for monetary items, assets and liabilities stated at fair value or market value and items not classified as monetary items.

III- Share of profit (loss) of foreign entities:
The share of profit (loss) of foreign entities, the functional currency of which is defined in item "I" above, is recognized directly in Daycoval's income statements, in "Share of profit (loss) of subsidiaries".

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are broken down as follows:

	Bank		Consolidated	
	2018	2017	2018	2017
Cash	151,733	114,709	153,172	117,096
Money market investments [1]	1,846,407	2,298,286	1,846,407	2,298,286
Foreign currency investments [2]	168,156	148,190	168,156	148,190
Total cash and cash equivalents	**2,166,296**	**2,561,185**	**2,167,735**	**2,563,572**

(1) Money market investments comprising cash and cash equivalents are stated net of the amount recorded under "Money market investments – third-party portfolio" which as at 2018 amounts to R$2,855,995 (R$1,674,825 in 2017), for the Bank and the Consolidated.

(2) Refers to foreign currency investments maturing within up to 90 days from the investment date.

5. INTERBANK INVESTMENTS

Interbank investments are broken down as follows:

	Bank			
	2018		2017	
Investments type	Maturity	Value	Maturity	Value
Money market investments	Up to 1st business day	4,702,402	Up to 1st business day	3,973,111
Interbank deposits	Up to May 2022	697,632	Up to May 2022	524,067
Foreign currency	Up to 2nd business day	168,156	Up to 2nd business day	148,190
Total		**5,568,190**		**4,645,368**

In 2018, total interbank investments for the Consolidated is R$5,197,654 (R$4,477,015 in 2017).

6. SECURITIES AND DERIVATIVES

a) Breakdown by category and type:

	Bank			
	2018		2017	
	Adjusted cost	Fair value [1]	Adjusted cost	Fair value [1]
Trading securities	**133,791**	**136,877**	**-**	**-**
Own portfolio	**1,826**	**1,859**	**-**	**-**
Debentures	1,826	1,859	-	-
Linked to repurchase commitments	**131,965**	**135,018**	**-**	**-**
Debentures	131,965	135,018	-	-
Available-for-sale securities	**1,879,784**	**1,886,469**	**1,309,861**	**1,309,987**
Own portfolio	**1,659,743**	**1,666,466**	**1,034,950**	**1,035,125**
Treasury bills	1,555,928	1,555,776	890,575	890,610
National Treasury Notes	321	322	66,815	66,667
Foreign securities	46,933	45,881	27,603	27,841
Investment fund units	56,561	64,487	49,957	50,007
Linked to repurchase commitments	**4,456**	**4,456**	**152,943**	**152,917**
Treasury bills	4,456	4,456	152,943	152,917
Linked to guarantees [2]	**215,585**	**215,547**	**121,968**	**121,945**
Treasury bills	215,585	215,547	121,968	121,945
Total Securities	**2,013,575**	**2,023,346**	**1,309,861**	**1,309,987**

	Consolidated			
	2018		2017	
	Adjusted cost	Fair value [1]	Adjusted cost	Fair value [1]
Trading securities	**201,694**	**204,780**	**60,920**	**60,920**
Own portfolio	**1,826**	**1,859**	**-**	**-**
Debentures	1,826	1,859	-	-
Linked to repurchased commitments	**131,965**	**135,018**	**-**	**-**
Debentures	131,965	135,018	-	-
Assets-backed technical reserves (Note 19.c)	**67,903**	**67,903**	**60,920**	**60,920**
Investment fund units	67,903	67,903	60,920	60,920
Available-for-sale securities	**2,088,022**	**2,095,084**	**1,497,321**	**1,502,066**
Own portfolio	**1,865,798**	**1,872,898**	**1,220,358**	**1,225,152**
Treasury bills	1,586,645	1,586,493	919,672	919,704
National Treasury Notes	321	322	66,815	66,667
Foreign securities	83,363	82,687	60,429	62,254
Investment fund units	195,429	203,356	173,442	176,527
Bank Deposit Certificate	40	40	-	-
Linked to repurchased commitments	**4,456**	**4,456**	**152,943**	**152,917**
Treasury bills	4,456	4,456	152,943	152,917
Linked to guarantees [2]	**215,585**	**215,547**	**121,968**	**121,945**
Treasury bills	215,585	215,547	121,968	121,945
Assets-backed technical reserves (Note 19.c)	**2,183**	**2,183**	**2,052**	**2,052**
Treasury bills	2,183	2,183	2,052	2,052
Total Securities	**2,289,716**	**2,299,864**	**1,558,241**	**1,562,986**

(1) The securities' fair value was calculated based on the prices and rates prevailing as at December 31, 2018 and 2017, as disclosed by the Brazilian Financial and Capital Markets Association (ANBIMA), by the managers of the investment fund in which the Bank invests, the B3 S.A.- Brasil, Bolsa, Balcão, and other market makers in the case of securities acquired abroad.

(2) As securities linked to guarantees refer to securities linked to transactions conducted at the B3 S.A.- Brasil, Bolsa, Balcão, and CETIP S.A - Mercados Organizados, in the amount of R$215,547 (R$121,945 as at December 31, 2017) (Note 6.m).

b) Breakdown by maturity:

	Bank 2018						
	Without maturity	Up to 3 months	3 to 12 months	1 to 3 Years	3 to 5 years	Over 5 years	Total
Federal government securities	**-**	**9,209**	**322**	**607,528**	**98,989**	**1,060,053**	**1,776,101**
Treasury Bills	-	9,209	-	607,528	98,989	1,060,053	1,775,779
National Treasury Notes	-	-	322	-	-	-	322
Foreign securities	**-**	**901**	**104**	**-**	**34,828**	**10,048**	**45,881**
Eurobonds and similar instruments	-	901	104	-	34,828	10,048	45,881
Private-sector securities	**-**	**-**	**136,877**	**-**	**-**	**-**	**136,877**
Debentures [1]	-	-	136,877	-	-	-	136,877
Investment fund units	**64,487**	**-**	**-**	**-**	**-**	**-**	**64,487**
Real estate investment fund	47,320	-	-	-	-	-	47,320
Fixed-income investment fund	15,722	-	-	-	-	-	15,722
Other investment funds	1,445	-	-	-	-	-	1,445
Total	**64,487**	**10,110**	**137,303**	**607,528**	**133,817**	**1,070,101**	**2,023,346**

	2017						
	Without maturity	Up to 3 months	3 to 12 months	1 to 3 Years	3 to 5 years	Over 5 years	Total
Federal government securities	**-**	**26,560**	**4,781**	**182,686**	**819,950**	**198,162**	**1,232,139**
Treasury Bills	-	26,560	2,794	182,367	819,950	133,801	1,165,472
National Treasury Notes	-	-	1,987	319	-	64,361	66,667
Foreign securities	**-**	**544**	**91**	**-**	**15,721**	**11,485**	**27,841**
Eurobonds and similar instruments	-	544	91	-	15,721	11,485	27,841
Investment fund units	**50,007**	**-**	**-**	**-**	**-**	**-**	**50,007**
Real estate investment fund	39,434	-	-	-	-	-	39,434
Fixed-income investment fund	9,847	-	-	-	-	-	9,847
Other investment funds	726	-	-	-	-	-	726
Total	**50,007**	**27,104**	**4,872**	**182,686**	**835,671**	**209,647**	**1,309,987**

	Consolidated 2018						
	Without maturity	Up to 3 months	3 to 12 months	1 to 3 Years	3 to 5 years	Over 5 years	Total
Federal government securities	**-**	**28,564**	**322**	**620,875**	**99,187**	**1,060,053**	**1,809,001**
Treasury Bills	-	28,564	-	620,875	99,187	1,060,053	1,808,679
National Treasury Notes	-	-	322	-	-	-	322
Foreign securities	**-**	**901**	**104**	**4,415**	**53,004**	**24,263**	**82,687**
Eurobonds and similar instruments	-	901	104	4,415	53,004	24,263	82,687
Private-sector securities	**-**	**-**	**136,877**	**-**	**40**	**-**	**136,917**
Debentures [1]	-	-	136,877	-	-	-	136,877
Bank Deposit Certificate	-	-	-	-	40	-	40
Investment fund units	**271,259**	**-**	**-**	**-**	**-**	**-**	**271,259**
Fixed-income investment fund	187,571	-	-	-	-	-	187,571
Real estate investment fund	47,321	-	-	-	-	-	47,321
Multimarket investment fund	22,631	-	-	-	-	-	22,631
Equity funds	12,291	-	-	-	-	-	12,291
Other investment funds	1,445	-	-	-	-	-	1,445
Total	**271,259**	**29,465**	**137,303**	**625,290**	**152,231**	**1,084,316**	**2,299,864**

	2017						
	Without maturity	Up to 3 months	3 to 12 months	1 to 3 Years	3 to 5 years	Over 5 years	Total
Federal government securities	**-**	**37,310**	**4,781**	**201,810**	**821,222**	**198,162**	**1,263,285**
Treasury Bills	-	37,310	2,794	201,491	821,222	133,801	1,196,618
National Treasury Notes	-	-	1,987	319	-	64,361	66,667
Foreign securities	**2,684**	**544**	**91**	**2,703**	**26,042**	**30,190**	**62,254**
Eurobonds and similar instruments	2,684	544	91	2,703	26,042	30,190	62,254
Investment fund units	**237,447**	**-**	**-**	**-**	**-**	**-**	**237,447**
Fixed-income investment fund	165,400	-	-	-	-	-	165,400
Real estate investment fund	39,434	-	-	-	-	-	39,434
Multimarket investment fund	21,466	-	-	-	-	-	21,466
Equity fund	10,421	-	-	-	-	-	10,421
Other investment funds	726	-	-	-	-	-	726
Total	**240,131**	**37,854**	**4,872**	**204,513**	**847,264**	**228,352**	**1,562,986**

(1) As set forth in the sole paragraph of Article 7 of BACEN Circular Letter No. 3068/01, securities classified as "Trading securities" are recognized in current assets, regardless of their respective maturities.

c) Derivatives:

The Bank conducts derivative transactions recorded in balance sheet, profit or loss and memorandum accounts to meet its own and the clients' needs.

Derivatives used are properly approved based on the product use policy. Pursuant to this policy, prior to the implementation of each product, all aspects should be analyzed, such as: objectives, methods of use, underlying risks and appropriate supporting operational infrastructure.

The credit and market risk components of derivatives are monitored on a daily basis, and specific limits are set for derivative transactions for clients and also for registration and settlement chambers. Such limits are managed through a system that consolidates exposures by counterparty. Any discrepancies are promptly identified and addressed for immediate solution.

The market risk of derivatives is managed based on a prevailing risk policy, pursuant to which potential risks of price fluctuations in the financial markets are centralized in the Treasury department, which provides hedge for the other areas.

The main derivative financial instruments used by the Bank include swaps, non-deliverable forwards (NDF), US dollar futures (DOL), interest rate (DI) and foreign exchange coupon (DDI). BACEN Circular Letter 3082/02 permitted a specific accounting in those cases derivatives are used to hedge against changes in the fair value or cash flow of the Bank.

No derivative transactions were conducted between the Group companies.

d) Hedge:

The hedging strategy is determined based on the Bank's operating risk exposure limits. Whenever its transactions have risk exposures above the preset limits, which might result in significant fluctuations in the Bank's profit or loss, the Bank uses derivatives, contracted in the organized or over-the-counter market, to hedge against such risks, according to the hedging rules set forth in BACEN Circular Letter 3082/02.

The hedge instruments seek to mitigate market, currency fluctuation and interest rate risks. According to the market liquidity, the maturity dates of hedge instruments are the closest possible to the dates of the financial flows of the hedged transactions so as to ensure an efficient hedge.

Hedge Accounting

Market Risk Hedge

The Bank has a market risk hedge structure designed to offset the risks arising from the exposure to changes in the fair value relating to the fluctuation of foreign currency (US dollar and euro fluctuation) and of the Libor interest rate on foreign borrowings - (hedged items) recorded in "Payables for securities issued abroad" (Note 16.2) and "Payables for foreign borrowings" (Note 17).

The table below summarizes the market risk hedge structure:

2018				Changes in fair value		
Hedged item	Maturity	Principal Value	Hedge Instrument	Hedged item	Hedge Instrument	Effectiveness
IFC Funding	3/15/2019	USD 105,000	*Swap*	(100,704)	100,938	100.23%
IFC Funding	3/15/2019	€ 55,500	*Swap*	(68,326)	67,161	98.29%
Foreign issuance	3/18/2019	USD 500,000	*Swap*	(446,322)	446,781	100.10%
IIC Funding - A/B Loan	7/15/2020	USD 20,000	*Swap*	(18,043)	18,055	100.07%
IFC Funding	3/15/2022	USD 110,000	*Swap*	(116,484)	115,033	98.75%
			Total	**(749,879)**	**747,968**	

2017				Changes in fair value		
Hedged item	Maturity	Principal Value	Hedge Instrument	Hedged item	Hedge Instrument	Effectiveness
IIC Funding - A/B Loan	7/16/2018	USD 55,000	*Swap*	(37,951)	37,744	99.45%
IFC Funding	3/15/2019	USD 105,000	*Swap*	(23,217)	24,952	107.47%
IFC Funding	3/15/2019	€ 55,500	*Swap*	(20,509)	21,233	103.53%
Foreign issuance	3/18/2019	USD 500,000	*Swap*	44,948	(49,487)	110.10%
IIC Funding - A/B Loan	7/15/2020	USD 20,000	*Swap*	(7,718)	7,764	100.60%
IFC Funding	3/15/2022	USD 110,000	*Swap*	36,374	(32,385)	89.03%
			Total	**(8,073)**	**9,821**	

The accounting hedge structure for these transactions was established by linking a cash flow swap contract to each borrowing maturity, either interest or principal plus interest, and the Bank´s long position is identical to the yield of borrowings agreements.

e) Fair value:

The fair value of derivative instruments is determined using available market information, mainly prices and rates disclosed by the B3 S.A. - Brasil, Bolsa, Balcão. When applicable, the Bank adopts mathematical models of rate interpolation for intermediate terms, and rate extrapolation for longer terms.

The following pricing methodologies were adopted for calculating the fair value of derivatives:

• Futures transactions - quotations disclosed by B3 S.A. - Brasil, Bolsa, Balcão.

• Swap agreements and non-deliverable forwards (NDF) - use of the future cash flow, discounted to present value based on future interest curves, obtained from information disclosed by B3 S.A. - Brasil, Bolsa, Balcão.

f) Breakdown of balances recorded in balance sheet accounts in captions "Derivatives" and "Trading account":

	2018		2017	
Assets	**Current**	**Noncurrent**	**Current**	**Noncurrent**
Derivatives	**304,862**	**95,719**	**5,522**	**88,292**
Swaps - differential receivable	278,581	94,744	4,547	88,262
Currency forward receivable	26,281	975	975	30
Trading account	**1,779**	**-**	**2,404**	**-**
Futures pending settlement	**1,779**	**-**	**2,404**	**-**
Dollar futures (DOL)	330	-	481	-
Foreign exchange coupon (DDI)	1,358	-	367	-
Interest rate (DI)	91	-	1,556	-

	2018		2017	
Liabilities	**Current**	**Noncurrent**	**Current**	**Noncurrent**
Derivatives	**29,662**	**-**	**8,829**	**553**
Swaps - differential payable	9,631	-	4,361	498
Currency forward payable	20,031	-	4,468	55
Trading account	**3,035**	**-**	**1,685**	**-**
Futures pending settlement	**3,035**	**-**	**1,685**	**-**
Foreign exchange coupon (DDI)	1,153	-	153	-
Interest rate (DI)	459	-	1,254	-
Dollar futures (DOL)	1,423	-	278	-

Differentials receivable and payable and daily adjustments paid or received for financial assets and financial liabilities are recorded in respective balance sheet accounts as "Derivatives" and "Trading account" which, as at December 31, 2018 and 2017, are adjusted to fair value, and the notional values of these transactions are recorded in memorandum accounts (Note 6.k)).

g) Breakdown by type of contract and counterparty (Bank and consolidated):

		2018		2017	
		Amounts		Amounts	
Contracts	**Type of counterparty**	**receivable**	**(payable)**	**receivable**	**(payable)**
Futures	B3 S.A. - Brasil, Bolsa, Balcão	1,779	(3,035)	2,404	(1,685)
	Total futures transactions	**1,779**	**(3,035)**	**2,404**	**(1,685)**
Swap	Financial institutions	371,292	(8,879)	89,241	(4,090)
	Companies	2,033	(752)	3,568	(769)
	Total	**373,325**	**(9,631)**	**92,809**	**(4,859)**
Forward	Companies	27,256	(20,031)	1,005	(4,523)
	Total forward transactions	**27,256**	**(20,031)**	**1,005**	**(4,523)**

h) Swap contracts (Bank and Consolidated):

	2018					
	Notional value	Cost Value		Fair Value		Differential receivable (payable)
		Bank	Counterparty	Bank	Counterparty	
Lending operations						
Accounting hedge objective (Note 6.d)	**2,489,182**	**2,733,190**	**2,569,158**	**2,734,882**	**2,564,529**	**170,353**
PRE x CDI	1,776,750	1,853,976	1,853,972	1,853,976	1,853,972	4
LIBOR x CDI	712,432	879,214	715,186	880,906	710,557	170,349
Trading objective	**1,759,810**	**2,743,918**	**2,536,059**	**2,741,567**	**2,538,595**	**202,972**
CDI x DOLLAR	1,147,133	1,454,138	1,447,671	1,454,347	1,447,584	6,763
DOLLAR x CDI	610,175	1,287,158	1,085,957	1,284,217	1,088,316	195,901
PRE x DOLLAR	2,502	2,622	2,431	3,003	2,695	308
Total lending operations	**4,248,992**	**5,477,108**	**5,105,217**	**5,476,449**	**5,103,124**	**373,325**
Borrowing operations						
Accounting hedge objective (Note 6.d)	**1,961,199**	**2,220,404**	**2,229,282**	**2,220,404**	**2,229,282**	**(8,878)**
EMTA x PRE	1,776,750	1,973,119	1,980,944	1,973,119	1,980,944	(7,825)
EURO x CDI	184,449	247,285	248,338	247,285	248,338	(1,053)
Trading objective	**16,785**	**17,108**	**17,933**	**17,111**	**17,864**	**(753)**
CDI x DOLLAR	16,785	17,108	17,933	17,111	17,864	(753)
Total de borrowing operations	**1,977,984**	**2,237,512**	**2,247,215**	**2,237,515**	**2,247,146**	**(9,631)**

	2017					
	Notional value	Cost Value		Fair Value		Differential receivable (payable)
		Bank	Counterparty	Bank	Counterparty	
Lending operations						
Accounting hedge objective (Note 6.d)	**2,689,602**	**2,730,320**	**2,693,505**	**2,733,306**	**2,690,806**	**42,500**
LIBOR x CDI	680,490	716,586	682,462	719,111	679,866	39,245
EURIBOR x CDI	184,449	185,976	184,449	185,976	184,449	1,527
LIBOR x CDI	47,913	50,508	49,844	50,969	49,741	1,228
PRE x CDI	1,776,750	1,777,250	1,776,750	1,777,250	1,776,750	500
Trading objective	**1,740,962**	**2,182,324**	**2,138,689**	**2,202,206**	**2,151,897**	**50,309**
DOLLAR x CDI	610,174	1,048,794	1,010,093	1,068,178	1,023,530	44,648
CDI x DOLLAR	1,130,483	1,133,061	1,128,142	1,133,559	1,127,905	5,654
CDI x IGP-M	305	469	454	469	462	7
Total lending operations	**4,430,564**	**4,912,644**	**4,832,194**	**4,935,512**	**4,842,703**	**92,809**
Borrowing operations						
Accounting hedge objective (Note 6.d)	**1,952,585**	**1,948,605**	**1,952,585**	**1,948,605**	**1,952,585**	**(3,980)**
LIBOR x CDI	175,835	175,426	175,835	175,426	175,835	(409)
EMTA x PRE	1,776,750	1,773,179	1,776,750	1,773,179	1,776,750	(3,571)
Trading objective	**48,100**	**54,362**	**55,605**	**54,873**	**55,752**	**(879)**
DOLAR x CDI	14,682	14,648	14,683	14,649	14,683	(34)
PRE x DOLLAR	331	338	405	343	406	(63)
IPC-A x CDI	17,092	23,142	23,455	23,379	23,455	(76)
CDI x DOLLAR	15,995	16,234	17,062	16,502	17,208	(706)
Total borrowing operations	**2,000,685**	**2,002,967**	**2,008,190**	**2,003,478**	**2,008,337**	**(4,859)**

i) Forward contracts (Bank and Consolidated):

Currency Forward	2018 Notional value	Cost Value Bank	Cost Value Counterparty	Fair Value Bank	Fair Value Counterparty	Differential receivable (payable)
Trading objective						
Non-deliverable currency forward purchase	361,861	377,452	364,562	377,451	365,163	12,288
Non-deliverable currency forward sale	1,331,779	1,330,055	1,338,688	1,330,055	1,315,087	14,968
Total lending operations	**1,693,640**	**1,707,507**	**1,703,250**	**1,707,506**	**1,680,250**	**27,256**
Trading objective						
Non-deliverable currency forward sale	175,647	180,465	140,291	180,465	184,772	(4,307)
Non-deliverable currency forward purchase	991,130	984,382	997,437	984,382	1,000,106	(15,724)
Total Borrowing operations	**1,166,777**	**1,164,847**	**1,137,728**	**1,164,847**	**1,184,878**	**(20,031)**

Currency Forward	2017 Notional value	Cost Value Bank	Cost Value Counterparty	Fair Value Bank	Fair Value Counterparty	Differential receivable (payable)
Trading objective						
Non-deliverable currency forward purchase	73,746	73,631	73,908	73,631	73,148	483
Non-deliverable currency forward sale	93,319	93,855	93,801	93,855	93,333	522
Total lending operations	**167,065**	**167,486**	**167,709**	**167,486**	**166,481**	**1,005**
Trading objective						
Non-deliverable currency forward purchase	153,698	154,528	154,472	154,528	155,136	(608)
Non-deliverable currency forward sale	173,377	180,694	176,053	180,694	184,609	(3,915)
Total Borrowing operations	**327,075**	**335,222**	**330,525**	**335,222**	**339,745**	**(4,523)**

j) Future contracts (Bank and Consolidated):

Contracts	2018 Notional value Long Position	Notional value Short Position	Notional value Total exposure	Daily adjustments receivable	Daily adjustments (payable)
Trading objective					
Foreign exchange coupon (DDI)	308,019	411,616	719,635	1,358	(1,153)
Interest rate (DI)	44,989	3,053,318	3,098,307	91	(459)
Dollar futures (DOL)	367,496	-	367,496	330	(1,423)
Total	**720,504**	**3,464,934**	**4,185,438**	**1,779**	**(3,035)**

Contracts	2017 Notional value Long Position	Notional value Short Position	Notional value Total exposure	Daily adjustments receivable	Daily adjustments (payable)
Trading objective					
Foreign exchange coupon (DDI)	74,188	182,001	256,189	367	(153)
Interest rate (DI)	486,555	5,253,184	5,739,739	1,556	(1,254)
Dollar futures (DOL)	-	111,906	111,906	481	(278)
Total	**560,743**	**5,547,091**	**6,107,834**	**2,404**	**(1,685)**

k) Operations by maturity (notional values) (Bank and Consolidated):

	2018					
Contracts	Up to 3 months	From 3 to 12 months	From 1 to 3 years	From 3 to 5 years	Over 5 years	Total
Futures	989,748	1,574,474	1,436,933	139,295	44,988	**4,185,438**
Swap	5,791,589	52,128	33,519	349,740	-	**6,226,976**
Forward	2,467,099	363,015	30,303	-	-	**2,860,417**
Total	**9,248,436**	**1,989,617**	**1,500,755**	**489,035**	**44,988**	**13,272,831**

	2017					
Contracts	Up to 3 months	From 3 to 12 months	From 1 to 3 years	From 3 to 5 years	Over 5 years	Total
Futures	2,465,989	1,305,664	1,150,601	739,840	445,740	**6,107,834**
Swap	3,861	243,024	5,834,625	349,739	-	**6,431,249**
Forward	420,141	73,215	784	-	-	**494,140**
Total	**2,889,991**	**1,621,903**	**6,986,010**	**1,089,579**	**445,740**	**13,033,223**

l) Trading location (Bank and Consolidated):

	Notional value	
	2018	2017
Futures / Swap / Forward		
B3 S.A. - Brasil, Bolsa, Balcão	13,272,831	13,033,223

m) Collateral margins (Bank and Consolidated):

	2018		2017	
Federal government securities	Cost Value	Market value	Cost Value	Market value
Treasury Bills	215,585	215,547	121,968	121,945

Federal government bonds are pegged to guarantees for outstanding futures transactions at B3 S.A. - Brasil, Bolsa, Balcão as at December 31, 2018 and 2017.

7. LENDING, OTHER LENDING AND LEASING OPERATIONS

a) Breakdown of the loan, other loan and leasing portfolio:

	Bank			
	2018		2017	
	Current	Noncurrent	Current	Noncurrent
Loans [1]	5,493,314	4,813,958	4,751,701	4,063,289
Discounted trade notes	708,116	979	712,695	624
Loans assigned with substantial retention of risks and benefits (Note 8)	37,033	35,145	66,367	93,128
Financing	1,693,762	712,945	1,225,529	626,640
Rural and agro-industrial financing	52,177	2,444	58,214	-
Total lending operations	**7,984,402**	**5,565,471**	**6,814,506**	**4,783,681**
Guarantees and collaterals	-	-	34,656	-
Payables for purchase of assets (Note 10.b)	12,873	8,491	8,955	18,370
Other credit and notes receivable (Note 10.b)	3,210,382	15,489	2,497,922	6,394
Credits linked to transactions acquired under assignment (Note 10.b) [2]	51,219	59,028	-	-
Financed imports (Note 20.a)	509	-	12,921	-
Advances on foreign exchange contracts (Note 10.a and 20.a)	569,363	-	440,196	-
Total other credits	**3,844,346**	**83,008**	**2,994,650**	**24,764**
Total	**11,828,748**	**5,648,479**	**9,809,156**	**4,808,445**

	Consolidated			
	2018		2017	
	Current	Noncurrent	Current	Noncurrent
Loans	5,493,314	4,813,958	4,751,701	4,063,289
Discounted trade notes	708,116	979	712,695	624
Loans assigned with substantial retention of risks and benefits (Note 8)	37,033	35,145	66,367	93,128
Financing	1,727,967	740,973	1,235,391	634,950
Rural and agro-industrial financing	52,177	2,444	58,214	-
Total lending operations	**8,018,607**	**5,593,499**	**6,824,368**	**4,791,991**
Financial leasing	320,405	401,910	256,543	223,309
Operating leasing	36,848	28,222	27,097	19,249
Total leasing operations	**357,253**	**430,132**	**283,640**	**242,558**
Guarantees and collaterals	-	-	34,656	-
Payables for purchase of assets (Note 10.b)	12,873	8,491	8,955	18,370
Other credit and notes receivable (Note 10.b)	3,210,382	15,489	2,497,922	6,394
Credits linked to transactions acquired under assignment (Note 10.b) [2]	51,219	59,028	-	-
Financed imports (Note 20.a)	509	-	12,921	-
Advances on foreign exchange contracts (Note 10.a and 20.a)	569,363	-	440,196	-
Total other credits	**3,844,346**	**83,008**	**2,994,650**	**24,764**
Total	**12,220,206**	**6,106,639**	**10,102,658**	**5,059,313**

(1) Includes linked credit transactions as set forth in CMN Resolution 2.921/02 (Note 7.h).

(1) Credit transactions acquired from a financial institution comprising the National Financial System subject to risk and benefit retention by the assignor.

b) Breakdown of the loan, other loan and leasing portfolio by risk level:

	Bank					
	2018				2017	
		Allowance				
Risk Level	Total portfolio	Required by BACEN Res. 2682/99 [1]	Additional [2]	Total allowance	Total portfolio	Allowance Required by BACEN Res. 2682/99
AA	1,316,083	-	-	-	260	-
A	7,390,511	36,954	29,562	66,516	6,797,217	33,985
B	6,334,105	63,341	120,348	183,689	5,488,692	54,887
C	1,186,409	35,593	15,423	51,016	1,286,020	38,581
D	366,672	36,667	-	36,667	151,680	15,168
E	77,982	23,394	-	23,394	101,795	30,539
F	135,349	67,674	-	67,674	73,480	36,740
G	43,660	30,562	-	30,562	40,941	28,659
H	626,456	626,456	-	626,456	677,516	677,516
Total	**17,477,227**	**920,641**	**165,333**	**1,085,974**	**14,617,601**	**916,075**

	Consolidated					
	2018				2017	
		Allowance				
Risk Level	Total portfolio	Required by BACEN Res. 2682/99 [1]	Additional [2]	Total allowance	Total portfolio	Allowance Required by BACEN Res. 2682/99
AA	1,316,083	-	-	-	260	-
A	7,758,115	38,791	29,562	68,353	7,000,817	35,003
B	6,723,487	67,235	120,348	187,583	5,692,878	56,928
C	1,259,874	37,797	15,423	53,220	1,398,304	41,950
D	374,560	37,456	-	37,456	166,628	16,663
E	84,672	25,402	-	25,402	105,157	31,548
F	138,128	69,064	-	69,064	74,512	37,256
G	43,685	30,579	-	30,579	40,965	28,676
H	628,241	628,241	-	628,241	682,450	682,450
Total	**18,326,845**	**934,565**	**165,333**	**1,099,898**	**15,161,971**	**930,474**

(1) Refers to the allowance for loan losses considering the minimum percentage rates required by CMN Resolution No. 2682/99, as mentioned in Note 3.g.

(2) Beginning June 30, 2018, an allowance for loan losses in addition to the minimum allowance required by the prevailing regulation started to be recognized, based on a specific risk assessment methodology, supported by a receivables collection study

c) Breakdown of the loan, other loan and leasing portfolio by business sector

	Bank		Consolidated	
	2018	2017	2018	2017
Private sector	**17,367,050**	**14,499,884**	**18,216,668**	**15,044,254**
Industrial	4,825,155	3,749,945	5,018,420	3,900,884
Commercial	3,335,420	2,703,347	3,476,737	2,823,197
Financial	120,443	43,899	124,439	48,484
Other services	2,815,274	2,354,462	3,325,775	2,623,181
Individuals	6,270,758	5,648,231	6,270,758	5,648,231
Rural	-	-	539	277
Public sector	**110,177**	**117,717**	**110,177**	**117,717**
Total	**17,477,227**	**14,617,601**	**18,326,845**	**15,161,971**

d) Breakdown of the loan, other loan and leasing portfolio by maturity

	Bank		Consolidated	
	2018	2017	2018	2017
Current				
Up to 3 months	6,288,191	5,493,045	6,421,368	5,603,589
3 to 12 months	5,274,066	4,017,344	5,531,406	4,198,735
1 to 3 years	3,892,038	3,341,888	4,281,865	3,558,678
3 to 5 years	1,271,022	1,103,847	1,339,095	1,137,864
Over 5 years	485,419	362,710	485,679	362,771
Total - current	**17,210,736**	**14,318,834**	**18,059,413**	**14,861,637**
Past-due				
Up to 60 days	87,247	107,018	87,940	107,686
61 to 90 days	31,125	27,811	31,229	28,025
91 to 180 days	44,226	67,103	44,344	67,417
181 to 360 days	103,893	96,835	103,919	97,206
Total - past-due	**266,491**	**298,767**	**267,432**	**300,334**
Total	**17,477,227**	**14,617,601**	**18,326,845**	**15,161,971**

e) Concentration of credit risk:

	Bank			
	2018		2017	
Largest debtors	Amount	% on portfolio	Amount	% on portfolio
10 largest debtors	1,113,947	6.37	1,245,158	8.52
50 next largest debtors	2,076,303	11.88	1,673,291	11.45
100 next largest debtors	1,780,317	10.19	1,340,197	9.17
Other debtors	12,506,660	71.56	10,358,955	70.86
Total	**17,477,227**	**100.00**	**14,617,601**	**100.00**

	Consolidated			
	2018		2017	
Largest debtors	Amount	% on portfolio	Amount	% on portfolio
10 largest debtors	1,326,821	7.24	1,412,008	9.31
50 next largest debtors	2,305,889	12.58	1,816,963	11.98
100 next largest debtors	1,952,110	10.65	1,443,061	9.52
Other debtors	12,742,025	69.53	10,489,939	69.19
Total	**18,326,845**	**100.00**	**15,161,971**	**100.00**

f) Renegotiated lending and leasing operations:

During the 2018, the Bank renegotiated delinquent customers' loans in the amount of R$563,170, respectively (R$501,025 in 2017) and Daycoval Leasing renegotiated leasing operations in the amount of R$4,215 (R$9,537 in 2017).

g) Recovery of loans written off as loss:

During 2018, the Bank recovered credits previously written off as loss, in the amounts of R$229,505 (R$146,184 in 2017) (Note 25.a) and Daycoval Leasing recovered R$829 in 2018 (recovered R$4,196 in 2017) (Note 25.b), recognized in the income statements.

h) Linked lending transactions:

The table below shows the information on linked lending transactions carried out as set forth in CMN Resolution 2.921/02:

	2018
	Up to 12 months
Linked lending transactions	
Lending transactions	24,355
Payables for linked lending transactions	
Bank Certificates of Deposit (CDBs)	25,291

8. ASSIGNMENT OF LOANS (Bank and Consolidated):

Loan assignments carried out by the Bank meet the accounting criteria described in CMN Resolution 3533/08 (Note 3.h), regarding the classification of these assignments in the category "Operations with substantial retention of risks and benefits.

During year ended December 31, 2018, and 2017 there were no assignment of loans.

Since 2016 the Bank does not carry out any credit assignment transactions. As at December 31, 2018, the carrying amount of credit assignments recorded in “Lending operations” (Note 7.a) amounts to R$72,178 (R$159,495 in 2017) with the respective obligation assumed by the assignment recognized in “Other obligations – Sundry – Payables for sales operations and transfer of financial assets” (Note 20.d) in the amount of R$86,864 (R$197,407 in 2017).

Such loan assignments did not generate advanced profit or loss for the Bank.

9. ALLOWANCE FOR LOAN, OTHER CREDIT AND LEASE LOSSES

The allowance for loan, other credit and lease losses was recognized based on the criteria described in note 3.g) and is considered sufficient to cover probable losses.

During year ended December 31, 2018 and 2017, the changes in the expenses on the allowance for loan, other credit and lease losses, recognized in the income statements, under “Allowance for loan losses”, were as follows:

		Recognition of allowance				
2018	Opening allowance balance	Required by BACEN Res. 2682/99 [1]	Additional [2]	Total allowance expenses	Write-off of transactions against loss	Closing allowance balance
Bank	**916,075**	533,008	165,333	**698,341**	(528,442)	**1,085,974**
Daycoval Leasing	**14,399**	570	-	**570**	(1,045)	**13,924**
Total - Consolidated	**930,474**	**533,578**	**165,333**	**698,911**	**(529,487)**	**1,099,898**

	Bank	Consolidated
Current assets - lending operations	542,790	543,847
Noncurrent long-term assets - lending operations	403,522	404,001
Current assets - other sundry credits	139,136	139,136
Noncurrent assets - other sundry credits	526	526
Current assets - leasing	-	6,253
Noncurrent long-term assets - leasing	-	6,135
Total	**1,085,974**	**1,099,898**

		Recognition of allowance			
2017	Opening allowance balance	Required by BACEN Res. 2682/99 [1]	Total allowance expenses	Write-off of transactions against loss	Closing allowance balance
Bank	**746,863**	550,074	**550,074**	(380,862)	**916,075**
Daycoval Leasing	**18,291**	3,558	**3,558**	(7,450)	**14,399**
Total - Consolidated	**765,154**	**553,632**	**553,632**	**(388,312)**	**930,474**

	Bank	Consolidated
Current assets - lending operations	414,057	414,802
Noncurrent long-term assets - lending operations	261,329	261,834
Current assets - other sundry credits	240,444	240,444
Noncurrent assets - other sundry credits	245	245
Current assets - leasing	-	7,645
Noncurrent long-term assets - leasing	-	5,504
Total	**916,075**	**930,474**

(1) Refers to the allowance for loan losses considering the minimum percentage rates required by CMN Resolution No. 2682/99, as mentioned in Note 3.g.

(2) Beginning June 30, 2018, an allowance for loan losses in addition to the minimum allowance required by the prevailing regulation started to be recognized, based on a specific risk assessment methodology, supported by a receivables collection study

10. OTHER CREDITS

Other credits are broken down as follows:

a) Foreign exchange portfolio (Bank and Consolidated)

	2018	2017
	Current	Current
Foreign exchange purchased pending settlement	678,972	508,577
Right on foreign exchange sold	372,360	74,832
(-) Advances received in local currency	(1,774)	(13,524)
Income receivable from advances granted (Note 7.a)	15,000	21,094
Total	**1,064,558**	**590,979**

b) Sundry:

	Bank			
	2018		2017	
	Current	Noncurrent	Current	Noncurrent
Salary advances	854	-	927	-
Advances for payment of our account	13,692	-	7,184	-
Advances for constructions in progress	85	-	-	-
Tax credits (Note 22.c)	473,452	552,405	440,690	497,671
Debtors for purchase of assets (Note 7.a)	12,873	8,491	8,955	18,370
Debtors for escrow deposits [1]	3,158	1,695,149	-	1,570,448
Recoverable taxes [2]	137,460	-	137,830	-
Reimbursable payments	891	-	970	-
Prepaid profit sharing	27,169	-	-	-
Credits linked to transactions acquired under assignment (Note 7.a)	51,219	59,028	-	-
Discount on the acquisition of lending operations [3]	(7,908)	(1,496)	(4,687)	(6,161)
Other credits and notes receivables (Note 7.a)	3,210,382	15,489	2,497,922	6,394
Sundry debtors	28,649	-	55,796	-
Total	**3,951,976**	**2,329,066**	**3,145,587**	**2,086,722**

	Consolidated			
	2018		2017	
	Current	Noncurrent	Current	Noncurrent
Salary advances	929	-	1,023	-
Advances for payment of our account	13,850	-	7,640	-
Advances for constructions in progress	85	-	-	-
Tax credits (Note 22.c)	476,545	558,279	448,966	507,896
Debtors for purchase of assets (Note 7.a)	12,873	8,491	8,955	18,370
Debtors for escrow deposits [1]	3,158	1,703,643	-	1,578,022
Recoverable taxes [2]	152,609	-	146,383	-
Reimbursable payments	891	-	970	-
Prepaid profit sharing	27,169	-	-	-
Credits linked to transactions acquired under assignment (Note 7.a)	51,219	59,028	-	-
Discount on the acquisition of lending operations [3]	(7,908)	(1,496)	(4,687)	(6,161)
Other credits and notes receivables (Note 7.a)	3,210,382	15,489	2,497,922	6,394
Sundry debtors	35,417	-	59,699	-
Total	**3,977,219**	**2,343,434**	**3,166,871**	**2,104,521**

(1) As at December 31, 2018, refers to the accounting for deposits linked to legal requirements (Note 23.b), made for the filing of appeals relating to: (i) taxes and contributions in the amount of R$1,662,901 for the Bank and R$1,669,014 for the Consolidated (R$1,535,080 for the Bank and R$1,540,853 for the Consolidated in 2017); (ii) labor, amounting to R$10,616 for the Bank and R$12,897 for the Consolidated (R$12,339 for the Bank and R$14,024 for the Consolidated in 2017); (iii) civil, amounting to R$24,789 for the Bank and for the Consolidated (R$23,029 for the Bank and R$23,145 for the Consolidated in 2017); and (iv) Daycoval Leasing rental guarantee in the amount of R$100 (R$95 as at December 31, 2017).

(2) As at December 31, 2018, the caption "Recoverable taxes" is composed mainly of prepaid income tax and social contribution in the amount of R$135,441 (R$135,865 as at 2017) for the Bank, and R$147,275 (R$140,902 as at 2017) for the Consolidated.

(3) As at December 31, 2018 and December 31, 2017 refers to discounts obtained on the acquisition of lending operations from other institutions comprising the National Financial System, to be recognized in the income statements of Banco Daycoval, in caption "Lending operations", due to the term of transactions.

11. OTHER ASSETS

Other assets	2018		2017	
	Current	Noncurrent	Current	Noncurrent
Repossessed assets [1]	92,832	-	103,784	-
(-) Allowance for depreciation of repossessed assets	(8,422)	-	(10,532)	-
Total repossessed assets [2]	**84,410**	**-**	**93,252**	**-**
Prepaid expenses [3]				
Bank	21,110	2,249	40,794	84,233
Consolidated	20,035	2,249	37,945	48,464

(1) Refer to assets received as payment for loans.

(2) As at December 31, 2018, the total of repossessed assets amounts to R$84,426 (R$93,848 in 2017) for the Consolidated.

(3) Refer mainly to expenses on commissions paid in advance upon origination of loans (Note 3.j).

As mentioned in Note 3.j), the Bank elected to adopt the provision set forth in paragraph 1 of Circular Letter 3693/13, as amended by Circular Letter 3738/14, both from BACEN, and recognized in “Prepaid expenses” the commissions paid to correspondents upon origination of loans in years prior to 2017. Beginning January 1, 2017, expenses on commissions were directly recognized in profit or loss for the period, upon origination of loans. During the year ended December 31, 2017, the total commissions paid to third parties for the origination of loans, according to the criteria established in the aforementioned regulations, recognized in the income statements (Note 25.i) amounted to R$175,395 (R$145,862 in 2017).

12. INVESTMENTS

Investments are represented by investments in subsidiaries; the main information on these investments are as follows:

a) Direct subsidiaries:

	Daycoval Leasing		Dayprev	
	2018	2017	2018	2017
Total Assets	975,947	622,404	101,306	93,052
Total Liabilities	570,043	272,015	68,402	61,395
Equity	405,904	350,389	32,904	31,657
Negative goodwill on acquisition (Nota 3.u)	(47,740)	(54,642)	-	-
Capital [4]	206,805	206,805	25,000	15,000
Number of shares	5,780,078,463	5,780,078,463	19,591,614	14,550,000
Net income for the year	55,515	30,945	1,574	1,883
Ownership interest - %	100.00%	100.00%	97.00%	97.00%
Adjusted investment	**358,164**	**295,747**	**31,916**	**30,532**
Share of profit (loss) of subsidiaries of the period	**55,515**	**30,945**	**1,527**	**1,827**

	ACS [1]		Daycoval Asset	
	2018	2017	2018	2017
Total Assets	814,269	755,815	42,696	38,132
Total Liabilities	38,125	12,683	2,016	2,034
Equity	776,144	743,132	40,680	36,098
Capital	623,448	623,448	1,554	1,554
Number of shares	536,730,077	536,730,077	36,875	14,253
Net income for the year	37,528	22,620	4,582	1,810
Ownership interest - %	99.99%	99.99%	99.99%	99.99%
Adjusted investment	**760,513**	**704,515**	**40,680**	**36,098**
Share of profit (loss) of subsidiaries of the period [3]	**60,516**	**27,109**	**4,582**	**1,810**

b) Indirect subsidiaries

	Treetop [2]		IFP		SCC	
	2018	2017	2018	2017	2018	2017
Total Assets	72,943	56,225	62,382	65,174	13,154	12,984
Total Liabilities	6,353	-	15,143	14,677	125	217
Equity	66,590	56,225	47,239	50,497	13,029	12,767
Capital	10,340	8,828	60,020	60,020	10,020	10,020
Number of shares	2,668,585	2,668,585	60,020,000	60,020,000	10,020,000	10,020,000
Net income for the year	6,096	2,738	(3,258)	(2,816)	261	455
Ownership interest - %	100.00%	100.00%	99.99%	99.99%	99.99%	99.99%
Adjusted investment	**66,590**	**56,225**	**47,234**	**50,492**	**13,028**	**12,766**
Share of profit (loss) of subsidiaries of the period [1]	**6,096**	**2,738**	**(3,258)**	**(2,816)**	**261**	**455**

(1) As at December 31, 2018, revenues from share of profit of investees amounts to R$3,099 (R$377 in 2017), which were recognized in profit or loss of ACS Participações (direct parent company), as mentioned in table 12.a.

(2) As at December 31, 2018, income from exchange variation in the amount of R$8,785 was recognized in the result of ACS Participações (direct parent company), as mentioned in table 12.a) above (expense of R$717 in 2017) on the investment in Treetop.

(3) As at December 31, 2018, a substantial portion of the profit from commissions paid on the origination of credit to IFP (indirect subsidiary) was realized, which company was consolidated in the financial statements of ACS Participações (direct parent company), as mentioned in table 12.a) which, in years prior to 2017, were recognized directly in profit or loss by the indirect subsidiary and deferred in the Bank's financial statements as a result of the term of the transactions or according to deferral criteria established by BACEN Circular 3.693/13, as amended by BACEN Circular 3.738/14. Beginning 2017, these commissions paid by the Bank to IFP were directly recognized in the Bank's income statements on their payment date.

(4) The increase of Dayprev's capital in the amount of R$10 million was decided and approved at the Extraordinary General Meeting held on October 30, 2018, upon the payment of earnings reserves and issuance of 4,591,614 million registered common shares granted to shareholders as bonus. This increase was approved by SUSEP on January 2, 2019.

13. FOREIGN BRANCH

The balances of the transactions of Banco Daycoval S.A. - Cayman Branch (foreign branch) conducted with third parties and included in the Bank's financial statement information as at December 31, 2018 and 2017, are as follows:

	2018		2017	
	US$ mil	R$ mil [1]	US$ mil	R$ mil [1]
Assets				
Cash and cash equivalents	234	907	443	1,465
Interbank investments	26,100	101,132	30,550	101,059
Securities	11,840	45,880	8,417	27,840
Lending operations	99,465	385,407	34,354	113,644
Other assets	673	2,609	-	-
Total assets	**138,312**	**535,935**	**73,764**	**244,008**
Liabilities				
Demand deposit	10,022	38,833	26,342	87,139
Time deposits	35,486	137,501	24,446	80,869
Funds from acceptance and issuance of securities	5,317	20,602	5,190	17,169
Borrowings and onlendings	81,736	316,710	6,517	21,557
Deferred income	183	709	106	349
Total liabilities	**132,744**	**514,355**	**62,601**	**207,083**

(1) The amounts in US dollars were translated into Brazilian reais (R$) based on the R$/US$ 3.8748 and R$/US$3.3080 exchange rates disclosed by BACEN, as at December 31, 2018 and December 31, 2017, respectively.

During the year ended December 31, 2018, income from exchange variation in the amount of R$13,208 (income of R$878 in 2017) on the investment in Banco Daycoval S.A. - Cayman Branch was recognized in the Bank's income statement.

14. PROPERTY AND EQUIPMENT

	Bank				
	2018				2017
Description	Annual depreciation %	Cost	Accumulated depreciation	Net amount	Net amount
Facilities	10	917	(889)	28	41
Furniture and equipment	10	6,826	(4,578)	2,248	1,606
Communications equipment	10	836	(464)	372	388
Security equipment	10	1,459	(788)	671	700
Vehicles and airplane	10	78,226	(10,557)	67,669	75,110
Computers and peripherals	20	15,010	(10,683)	4,327	4,423
Total assets		**103,274**	**(27,959)**	**75,315**	**82,268**

	Consolidated				
	2018				2017
Description	Annual depreciation %	Cost	Accumulated depreciation	Net amount	Net amount
Properties	4	2,140	-	2,140	2,140
Facilities	10	1,020	(889)	131	204
Furniture and equipment	10	7,857	(5,403)	2,454	1,759
Communications equipment	10	889	(517)	372	1,474
Security equipment	10	1,459	(788)	671	700
Vehicles and airplane	10	79,496	(11,273)	68,223	75,489
Computers and peripherals	20	16,097	(11,770)	4,327	3,347
Total assets		**108,958**	**(30,640)**	**78,318**	**85,113**

15. DEPOSITS AND MONEY MARKET FUNDING

Demand deposits, interbank deposits, time deposits and foreign-currency deposits and money market funding are negotiated at usual market rates. Their aging list is as follows:

	Bank						
	2018						
	Without Maturity	Up to 3 months	3 to 12 Months	1 to 3 years	3 to 5 years	Over 5 years	Total
Demand deposits	864,844	-	-	-	-	-	864,844
Interbank deposits	-	37,452	336,215	21,813	-	-	395,480
Time deposits	-	870,898	1,102,741	2,073,048	141,595	10,671	4,198,953
Foreign-currency deposits	7,321	-	-	-	-	-	7,321
Total deposits	**872,165**	**908,350**	**1,438,956**	**2,094,861**	**141,595**	**10,671**	**5,466,598**
Money market funding	-	2,992,328	-	-	-	-	2,992,328
Total money market funding	**-**	**2,992,328**	**-**	**-**	**-**	**-**	**2,992,328**
Total deposits and money market funding	**872,165**	**3,900,678**	**1,438,956**	**2,094,861**	**141,595**	**10,671**	**8,458,926**

	2017					
	Without Maturity	Up to 3 months	3 to 12 Months	1 to 3 years	3 to 5 years	Total
Demand deposits	736,540	-	-	-	-	736,540
Interbank deposits	-	32,903	304,492	-	-	337,395
Time deposits	-	1,089,587	1,416,930	1,489,282	78,086	4,073,885
Foreign-currency deposits	4,675	-	-	-	-	4,675
Total deposits	**741,215**	**1,122,490**	**1,721,422**	**1,489,282**	**78,086**	**5,152,495**
Money market funding	-	1,860,116	-	-	-	1,860,116
Total money market funding	**-**	**1,860,116**	**-**	**-**	**-**	**1,860,116**
Total deposits and money market funding	**741,215**	**2,982,606**	**1,721,422**	**1,489,282**	**78,086**	**7,012,611**

	Consolidated						
	2018						
	Without Maturity	Up to 3 months	3 to 12 Months	1 to 3 years	3 to 5 years	Over 5 years	Total
Demand deposits	863,807	-	-	-	-	-	863,807
Interbank deposits	-	37,452	336,215	21,813	-	-	395,480
Time deposits	-	870,898	1,102,741	2,003,181	141,595	10,671	4,129,086
Foreign-currency deposits	7,321	-	-	-	-	-	7,321
Total deposits	**871,128**	**908,350**	**1,438,956**	**2,024,994**	**141,595**	**10,671**	**5,395,694**
Money market funding	-	2,992,328	-	-	-	-	2,992,328
Total money market funding	**-**	**2,992,328**	**-**	**-**	**-**	**-**	**2,992,328**
Total deposits and money market funding	**871,128**	**3,900,678**	**1,438,956**	**2,024,994**	**141,595**	**10,671**	**8,388,022**

	2017					
	Without Maturity	Up to 3 months	3 to 12 Months	1 to 3 years	3 to 5 years	Total
Demand deposits	735,496	-	-	-	-	735,496
Interbank deposits	-	32,903	304,492	-	-	337,395
Time deposits	-	1,087,881	1,416,930	1,402,575	77,695	3,985,081
Foreign-currency deposits	4,675	-	-	-	-	4,675
Total deposits	**740,171**	**1,120,784**	**1,721,422**	**1,402,575**	**77,695**	**5,062,647**
Money market funding	-	1,860,116	-	-	-	1,860,116
Total money market funding	**-**	**1,860,116**	**-**	**-**	**-**	**1,860,116**
Total deposits and money market funding	**740,171**	**2,980,900**	**1,721,422**	**1,402,575**	**77,695**	**6,922,763**

16. FUNDS FROM ACCEPTANCE AND ISSUANCE OF SECURITIES

16. 1) Financial bills and credit notes:

Program for Public Issuance of Financial Bills Non-Convertible into Banco Daycoval's shares

Pursuant to the Notice to the Market, published on April 06, 2018, the Bank has completed the sixth issuance of Financial Bills in the amount of R$500 million, the 1st series in the amount of R$152.5 million maturing on April 13, 2020 and the 2nd series in the amount of R$347.5 million maturing on April 13, 2021.

	Bank					
	2018					
	Up to 3 months	3 to 12 Months	1 to 3 years	3 to 5 years	Over 5 years	Total
Mortgage loan notes	196,562	452,105	125,232	5	-	773,904
Agribusiness letter of credit	279,733	337,932	43,924	2,244	-	663,833
Financial bills	322,729	2,910,007	4,483,871	244,836	44,100	8,005,543
Total	**799,024**	**3,700,044**	**4,653,027**	**247,085**	**44,100**	**9,443,280**

	2017				
	Up to 3 months	3 to 12 Months	1 to 3 years	3 to 5 years	Total
Mortgage loan notes	195,699	219,784	90,832	485	506,800
Agribusiness letter of credit	164,062	298,266	20,173	-	482,501
Financial bills	246,709	2,389,525	3,480,002	185,590	6,301,826
Total	**606,470**	**2,907,575**	**3,591,007**	**186,075**	**7,291,127**

	Consolidated					
	2018					
	Up to 3 months	3 to 12 Months	1 to 3 years	3 to 5 years	Over 5 years	Total
Mortgage loan notes	196,562	452,105	125,232	5	-	773,904
Agribusiness letter of credit	279,733	337,932	43,924	2,244	-	663,833
Financial bills	322,729	2,366,560	4,460,960	244,836	44,100	7,439,185
Total	**799,024**	**3,156,597**	**4,630,116**	**247,085**	**44,100**	**8,876,922**

	2017				
	Up to 3 months	3 to 12 Months	1 to 3 years	3 to 5 years	Total
Mortgage loan notes	195,699	219,784	90,832	485	506,800
Agribusiness letter of credit	164,062	298,266	20,173	-	482,501
Financial bills	246,709	2,389,525	2,951,293	185,590	5,773,117
Total	**606,470**	**2,907,575**	**3,062,298**	**186,075**	**6,762,418**

16.2) Payables for securities issued abroad:

Program for the issuance of securities abroad

The table below shows the features of these programs and the related balances, in local currency:

	Amount issued	Interest rate	Issuance date	Maturity date	2018		2017	
					Bank	Consolidated	Bank	Consolidated
	(US$)	*(p.a.)*			*(R$ mil)*	*(R$ mil)*	*(R$ mil)*	*(R$ mil)*
Foreign issuance program [1]	500,000	5.75%	3/19/2014	3/18/2019	1,906,818	1,877,426	1,685,557	1,671,266
Other issuances	5,000	2.50%	7/1/2016	1/3/2019	20,602	20,602	17,169	17,169
			Total issuances		**1,927,420**	**1,898,028**	**1,702,726**	**1,688,435**
			Total current		1,906,818	1,877,426	31,317	31,092
			Total noncurrent		20,602	20,602	1,671,409	1,657,343

(1) the security issued abroad in the amount of US$500 million is subject to accounting hedge of market risk (Note 6.d).

17. BORROWINGS (Bank and Consolidated)

2018	Up to 3 months	3 to 12 Months	1 to 3 years	3 to 5 years	Total
Borrowings					
Foreign-currency payables [1]	424,022	246,496	-	-	670,518
Foreign borrowings [2]	725,062	279,629	224,833	147,006	1,376,530
Total	**1,149,084**	**526,125**	**224,833**	**147,006**	**2,047,048**

2017	Up to 3 months	3 to 12 Months	1 to 3 years	3 to 5 years	Total
Borrowings					
Foreign-currency payables [1]	263,739	197,342	-	-	461,081
Foreign borrowings [2]	7,910	290,318	721,319	251,925	1,271,472
Total	**271,649**	**487,660**	**721,319**	**251,925**	**1,732,553**

(1) The balance of "Foreign-currency payables" refers to funding for foreign exchange operations related to export and import financing.

(2) As at December 31, 2018, includes the foreign borrowings, in the amount of US$235 million (US$290 million as at December 31, 2017), and €55 million (€55 million as at December 31, 2017), subject to market risk hedge accounting (Note 6.d), whose carrying amount and fair value are R$1,126,693 and R$1,129,218 (R$1,173,388 and R$1,177,735 as at December 31, 2017).

Financial covenants

The Bank is subject to financial covenants related to the maintenance of certain performance, liquidity and debt ratios, linked to loan agreements entered into with the International Finance Corporation (IFC) and the Inter-American Investment Corporation (IIC), which, if not fulfilled, may cause the accelerated settlement of the agreements entered into between the Company and these institutions.

18. ONLENDINGS (Bank and Consolidated)

2018	Up to 3 months	3 to 12 Months	1 to 3 years	3 to 5 years	Over 5 years	Total
Domestic onlendings - official institutions						
BNDES Onlendings	37,954	113,429	103,175	5,059	-	259,617
FINAME Onlendings	11,736	30,362	49,627	14,483	745	106,953
Total	**49,690**	**143,791**	**152,802**	**19,542**	**745**	**366,570**

2017	Up to 3 months	3 to 12 Months	1 to 3 years	3 to 5 years	Total
Domestic onlendings - official institutions					
BNDES Onlendings	42,366	172,214	123,731	16,280	354,591
FINAME Onlendings	13,090	37,077	50,159	17,101	117,427
Total	**55,456**	**209,291**	**173,890**	**33,381**	**472,018**

19. INSURANCE OPERATIONS (Consolidated)

a) Insurance premiums receivable:

Represented by DPVAT (mandatory insurance against personal injury caused by vehicles) insurance operations which, as at December 31, 2018, amount to R$2,029 (R$442 as at December 31, 2017), recorded in accordance with the statements received by Seguradora Líder dos Consórcios dos Seguros DPVAT, in caption "Other credits – insurance premiums receivable" in current assets.

b) Breakdown of technical reserves:

	2018	2017
Unsettled claims	7,347	7,955
Provision for incurred but not reported losses	60,226	52,543
Other provisions [1]	281	340
Total	**67,854**	**60,838**

(1) Refers to provisions for administrative expenses, recorded in accordance with the statements received from Seguradora Líder dos Consórcios dos Seguros DPVAT.

c) Assets-backed technical reserves:

	2018	2017
Treasury Bills	2,183	2,052
Investment fund units	67,903	60,920
Total (Note 6.a.) - Consolidated	**70,086**	**62,972**

d) Profit (loss) on insurance operations:

	2018	2017
Revenue from premiums and contributions	18,310	21,612
Claims expenses	(14,197)	(17,923)
Other operating income and expenses	(119)	240
Total	**3,994**	**3,929**

20. OTHER PAYABLES

a) Foreign exchange portfolio (Bank and Consolidated):

	2018	2017
Foreign exchange sold pending settlement	391,194	75,829
(-) Financed imports (Note 7.a)	(509)	(12,921)
Payable for foreign exchange purchased	665,086	498,902
(-) Advances on foreign exchange contracts (Note 7.a)	(555,179)	(419,546)
Foreign currencies payable	47	-
Unearned income on advances granted (Note 7.a)	816	444
Total	**501,455**	**142,708**

b) Social and statutory:

	Bank		Consolidated	
	2018	2017	2018	2017
Dividends and bonuses payable (Note 24.d.2)	41,982	38,484	41,987	38,489
Profit sharing program	76,452	34,461	77,728	35,574
Total	**118,434**	**72,945**	**119,715**	**74,063**

c) Tax and social security

	Bank			
	2018		2017	
	Current	Noncurrent	Current	Noncurrent
Provision for income tax	209,133	-	131,117	-
Provision for social contribution	79,084	-	50,005	-
Taxes and contributions payable	31,214	-	47,196	-
Provision for deferred income tax and social contribution (Note 22.c)	10,675	245,597	881	216,929
Total	**330,106**	**245,597**	**229,199**	**216,929**

	Consolidated			
	2018		2017	
	Current	Noncurrent	Current	Noncurrent
Provision for income tax	232,791	-	142,005	-
Provision for social contribution	101,570	-	53,990	-
Taxes and contributions payable	35,353	-	48,994	-
Provision for deferred income tax and social contribution (Note 22.c)	10,675	262,817	881	222,982
Total	**380,389**	**262,817**	**245,870**	**222,982**

d) Sundry

	Bank			
	2018		2017	
	Current	Noncurrent	Current	Noncurrent
Cashier´s checks	11,973	-	9,703	-
Creditors for unreleased resources	1,380	-	862	-
Payables for sales operations and transfer of financial assets (Note 8)	42,165	44,699	70,212	127,195
Accrued payments [1]	47,109	-	86,112	-
Provision for risks (Note 23.b)	20,689	2,104,898	-	1,874,722
Provision for financial collaterals provided (Note 28)	18,236	1,087	8,401	-
Sundry creditors [2]	66,913	-	48,271	-
Total	**208,465**	**2,150,684**	**223,561**	**2,001,917**

	Consolidated			
	2018		2017	
	Current	Noncurrent	Current	Noncurrent
Cashier´s checks	11,973	-	9,703	-
Creditors for unreleased resources	1,380	-	862	-
Payables for sales operations and transfer of financial assets (Note 8)	42,165	44,699	70,212	127,195
Accrued payments [1]	59,721	-	92,158	-
Provision for risks (Note 23.b)	20,689	2,123,807	-	1,903,052
Provision for financial collaterals provided (Note 28)	18,236	1,087	8,401	-
Sundry creditors [2]	93,631	-	59,066	-
Total	**247,795**	**2,169,593**	**240,402**	**2,030,247**

(1) As at December 31, 2018, caption "Accrued payments" (Bank and Consolidated) mainly comprises the following: (i) personnel expenses in the amount of R$20,328(Bank) and R$23,195 (Consolidated) (R$48,446 and R$51,131 for the Bank and Consolidated, respectively as at December 31, 2017); (ii) expenses on suppliers in the amount of R$10,694 (Bank) and R$ 17,801 (Consolidated) (R$12,138 and R$12,430 for the Bank and Consolidated, respectively as at December 31, 2017), and (iii) commissions payable in the amount of R$13,157, Bank and Consolidated (R$24,176 as Bank and Consolidated as at December 31, 2017).

(2) As at December 31, 2018, caption "Sundry creditors" (Bank and Consolidated) mainly comprises: (i) the unreleased collections, in the amount of R$5,249 (R$7,244 as at December 31, 2017); (ii) discounted notes partially received, in the amount of R$19,198 (R$6,311 as at December 31, 2017); and (iii) commitments arising from credit card operations, in the amount of R$22,803 (R$21,495 as at December 31, 2017).

21. SUBORDINATED DEBTS (Bank and Consolidated)

a) Information on the issuances of subordinated debts

	Funding instruments	Dates of issuance	Dates of maturity	Amount	Interest rate	Date of BACEN'S authorization to comprise Tier II of Capital [1]
1st issuance	Financial bills	02/28/2018	03/05/2025	R$10 million	CDI	04/04/2018
2nd issuance	Financial bills	10/30/2018	10/30/2028	R$135 million	CDI	11/30/2018

(1) Fundings were authorized by BACEN to comprise Tier Nível II of the Bank's Regulatory Capital, in accordance with CMN Resolution 4192/13 pursuant to the order from the Financial System Organization Director.

2018	Over 5 years	Total
Financial Bills	147,314	147,314
Total	**147,314**	**147,314**

22. INCOME TAX AND SOCIAL CONTRIBUTION

a) Income tax and social contribution were calculated as follows:

	Bank	
	2018	2017
Profit before taxes on income and profit sharing	**1,054,859**	**818,480**
(-) Interest on capital (Notes 24 and 2)	(197,773)	(188,306)
(-) Profit sharing	(76,315)	(59,976)
Profit before taxes on income	**780,771**	**570,198**
Additions	**1,125,952**	**872,340**
Temporary	1,081,704	817,272
Permanent / other	44,248	55,068
Deductions	**(1,028,004)**	**(886,923)**
Temporary	(879,336)	(794,009)
Permanent / other	(148,668)	(92,914)
Income tax and social contribution base	**878,719**	**555,615**
Income tax and social contribution at statutory rates tax incentives	(384,877)	(242,240)
Recognition / reversal of tax credits and/or deferred tax liabilities	52,168	5,210
Income Tax and social contribution expenses	**(332,709)**	**(237,030)**

In the Consolidated year ended December 31, 2018, the amount of R$401,996 (R$279,249 in 2017).

b) Deferred income tax and social contribution on temporary additions and deductions (asset and liability):

As established by Resolution 3059/02, amended by Resolution 3355/06, both from the CMN, and CVM Instruction 371/02, the recognition of deferred tax assets and liabilities ("tax credits" and "deferred tax liabilities") arising from temporary differences must cumulatively meet the following conditions: (i) history of taxable income or profit for income tax and social contribution purposes, for at least three of the last five fiscal years, which period must include the current year; and (ii) expected future taxable income or profit generation for income tax and social contribution purposes, in subsequent period, based on an internal technical study showing the probability of occurrence of future tax obligations that enable the realization of the tax credit within no more than ten years.

Law 13169/15, which amends Law 7689/88, raises the social contribution rate to 20% of profit for the period from September 1, 2015 to December 31, 2018. Beginning January 1, 2019, such rate will return to 15%. As a result of such change, social contribution credits were recognized as follows: (i) applying the 15% rate on temporary additions and deductions through August 31, 2015 and on those that are expected to be realized in the period subsequent to December 31, 2018; and (ii) 20% tax rate on temporary additions and deductions that are expected to be realized in the period from September 1, 2015 to December 31, 2018. Beginning January 1, 2019, the rate will return to 15%.

c) Origin of tax credits and deferred tax liabilities:

	2018			
	2017	Recognition	Realization	2018
Tax credits:				
Deferred income tax and social contribution on:				
Provision for tax risks	162,042	-	-	162,042
Allowance for loan losses	437,586	289,413	(263,533)	463,466
Adjustment to fair value of securities and derivatives	21,327	103,028	(100,120)	24,235
Inflation adjustment of contingencies	247,308	31,664	-	278,972
Other temporary additions	70,098	33,429	(6,385)	97,142
Total tax credits on temporary differences	**938,361**	**457,534**	**(370,038)**	**1,025,857**
Deferred tax liabilities:				
Deferred income tax and social contribution on:				
Adjustment to fair value of securities and derivatives	6,050	39,093	(32,886)	12,257
Unrealized profit (loss) on derivatives	4,094	37,633	(35,067)	6,660
Amortization of negative goodwill on the acquisition of Daycoval Leasing	5,808	2,761	-	8,569
Inflation adjustment of escrow deposits	201,858	26,928	-	228,786
Total deferred tax liabilities on temporary differences	**217,810**	**106,415**	**(67,953)**	**256,272**

	2017			
	2016	Recognition	Realization	2017
Tax credits:				
Deferred income tax and social contribution on:				
Provision for tax risks	152,917	9,125	-	162,042
Allowance for loan losses	491,442	213,491	(267,347)	437,586
Adjustment to fair value of securities and derivatives	24,267	110,842	(113,782)	21,327
Inflation adjustment of contingencies	203,017	44,291	-	247,308
Other temporary additions	49,935	30,336	(10,173)	70,098
Total tax credits on temporary differences	**921,578**	**408,085**	**(391,302)**	**938,361**
Deferred tax liabilities:				
Deferred income tax and social contribution on:				
Adjustment to fair value of securities and derivatives	1,822	26,494	(22,266)	6,050
Unrealized profit (loss) on derivatives	2,622	17,588	(16,116)	4,094
Amortization of negative goodwill on the acquisition of Daycoval Leasing	3,048	2,760	-	5,808
Inflation adjustment of escrow deposits	162,287	39,571	-	201,858
Total deferred tax liabilities on temporary differences	**169,779**	**86,413**	**(38,382)**	**217,810**

For the Consolidated, as at December 31, 2018, total tax credits on temporary differences amount to R$1,034,824 (R$956,862 in 2017), of which R$476,545 (R$448,966 in 2017) recorded in current assets and R$558,279 (R$507,896 in 2017) recorded in noncurrent long-term assets (Note 10.b). The deferred tax liabilities on temporary differences amount to R$273,492 (R$223,863 in 2017), of which R$10,675 (R$881 in December 31, 2017) recorded in current liabilities and R$262,817 (R$222,982 in 2017) recorded in noncurrent long-term liabilities (Note 20.c).

d) Estimated realization of tax credits

Realization term	Bank 2018 Temporary differences Income tax	Bank 2018 Temporary differences Social contribution	Bank 2018 Total Deferred taxes	Consolidated 2018 Temporary differences Income tax	Consolidated 2018 Temporary differences Social contribution	Consolidated 2018 Total Deferred taxes
Up to 1 year	292,250	181,202	473,452	294,182	182,363	476,545
Up to 2 years	3,950	2,370	6,320	6,975	4,185	11,160
Up to 3 years	3,321	1,993	5,314	3,764	2,259	6,023
Up to 4 years	1,374	971	2,345	1,525	1,062	2,587
Up to 5 years	337,944	200,389	538,333	337,996	200,420	538,416
Over 5 years	58	35	93	58	35	93
Total	**638,897**	**386,960**	**1,025,857**	**644,500**	**390,324**	**1,034,824**

Realization term	Bank 2017 Temporary differences Income tax	Bank 2017 Temporary differences Social contribution	Bank 2017 Total Deferred taxes	Consolidated 2017 Temporary differences Income tax	Consolidated 2017 Temporary differences Social contribution	Consolidated 2017 Total Deferred taxes
Up to 1 year	253,243	187,447	440,690	257,840	191,126	448,966
Up to 2 years	3,712	2,227	5,939	8,894	6,373	15,267
Up to 3 years	3,896	2,735	6,631	4,239	3,009	7,248
Up to 4 years	3,426	2,056	5,482	3,547	2,153	5,700
Up to 5 years	301,217	178,351	479,568	301,249	178,380	479,629
Over 5 years	32	19	51	33	19	52
Total	**565,526**	**372,835**	**938,361**	**575,802**	**381,060**	**956,862**

As at December 31, 2018, the present value of total tax credits is R$876,959 for the Bank (R$790,552 as at 2017) and R$885,215 for the Consolidated (R$807,679 as at 2017), and was calculated based on the expected realization of temporary differences, discounted at the average funding rate of the Bank and Daycoval Leasing, projected for the related period.

Taxable income projections consider macroeconomic assumptions, exchange and interest rates, estimates of new financial operations, among others, which may vary in relation to actual results.

23. CONTINGENT ASSETS AND LIABILITIES AND LEGAL OBLIGATIONS - TAX AND SOCIAL SECURITY

a) Contingent assets - as at December 31, 2018 and December 31, 2017 the Bank did not recognize contingent assets.

b) Contingent liabilities assessed as probable losses and legal obligations (tax and social security).

The Bank is a party to lawsuits involving labor, civil and tax matters. Provisions are recorded based on the criteria described in note 3.t). The Bank's management understands that the provisions recorded are sufficient to cover probable losses on these lawsuits.

The balances of provisions for tax, civil and labor risks recognized and the respective variations for the quarter and the nine-month period ended December 31, 2018 and for the year ended December 31, 2017, are broken down below:

	Bank		Consolidated	
	2018	2017	2018	2017
Legal obligation tax risks (Note 20.d and 23.b.1 and b.2)	1,907,489	1,713,089	1,907,489	1,713,089
Civil lawsuits (Note 20.d)	164,459	118,427	164,602	118,903
Labor lawsuits (Note 20.d)	53,639	43,206	72,405	71,060
Total	**2,125,587**	**1,874,722**	**2,144,496**	**1,903,052**

	2018					
	Bank			Consolidated		
	Tax	Civil	Labor	Tax	Civil	Labor
Balance at the beginning of the year	**1,713,089**	**118,427**	**43,206**	**1,713,089**	**118,903**	**71,060**
Inflation adjustment	79,112	-	-	79,112	-	-
Recognition	115,288	46,032	10,433	115,288	45,699	1,345
Balance at the end of the year	**1,907,489**	**164,459**	**53,639**	**1,907,489**	**164,602**	**72,405**

	2017					
	Bank			Consolidated		
	Tax	Civil	Labor	Tax	Civil	Labor
Balance at the beginning of the year	**1,511,861**	**97,514**	**20,128**	**1,511,861**	**97,811**	**26,939**
Inflation adjustment	110,728	-	-	110,728	-	-
Recognition	90,500	20,913	23,078	90,500	21,092	44,121
Balance at the end of the year	**1,713,089**	**118,427**	**43,206**	**1,713,089**	**118,903**	**71,060**

b.1.) The Bank is challenging in court the legality of certain taxes and contributions and the related amounts are fully accrued.

The main challenges are:

Income tax: challenges the effect of the discontinuation of the inflation adjustment of the balance sheet and the amount accrued in 2018 amounted to R$407,125 (R$387,397 in 2017) and other accrued challenges in the amount of R$23,433. Total escrow deposits for this lawsuit amounts to R$407,124 (R$390,969 in 2017).

Social contribution tax: (i) challenges the effect of the discontinuation of the inflation adjustment of the balance sheet, the existence of different tax rates and seeks the recognition of interest on capital as deductible expense for 1996; and (ii) challenges the increase of the social contribution rate from 9% to 15%, as established by Provisional Act 413/08, converted into Law 11727/2008 and from 15% to 20%, converted into Law 13169/2015, which amends Law 7689/88, the latter change relating to the period from September 1, 2015 to December 31, 2018. The amount accrued for this lawsuit in 2018 is R$719,813 (R$594,962 in 2017) and total escrow deposits for this lawsuit amounts to R$674,964 (R$585,573 in 2017).

COFINS (tax on revenue): challenges the constitutionality of Law 9718/98. The amount accrued for this lawsuit in 2018 amounts to R$652,469 (R$629,686 in 2017) and total escrow deposits for this lawsuit amounts to R$473,827 (R$455,372 in 2017).

PIS (tax on revenue): challenges the application of Law 9718/98 and the requirement of determination of the PIS tax base by the tax authorities in noncompliance with Constitutional Amendments 01/94, 10/96 and 17/97. The amount accrued for this lawsuit in 2018 amounts to R$101,217 (R$97,799 in 2017) and total escrow deposits for this lawsuit amounts to R$103,555 (R$99,921 in 2017).

In 2018 other tax challenges are accrued and amount to R$3,431 (R$3,245 in 2017) and total escrow deposits for these lawsuits amount to R$3,431 (R$3,295 in 2017).

b.2.) Daycoval Leasing has been challenging in courts the Tax Assessment Notices and Fine Interpretation issued by the State of São Paulo, as described below:

AIIM No. 4.012.543-9 in the amount of R$54,148, of which R$47,826 are assessed as remote loss, which likelihood of favorable outcome is corroborated upon the execution of ICMS Agreement 36 and ratified by the São Paulo State Decrees 56045/2010 and 56952/2013. In turn, the amount of R$6,322 was assessed as possible loss and subject to payment eligible to the Special Installment Payment Program (PEP) enacted by the São Paulo State government through Decree 60444/2014, in the amount of R$3,857 paid on August 29, 2014.

AIIM No. 4.021.955-0 in the amount of R$4,480 assessed as remote loss based on the reasons described in the preceding item pursuant to ICMS Agreement 36.

AIIM No. 3.125.010-5 in the amount of R$2,310 assessed as remote loss, which discusses the difference in the rate upon the application of the benefit from the CONFAZ Agreement 52/91. Such lawsuit ensures the escrow deposit adjusted as at December 31, 2018 in the amount of R$6,113.

Case No. 0030121-4.2011.8.16.0021 relating to the tax execution of the ISS in the municipality of Cascavel-PR, in the amount of R$20, assessed as remote loss, which claims the collection of ISS relating to lease transactions entered into with customers headquartered in that municipality.

c) Contingent liabilities assessed as possible losses:

Contingent liabilities classified as possible losses are not recognized in the accounts and are represented by civil and labor market.

Contingent liabilities, represented by civil and labor lawsuits, are not recorded. Civil lawsuits amount to approximately R$9,525 for the bank and the Consilidated (R$19,597 for the Bank and the Consolidated in 2017).

As at December 31, 2018, the risk estimate for labor lawsuits is approximately R$639 for the Bank and for the Consolidated. As at December 31, 2017 there were no labor lawsuits' risk estimated for the Bank and Consolidated.

There are no ongoing administrative proceedings for noncompliance with the rules of the National Financial System or payment of fines, which may have significant impacts on the financial position of the Bank or its subsidiaries.

24. EQUITY (Controlling Company)

a) Capital:

As at December 31, 2018, the Bank's fully subscribed and paid-in capital is R$2,253,595, divided into 230,820,429 registered and book-entry common shares, without par value.

b) Capital increase:

The Extraordinary General Meeting held on October 30, 2018 decided on and approved the Bank's capital increase in the amount of R$361,452, upon the issuance of 26,696,649 subscribed and fully paid-up common shares on the same date. This capital increase was ratified by the Central Bank of Brazil on December 13, 2018.

c) Breakdown of common and preferred shares:

	Number of shares	
	2018	2017
Common shares	230,820,429	160,869,792
Preferred shares (Note 24.d)	-	43,253,988
Total shares	**230,820,429**	**204,123,780**

d) Variations in capital:

	Number of shares		
2018	Common	Preferred	Total
Number of shares as at December 31, 2017	**160,869,792**	**43,253,988**	**204,123,780**
Issuance of shares (Note 24.b)	26,696,649	-	26,696,649
Conversion of preferred shares into common shares [1]	43,253,988	(43,253,988)	-
Number of shares as at December 31, 2018	**230,820,429**	**-**	**230,820,429**

(1) The Extraordinary General Meeting held on October 30, 2018 decided on and approved the conversion of all 43,253,988 preferred shares issued by the Bank into common shares, at the ratio of one common share for one preferred share.

During the year ended December 31, 2017, there was no variation in the capital.

e) Interest on capital and/or dividends:

According to the bylaws, the shareholders are entitled to dividends and/or interest on capital corresponding to no less than 25% of profit for the year, adjusted in accordance with the Brazilian corporate law.

Interest on capital is calculated on equity, limited to the variation of the TJLP (long-term interest rate), contingent upon the existence of profit determined before its deduction or retained earnings and earnings reserves.

e.1) Statement of calculation of interest on capital:

The calculation of interest on capital for the year ended December 31, 2018 and 2017 is as follows:

	2018	% (a)	2017	% (a)
Profit for the year (controlling shareholder)	645,835		521,474	
Recognition of legal reserve	(32,292)		(26,074)	
Adjusted calculation basis	**613,543**		**495,400**	
Gross interest on capital	197,773		188,306	
(-) Withholding income tax relating to interest on capital	(29,666)		(28,246)	
Net interest on capital	**168,107**	**27.40**	**160,060**	**32.31**

(a) Refers to the percentage corresponding to the sum of the net interest on capital on adjusted profit.

e.2) Interest on capital declared and/or paid for the years ended December 31, 2018 and 2017:

Interest on capital declared and/or paid is as follows

Board of Director's Meeting Date	Availability date	2018				
		Price per share		Gross amount	IRRF	Net amount
		ON	PN			
12/28/2018	01/15/2019	0.2140	-	49,391	(7,409)	41,982
09/28/2018	10/15/2018	0.2425	0.2425	49,500	(7,425)	42,075
06/29/2018	07/16/2018	0.2450	0.2450	50,014	(7,502)	42,512
03/29/2018	04/16/2018	0.2394	0.2394	48,868	(7,330)	41,538
			Total	**197,773**	**(29,666)**	**168,107**

Board of Director's Meeting Date	Availability date	2017				
		Price per share		Gross amount	IRRF	Net amount
		ON	PN			
12/28/2017	01/15/2018	0.2218	0.2218	45,275	(6,791)	38,484
09/29/2017	10/16/2017	0.2304	0.2304	47,032	(7,055)	39,977
06/30/2017	07/17/2017	0.2364	0.2364	48,254	(7,238)	41,016
03/31/2017	04/17/2017	0.2339	0.2339	47,745	(7,162)	40,583
			Total	**188,306**	**(28,246)**	**160,060**

e.3) Prior-year dividends:

The meeting of the Board of Directors held on October 30, 2018 decided on and approved the distribution of dividends on prior-year profit, in the amount of R$580,400, at the price of R$2.8434 per share, which payment was made on the same date.

f) Earnings reserves:

	2018	2017
Earnings reserves	**979,426**	**1,111,764**
Legal reserve [1]	203,739	171,447
Statutory reserves [2]	775,687	940,317

(1) 5% of profit for the year must be allocated to this reserve until it reaches 20% of capital, according to the prevailing legislation.

(2) Reserve recorded according to the bylaws.

25. INCOME STATEMENTS

INCOME FROM FINANCIAL INTERMEDIATION -

(a) Lending operations:

	Bank		Consolidated	
	2018	2017	2018	2017
Advance on deposits	5,197	4,099	5,197	4,099
Secured account / overdraft account	365,791	327,227	365,791	327,227
Discounted notes	167,711	205,032	167,711	205,032
Onlending - Resolution 3844/10	15,072	5,854	15,072	5,854
Working capital	470,447	487,337	470,447	487,337
Export Credit Notes - CCE	118,279	66,490	118,279	66,490
Onlending – BNDES	39,835	34,634	39,835	34,634
Onlending – FINAME	11,101	10,124	11,101	10,124
Rural credit	3,892	6,750	3,892	6,750
Financing with intervenience	10,355	8,525	10,355	8,525
Foreign currency financing	54,050	12,460	54,050	12,460
Consumer credit - Store owners	2	4,350	2	4,350
Payroll-deductible loans	1,141,841	1,137,618	1,141,841	1,137,618
Vehicle financing	187,441	169,629	187,441	170,720
Daypag - discount of forwarding agents' checks	721	1,159	721	1,159
Other lending operations	167,564	152,444	173,108	152,428
Recovery of credits previously written off as loss (Note 7.g)	229,505	146,184	229,505	146,184
Loan origination income	26,052	-	26,052	-
Total profit (loss) from lending operations	**3,014,856**	**2,779,916**	**3,020,400**	**2,780,991**

b) Leasing operations (Consolidated):

	2018	2017
Revenue from leasing		
Finance leasing - internal resources	297,145	239,821
Operating leasing - internal resources	50,272	46,299
Finance leasing - external resources	3,179	3,622
Operating leasing - external resources	311	611
Gain on disposal of leased assets	24,894	19,118
Recovery of credits previously written off as loss (Note 7.g)	829	4,196
Total revenue from leasing operations	**376,630**	**313,667**
Expenses on leasing		
Finance leasing - internal resources	(212,630)	(178,369)
Operating leasing - internal resources	(33,129)	(34,725)
Loss on disposal of leased assets	-	(1,586)
Total expenses on leasing operations	**(245,759)**	**(214,680)**

c) Securities transactions:

	Banco		Consolidado	
	2018	2017	2018	2017
Repurchase agreements	319,679	424,407	319,679	424,407
Interbank deposits	36,553	33,783	19,803	25,311
Fixed-income securities	113,206	203,790	121,434	208,534
Variable-income securities	15	423	161	435
Investments in investment fund units	6,378	3,604	19,699	18,773
Gain (loss) on sale of securities	1,056	1,866	1,056	1,866
Fair value adjustments	3,087	698	2,811	1,633
Foreign investments	7,400	671	7,400	(564)
Loss on investments in investment fund units	(109)	(144)	(109)	(144)
Permanent losses on securities	(8)	(6,971)	(8)	(6,971)
Total profit (loss) on securities operations	**487,257**	**662,127**	**491,926**	**673,280**

d) Derivatives:

	2018			2017		
Derivatives	Gain	Loss	Net gain (loss)	Gain	Loss	Net gain (loss)
Swap	6,278,129	(5,886,269)	391,860	5,651,594	(5,694,338)	(42,744)
Currency forward	206,997	(193,353)	13,644	13,963	(16,398)	(2,435)
Futures	90,649	(123,235)	(32,586)	674,092	(688,324)	(14,232)
Total	**6,575,775**	**(6,202,857)**	**372,918**	**6,339,649**	**(6,399,060)**	**(59,411)**

The gain (loss) on derivatives net losses on mark-to-market in the amount of R$8,431, respectively, for the year ended December 31, 2018 (losses on mark-to market in the amount of R$1,760 in 2017), both for the Bank and Consolidated.

e) Foreign exchange operations (Bank and Consolidated):

	Bank		Consolidated	
	2018	2017	2018	2017
Income from foreign exchange operations	67,618	54,441	67,618	54,441
Expenses on foreign exchange operations	(11,089)	(3,578)	(8,942)	(3,578)
Exchange rate changes	132,860	86,043	132,860	86,043
Total profit (loss) on foreign exchange operations	**189,389**	**136,906**	**191,536**	**136,906**

EXPENSES ON FINANCIAL INTERMEDIATION

f) Funding operations:

	Bank		Consolidated	
	2018	2017	2018	2017
Interbank deposits	(23,038)	(31,667)	(23,038)	(31,594)
Time deposits	(245,193)	(413,823)	(239,846)	(404,726)
Repurchase agreements	(139,391)	(167,039)	(139,391)	(167,039)
Foreign securities	(399,278)	(104,627)	(397,937)	(103,415)
Mortgage loan notes	(37,770)	(49,766)	(37,770)	(49,766)
Agribusiness letter of credit	(36,385)	(40,205)	(36,385)	(40,205)
Financial bills	(504,317)	(579,269)	(466,335)	(553,687)
Contributions to the Loan Guarantee Fund - FGC	(7,178)	(8,386)	(7,178)	(8,389)
Total	**(1,392,550)**	**(1,394,782)**	**(1,347,880)**	**(1,358,821)**

g) Borrowings and onlendings (Bank and Consolidated):

	2018	2017
Foreign borrowings	(245,776)	(138,831)
Onlending - BNDES	(26,454)	(24,574)
Onlendings - FINAME	(7,328)	(6,317)
Obligations to foreign banks	(120,166)	(21,940)
Total gains (losses) on borrowings and onlendings	**(399,724)**	**(191,662)**

OTHER OPERATING INCOME (EXPENSES)

h) Personnel expenses:

	Bank		Consolidated	
	2018	2017	2018	2017
Executive Committee's and Board of Directors´ compensation	(45,471)	(58,930)	(46,317)	(60,999)
Benefits	(44,820)	(37,669)	(51,588)	(41,957)
Social security charges	(49,553)	(51,823)	(56,138)	(57,881)
Proceeds	(151,101)	(120,841)	(174,916)	(143,252)
Training	(79)	(3)	(83)	(6)
Interns´ compensation	(667)	(487)	(693)	(506)
Total personnel expenses	**(291,691)**	**(269,753)**	**(329,735)**	**(304,601)**

i) Other administrative expenses:

	Bank		Consolidated	
	2018	2017	2018	2017
Public utilities (water, power and gas)	(1,994)	(1,703)	(2,500)	(2,122)
Rent and insurance	(18,175)	(17,349)	(22,261)	(19,906)
Communication	(9,292)	(8,628)	(10,243)	(9,567)
Charitable contributions	(5,513)	(5,980)	(6,560)	(5,980)
Maintenance and upkeep of asset	(7,302)	(2,973)	(8,045)	(3,389)
Consumables	(3,094)	(2,590)	(3,168)	(2,647)
Data processing	(61,479)	(56,925)	(63,005)	(58,218)
Promotions, advertising and publications	(25,442)	(19,819)	(26,279)	(20,506)
Outside, technical and specialized services [1] [2]	(340,779)	(317,039)	(305,489)	(294,199)
Depreciation and amortization	(10,031)	(4,103)	(10,271)	(4,329)
Other administrative expenses	(44,917)	(31,508)	(48,958)	(34,425)
Total	**(528,018)**	**(468,617)**	**(506,779)**	**(455,288)**

(1) In the Bank's financial statements information, includes expenses on commission paid upon origination of lending operations during the December 31, 2018, in the amount of R$236,474 (R$218,759 in 2017). The amount of R$24,369 in the year ended (R$30,266 in 2017) paid by the Bank to IFP (associate – Note 12.b), was eliminated in the consolidated financial statements information (Note 2).

(2) Includes the recognition of expenses on commissions paid in advance to third parties, upon origination of lending operations, as determined by Circular Letter 3693/13, as amended by Circular Letter 3738/14, both issued by BACEN, mentioned in Note 3.j) and Note 11.

j) Tax expenses:

	Bank		Consolidated	
	2018	2017	2018	2017
Tax expenses	(7,868)	(6,476)	(8,452)	(6,997)
Services tax (ISS) expenses	(7,054)	(6,210)	(15,112)	(7,829)
Expenses on contributions to COFINS	(97,029)	(84,712)	(107,310)	(93,023)
Expenses on contributions to PIS/PASEP	(15,768)	(13,766)	(17,585)	(15,241)
Total	**(127,719)**	**(111,164)**	**(148,459)**	**(123,090)**

k) Other operating income:

	Bank		Consolidated	
	2018	2017	2018	2017
Exchange rate changes [1]	13,208	3,739	32,286	9,630
Inflation adjustment of escrow deposits	68,583	100,640	69,376	101,188
Other operating income [2]	307,493	274,345	327,602	280,341
Recovery of charges and expenses	193	737	193	737
Total	**389,477**	**379,461**	**429,457**	**391,896**

(1) In 2018 refers to the reclassification of the exchange rate change on foreign investments, not eliminated in the consolidation process of the financial statements.

(2) In 2018 other operating income is substantially comprised of revenues from securities and credits receivable – without right of recourse in the amount of R$256,496 (R$221,005 in 2017).

l) Other operating expenses:

	Bank		Consolidated	
	2018	2017	2018	2017
Expenses on provisions [1]	(101,169)	(75,517)	(108,063)	(97,101)
Inflation adjustment of taxes	(79,112)	(110,728)	(79,112)	(110,728)
Exchange rate changes	(430)	(6,842)	(2,687)	(12,016)
Other operating expenses	(41,960)	(51,665)	(46,416)	(58,012)
Interest expenses	(884)	(657)	(900)	(683)
Total	**(223,555)**	**(245,409)**	**(237,178)**	**(278,540)**

(1) Expenses for provisions for liabilities for the year ended December 31, 2018 are as follows: (i) civil risk - R$64,660 for the Bank and R$70,211 for the Consolidated (R$25,192 for the Bank and R$25,222 for the Consolidated in 2017); (ii) labor risk - R$19,348 for the Bank and R$20,691 for the Consolidated (R$26,355 for the Bank and R$47,909 for the Consolidated in 2017); and (iii) sureties and sureties - R$17,161 for the Bank and Consolidated (R$23,970 for the Bank and Consolidated in 2017).

26. CAPITAL MANAGEMENT AND BASEL ACCORD

Capital management

Daycoval carefully manages its capital base to cover the risks inherent to its business, Daycoval's capital adequacy is monitored upon compliance with the rules and proportions established by the Basel Committee on Banking Supervision and adopted by the Central Bank of Brazil, among others.

The main purpose of Daycoval's capital management is to ensure the compliance with foreign capital requirements to maintain a solid credit rating and proper capital structure to support its business and maximize the share value to its shareholders.

Basel Accord

BACEN has issued, beginning March 1, 2013, which have become effective beginning October 1, 2013, a set of standards that govern the Basel Committee's recommendations relating to the capital structure of the financial institutions. Known as Basel III, these new standards improve the capacity of these institutions to absorb the impacts from possible crisis, by strengthening the financial stability and increasing the quantity and quality of the regulatory capital.

These standards address the following issues:

• New regulatory capital calculation methodology (Regulatory Capital (PR)), which remains divided in tiers I and II;

• New required capital calculation methodology, by adopting the minimum requirements of PR, Tier I and Principal Capital, and introduction of the Principal Capital Additional; and

• New optional methodology to determine the minimum capital requirements for the credit cooperatives that joined the Prudential Simplified Regime (RPS), and introduction of the Principal Capital Additional specifically for these cooperatives.

In addition to the issues above, the CMN established a new method to prepare and submit information using a new document called Analytic Trial Balance - Prudential Financial, which started to be used as the basis to calculate the Regulatory Capital (PR) beginning January 2015.

The Basel III rules seek to improve the capital quality of the financial institutions, by restricting the use of financial instruments that are not able to absorb losses and deducting assets that could impact the capital value due to their low liquidity, their dependency on future earnings for realization purposes or whose value cannot be easily accurately. These instruments comprise tax credits, intangible assets and investments in non-controlled companies, specifically those operating in the insurance market.

The new minimum capital requirements establish the percentage amount of the risk-weighted assets and represent the capital requirements to be complied with by the financial institutions, based on the schedule below:

	2017	2018	2019
Principal capital [a] (minimum + additional	5,75 a 7,0%	6,375 a 8,28%	7,0 a 9,5%
Tier I [b] (minimum + additional)	7,25 a 8,5%	7,875 a 9,75%	8,5 a 11,0%
PR [c] (minimum + additional)	10,5 a 11,75%	10,5 a 12,375%	10,5 a 13,0%

a) Principal Capital - comprised of shares, reserves and retained earnings;

b) Tier I - comprised of Principal Capital and other instruments to absorb losses while the institution continue as a going concern; and

c) PR (Regulatory Capital) - comprised of Tier I and other underlying instruments to absorb losses upon the institution's liquidation.

The Principal Capital Additional, which represents the supplementary maintenance (fixed) and cyclic (variable) capital, was also created, and at the end of the transition period, it must represent no less than 2.5% and no more than 5% of the risk-weighted assets, whose percentage is established by BACEN according to current macroeconomic conditions.

These new Basel III standards are effective beginning October 1, 2013, based on the international schedule until their effective implementation on January 1, 2022.

The table below shows the calculation of regulatory capital requirements and the Basel ratio:

	2018	2017
Regulatory capital for comparison with risk-weighted assets (RWAs)	**3,382,951**	**3,005,343**
Regulatory Capital – Tier I	**3,237,038**	**3,009,028**
Equity	3,237,038	3,009,028
Valuation adjustments to equity –derivatives for cash flow hedge	**(1,401)**	**(3,685)**
Prudential adjustment - Bacen Resolution 4277/13	(1,401)	(3,685)
Regulatory Capital - Tier II	**147,314**	**-**
Subordinated debts (Note 21)	147,314	-
Risk-Weighted Assets (RWA)Exposure to credit risk - RWAcpad	**23,016,753**	**20,190,981**
Exposure to credit risk - RWAcpad	18,725,498	15,361,106
Foreign exchange asset - RWAcam	1,564,403	1,367,270
Assets indexed to fixed interest - RWAjur1	444,052	833,557
Assets indexed to foreign exchange coupon - RWAjur2	185,619	120,650
Assets indexed to inflation - RWAjur3	100	108,314
Shares - RWApacs	87,783	68,209
Operational risk - RWAopad	2,009,298	2,331,875
Minimum Required Regulatory Capital (RWA x 8,625%) (9,25% in 2017) [1]	**1,985,195**	**1,867,666**
Basel ratio - Total	**14.70%**	**14.88%**
Basel ratio - Tier I	**14.06%**	**14.88%**
Basel ratio - Tier II	**0.64%**	**-**
Portion of the interest rate in the Banking Book (Pbanking)	192,123	144,409

(1) The minimum requirement for Reference Equity (PR), determined by CMN Resolution No. 4,193 / 13, which corresponds to the application of the "F" factor on the amount of risk-weighted assets (RWA), will be phased out as follows: (i) 9,25% by 2017; (ii) 8,625% until December 31, 2018; (iii) 8% as of January 1, 2019.

On December 31, 2018 and 2017, the Bank's Reference Equity exceeded by 70.41% and 60.91%, respectively, the Minimum Reference Equity Required by BACEN.

27. EMPLOYEE BENEFITS

Education incentive and profit sharing programs

As part of its strategy of being ranked among the best companies to work in Brazil, the Bank invests in the training and welfare of its employees, through programs involving college and MBA and postgraduate students, participates in the federal government's Minor Apprentice program, and implements its own internship programs.

The Bank offers a profit sharing program to all employees. This program is designed in partnership with the Union of Bank Employees and is tied to performance goals annually evaluated, using the criteria according to the Performance Evaluation program.

28. GUARANTEES AND COLLATERALS PROVIDED ON BEHALF OF THIRD PARTIES (BANK AND CONSOLIDATED)

a) Breakdown by type and maturity date of guarantees and collaterals provided and responsibilities to third parties:

	2018		2017	
	Outstanding credits for import	Beneficiaries of guarantees provided	Outstanding credits for import	Beneficiaries of guarantees provided
Up to 3 months	-	719,764	20,711	596,363
3 to 12 months	114,594	344,071	-	114,054
1 to 3 years	63	141,897	-	38,297
3 to 5 years	-	63,359	-	101,447
Total	**114,657**	**1,269,091**	**20,711**	**850,161**

The Bank does not guarantee any transaction of direct and indirect subsidiaries, their officers and directors and their family members.

b) Provision for guarantees and collaterals provided and responsibilities to third parties:

As prescribed by CMN Resolution No. 4512/16 on accounting policies applicable to the assessment and recognition of the provision for financial guarantees provided, the Bank has recorded the provision for bank guarantees based on the parameters established by CMN Resolution No. 2682/99, which requires the periodical analysis of the portfolio and its classification into nine levels ("AA" (minimum risk) and "H" (maximum risk - loss).

	2018				2017	
		Provision				
	Total guarantees and collaterals	Required by BACEN Res. 4512/16	Additional [1]	Total provision	Total guarantees and collaterals	Provision Required by BACEN Res. 4512/16
AA	557,170	-	-	-	-	-
A	345,770	1,729	1,383	3,112	568,807	2,844
B	448,903	4,489	8,529	13,018	221,409	2,214
C	11,116	333	145	478	72,705	2,181
D	19,549	1,955	-	1,955	7,543	754
E	318	95	-	95	-	-
F	514	257	-	257	-	-
H	408	408	-	408	408	408
Total provision for transactions with characteristics of loans (Note 20.d)	**1,383,748**	**9,266**	**10,057**	**19,323**	**870,872**	**8,401**

(1) Beginning June 30, 2018, it started to be recognized, based on a specific risk assessment methodology, supported by a credit collection study, allowance for loan losses in addition to the minimum required by the prevailing regulation.

c) Variations in the provision for guarantees and collaterals provided and responsibilities to third parties:

2018	Opening provision balance	Recognition (reversal) of provision			Closing provision balance
		Required by BACEN Res. 4512/16 (1)	Additional	Total provision expenses	
Bank	8,401	865	10,057	10,922	19,323
Total	**8,401**	**865**	**10,057**	**10,922**	**19,323**
Current liabilities – sundry payables - provision for financial guarantees provided					18,236
Noncurrent long-term liabilities - sundry payables - provision for financial guarantees provided					1,087
Total					**19,323**

2017	Opening provision balance	Recognition of provision		Closing provision balance
		Required by BACEN Res. 4512/16 (1)	Total provision expenses	
Bank	6,542	1,859	1,859	8,401
Total	**6,542**	**1,859**	**1,859**	**8,401**
Current liabilities – sundry payables - provision for financial guarantees provided				8,401
Total				**8,401**

(1) As prescribed by CMN Resolution No. 4512/16 on accounting policies applicable to the assessment and recognition of the provision for financial guarantees provided, the Bank has recorded the provision for bank guarantees based on the parameters established by CMN Resolution No. 2682/99, which requires the periodical analysis of the portfolio and its classification into nine levels ("AA" (minimum risk) and "H" (maximum risk - loss).

29. RELATED-PARTY TRANSACTIONS

a) The direct and indirect subsidiaries and the Bank's shareholders enter into transactions with the Bank under usual market conditions. These transactions are contracted at rates consistent with those prevailing in the market on the transaction and settlement dates.

The table below shows the transactions between the Bank and its related parties as at December 31, 2018 and December 31, 2017:

	Bank			
	2018		2017	
Transactions	Assets (liabilities)	Income (expenses)	Assets (liabilities)	Income (expenses)
Demand deposits	**(2,670)**	**-**	**(3,406)**	**-**
Direct subsidiaries	**(182)**	**-**	**(56)**	**-**
ACS Participações Ltda.	(83)	-	(12)	-
Daycoval Asset Management Ltda.	(16)	-	(30)	
Daycoval Leasing - Banco Múltiplo S.A.	(64)	-	-	-
Dayprev Vida e Previdência S.A.	(19)	-	(14)	-
Indirect subsidiaries	**(855)**	**-**	**(978)**	**-**
IFP Promotora de Serviços de Consultoria e Cadastro Ltda.	(134)	-	(190)	-
SCC Agência de Turismo Ltda.	(15)	-	(11)	-
Treetop Investments Ltd.	(706)	-	(777)	-
Other associates	**(4)**	**-**	**(4)**	**-**
Shtar Empreendimentos e Participações S.A.	(2)	-	(2)	-
Parateí Agropecuária e Imobiliária Ltda.	(1)	-	-	-
Valco Adm. Part. e Representações Ltda.	(1)	-	(2)	-
Other related parties – individuals	**(1,629)**	**-**	**(2,368)**	**-**
Time Deposits	**(258,758)**	**(17,259)**	**(166,365)**	**(16,875)**
Direct subsidiaries	**-**	**(308)**	**(16,359)**	**(1,888)**
ACS Participações Ltda.	-	(290)	(14,652)	(1,719)
Daycoval Asset Management Ltda.	-	(18)	(1,707)	(169)
Indirect subsidiaries	**(69,867)**	**(5,039)**	**(72,445)**	**(7,209)**
IFP Promotora de Serviços de Consultoria e Cadastro Ltda.	(57,116)	(4,180)	(59,988)	(5,933)
SCC Agência de Turismo Ltda.	(12,751)	(859)	(12,457)	(1,276)
Other related parties – individuals	**(188,891)**	**(11,912)**	**(77,561)**	**(7,778)**
Interbank deposits	**370,536**	**16,751**	**168,352**	**8,472**
Direct subsidiaries	**370,536**	**16,751**	**168,352**	**8,472**
Daycoval Leasing - Banco Múltiplo S.A.	370,536	16,751	168,352	8,472
Financial bills	**(701,831)**	**(51,395)**	**(656,288)**	**(37,395)**
Direct subsidiaries	**(566,358)**	**(37,982)**	**(528,709)**	**(25,583)**
ACS Participações Ltda.	(566,358)	(37,982)	(528,709)	(25,583)
Other related parties – individuals	**(135,473)**	**(13,413)**	**(127,579)**	**(11,812)**
Agribusiness letter of credit	**(1,367)**	**(452)**	**(3,517)**	**(273)**
Other related parties – individuals	(1,367)	(452)	(3,517)	(273)
Mortgage Loan Notes	**(2,997)**	**(403)**	**(3,718)**	**(468)**
Other related parties – individuals	(2,997)	(403)	(3,718)	(468)
Securities issued abroad	**(29,392)**	**(3,053)**	**(14,291)**	**(808)**
Indirect subsidiaries	**(29,392)**	**(3,053)**	**(14,291)**	**(808)**
Treetop Investments Ltd.	(29,392)	(3,053)	(14,291)	(808)
Prepaid expenses	**(1,075)**	**(24,369)**	**38,618**	**(26,548)**
Indirect subsidiaries	**(1,075)**	**(24,369)**	**38,618**	**(26,548)**
IFP Promotora de Serviços de Consultoria e Cadastro Ltda.	(1,075)	(24,369)	38,618	(26,548)

	Daycoval Leasing			
	2018		2017	
Transações	Assets (liabilities)	Income (expenses)	Assets (liabilities)	Income (expenses)
Interbank deposits	**(370,536)**	**(16,751)**	**(168,352)**	**(8,472)**
Controlling shareholder	**(370,536)**	**(16,751)**	**(168,352)**	**(8,472)**
Banco Daycoval S.A.	(370,536)	(16,751)	(168,352)	(8,472)

b) The table below shows the yield rates and respective terms of the transactions between the Bank and its related parties as at December 31, 2018:

Description	Interest rate	Assets (liabilities) Up to 3 months	3 to 12 months	1 to 3 years	3 to 5 years	Total
Interbank deposits		**52,052**	**318,484**	**-**	**-**	**370,536**
Direct subsidiaries		**52,052**	**318,484**	**-**	**-**	**370,536**
Daycoval Leasing - Banco Múltiplo S.A.	Floating	52,052	318,484	-	-	370,536
Time deposits		**(1,141)**	**(31,147)**	**(213,873)**	**(12,597)**	**(258,758)**
Direct subsidiaries		**-**	**-**	**-**	**-**	**-**
ACS Participações Ltda.	Floating	-	-	-	-	-
Indirect subsidiaries		**-**	**-**	**(69,867)**	**-**	**(69,867)**
IFP Promotora de Serviços de Consultoria e Cadastro Ltda.	Floating	-	-	(57,116)	-	(57,116)
SCC Agência de Turismo Ltda.	Floating	-	-	(12,751)	-	(12,751)
Other related parties - individuals	Fixed /Floating	**(1,141)**	**(31,147)**	**(144,006)**	**(12,597)**	**(188,891)**
Financial bills		**(199)**	**(551,298)**	**(147,719)**	**(2,615)**	**(701,831)**
Direct subsidiaries		**-**	**(543,447)**	**(22,911)**	**-**	**(566,358)**
ACS Participações Ltda.	Fixed /Floating	-	(543,447)	(22,911)	-	(566,358)
Other related parties - individuals	Fixed /Floating	**(199)**	**(7,851)**	**(124,808)**	**(2,615)**	**(135,473)**
Agribusiness letter of credit		**(130)**	**(735)**	**(502)**	**-**	**(1,367)**
Other related parties - individuals	Fixed /Floating	(130)	(735)	(502)	-	(1,367)
Mortgage Loan Notes		**(1,076)**	**(457)**	**(1,464)**	**-**	**(2,997)**
Other related parties - individuals	Fixed /Floating	(1,076)	(457)	(1,464)	-	(2,997)
Securities issued abroad		**(29,392)**	**-**	**-**	**-**	**(29,392)**
Indirect subsidiaries		**(29,392)**	**-**	**-**	**-**	**(29,392)**
Treetop Investments Ltd.	5.75%	(29,392)	-	-	-	(29,392)
Prepaid expenses						
Indirect subsidiaries		**41**	**1,034**	**-**	**-**	**1,075**
IFP Promotora de Serviços de Consultoria e Cadastro Ltda.	n.a.	41	1,034	-	-	1,075

(1) Interest rates range between: (i) fixed from 10.01% to 14.70% p.a.; and (ii) floating from 93% to 115% of the CDI rate.

Pursuant to the Brazilian legislation, the financial institutions cannot grant loans or advances or secure the operations of their controlling shareholders, associates, officers or directors or their second-degree relatives. Accordingly, the Bank does not grant loans or advances and does not secure any operation of its direct and indirect subsidiaries, their officers or directors or family members.

c) Compensation of key management personnel:

The Annual Shareholders' Meeting sets the overall compensation of Management, as established by the Bank's bylaws.

For the year ended December 31, 2018, the overall compensation of up to R$70 million (R$60 million for the year ended December 31, 2017) was set at the Annual and Extraordinary General Meeting held on April 27, 2018.

	2018	2017
Total compensation	45,471	58,930
Direct and fringe benefits (healthcare plan)	953	1,070

The Bank does not offer other short or long-term post-employment or severance benefits to its key management personnel

d) Ownership interest:

As at December 31, 2018 and December 31, 2017, the members of the Board of Directors and the Executive Committee held jointly the following interest in the Bank's capital:

	Ownership interest in relation to share class 2018	2017
Common shares (ON)	100.00%	100.00%
Preferred shares (PN) (Nota 24.c)	-	100.00%

30. OTHER INFORMATION

a) Asset management:

Daycoval Asset Management is responsible for administering and managing third-party assets through investment funds, whose net assets as at December 31, 2018 are R$3.7 billion (R$2.5 billion as at December 31, 2017).

b) Insurance coverage against losses:

Despite the low risk exposure as a result of their assets not being physically concentrated, the Bank and its subsidiaries insure their assets at amounts considered sufficient to cover probable losses.

c) Relationship with Auditors:

In accordance with CVM Instruction 381, of January 14, 2003, we inform that the firm engaged to review the Bank's financial statement information and audit the financial statements for the year ending December 31, 2018, has not provided any other services to the Bank and the Group companies, other than the independent audit services.

Our policy, including our subsidiaries, to engage non-audit services from our independent auditors, is based on applicable regulation and internationally accepted principles that preserve the independence of the auditor. These principles consist of: (a) the auditor must not audit its own work; (b) the auditor must not exercise managerial functions in its client; and (c) the auditor must not promote the interests of its client.

d) Audit Committee:

As required by CMN Resolution 3198/04, and with a view to adopting the industry best practices when conducting its businesses, Extraordinary General Meeting held on March 26, 2009 has decided on and approved the establishment of an Audit Committee, which will be comprised of 3 independent members, pursuant to the prevailing legislation. The establishment of this committee was ratified by the Central Bank of Brazil on May 26, 2009.

31. INTEGRATED RISK AND CAPITAL MANAGEMENT

On February 23, 2017, BACEN has disclosed CMN Resolution No. 4557, which was effective for the banks from S2 to S5 segments, defined pursuant to CMN Resolution No. 4.553/17, beginning February 22, 2018, and revoked CMN Resolutions No. 3380, 3464, 3721, 3988, and 4090, which provided for the implementation of individual operating, market, credit, capital and liquidity risk management frameworks, respectively.

Daycoval, in addition to being aligned with the requirements set out in CMN Resolution No. 4557, understands the integrated risk management as an important tool for the generation of value to the Bank, shareholders, employees and clients. Accordingly, it establishes strategies and goals to reach the ideal balance between the growth and investment return targets and the related risks, being allowed to explore its resources with efficiency and effectiveness in the attainment of the Bank's objectives.

The Corporate Risk Management structuring, in addition to complying with the regulatory body requirements, contributes to a better Corporate Governance, which is one of Daycoval's strategic goals, and which was designed based on the purposes, demands and institutional culture.

The identification of risks allows mapping the internal and external risk events that could affect the business unit purposes. In this regard, the Risk Committees and the risk managers play an important role in the Bank's several areas to ensure its continuous expansion.

The Risk Managers identify, measure, control, assess and manage the risks, ensuring the consistency between the risks assumed and the acceptable risk level defined by the Institution, as well as report the exposure to the senior management, business areas and regulatory bodies.

In addition to the requirement to implement an integrated risk and capital management framework, CMN Resolution No. 4557/17 also required financial institutions to prepare the Risk Appetite Statement (RAS) and to establish a Risk Management Committee and appoint, to BACEN, the Chief Risk Officer (CRO), with designation of roles, responsibilities and independence requirements.

Main risk categories and respective management frameworks:

a) Market risk

Market risk is the risk of incurring losses due to fluctuations in the fair values of the positions held by a financial institution, including the risks to which the transactions subject to exchange rate changes, interest rates, stock prices, and commodity prices are exposed.

a.1) Main market risks to which Daycoval is exposed:

Interest rate risk

Possible interest rate fluctuations that could adversely affect the value of the financial instruments. This risk is classified as follows:

• Parallel change risk: exposure of profit and loss to parallel changes in the interest curve, resulting in equal differentials for all terms.

• Risk of changes in curve slop: exposure of profit or loss to the changes in the timeframe structure of the interest curve, resulting in changes in pending or curve form.

Currency price risk

The exposure of foreign currency positions to the changes in the exchange type.

Price risk

The exposure of outstanding securities to adverse market price fluctuations. This risk is classified as follows:

• Generic or systematic risk: exposure of the position value to the changes in prices in general;

• Specific risk: exposure not related to the changes in prices in general but related to the issuer's own characteristics

Commodity price risk

The risk related to the effects from the potential changes in the portfolio commodity prices.

a.2) Market Risk management methodologies

Value-at-Risk (VaR)

The Value-at-Risk or VaR is the benchmark used in the market and a measure that properly summarizes the market risk exposure from the trading activities (trading portfolio). It represents the potential maximum loss in the market value that, under normal market conditions, can result in a specific position or portfolio, considering a defined certainty level (confidence level) and time horizon.

Among the different methodologies available to calculate the VaR (parametric, historical simulation and Montecarlo simulation), Daycoval understands that the parametric methodology is the most adequate to the characteristics of the positions of its trading portfolio.

Parametric methodology

It is based on the normality statistics in the distribution of probabilities related to the risk factor changes, based on the volatilities and correlations to determine the potential change of a position. Accordingly, the risk factors must be identified and the positions must be allocated to the defined vertices. Subsequently, the volatilities of each risk factor and the correlations to the positions are applied.

a.3) Stress test

It is a supplementary tool to the VaR measures and scenario analysis used to measure and assess the risk to which the Bank is exposed. It is based on the definition of a set of movements for certain market variables and the determination of the effects from the movements on the portfolio value. The stress test results are periodically analyzed by the Market Risk Committee.

a.4) Scenario analysis

The purpose of the scenario analysis is to assist the senior management in understanding the impact caused by certain events on the Bank, using a risk analysis tool that defines the long-term scenarios that affect the parameters or variables defined for risk measurement.

Differently from the stress tests, which consider the impact from the changes in the market risk factors on the short-term portfolio, the scenario analysis determines the impact from more complex events on the Bank as a whole.

In the definition of the scenarios, the following factors are considered:

• The experience and expertise of the persons responsible for the areas involved;

• The proper number of relevant variables and their explanation power in order to avoid unnecessary problems in the analysis and interpretation of the results.

As a risk management governance practice, Daycoval and its subsidiaries adopt a continuous risk management process that involves controlling all the positions exposed to the market risk. The market risk limits are determined according to the characteristics of the operations, which are segregated in the following portfolios:

• Trading portfolio: refers to transactions with financial instruments and commodities, including derivatives, that are held for the purpose of being actively traded or to hedge other financial instruments comprising the trading portfolio. These held-for-trading transactions are those intended for the resale, obtain gains from actual or expected price fluctuations, or arbitrage.

• Banking portfolio: refers to all transactions that are not classified in the trading portfolio and are represented by transactions arising from the Bank's business lines.

The segregation above is related to the way Management manages Daycoval's business and its exposure to the market risks, in conformity with the best market practices, the transaction classification criteria set forth in prevailing regulations issued by BACEN and the –Basel Accord. Therefore, according to the nature of the activities, the sensitivity analysis, as prescribed by CVM Instruction 475/08, was conducted for the trading and banking portfolio operations, as they represent significant exposures for Daycoval's profit or loss.

The sensitivity analysis of the trading and banking portfolios as at December 31, 2018 and December 31, 2017 is as follows:

	2018			2017		
Financial exposures	**Scenarios**			**Scenarios**		
Risk factors	**1**	**2**	**3**	**1**	**2**	**3**
Fixed rate	(12,952)	(24,328)	(35,450)	(18,408)	(35,372)	(50,312)
Foreign currencies	10,447	29,503	48,796	8,029	26,467	44,809
Price indices	(4)	(6)	(8)	(2,878)	(3,610)	(4,342)
Variable income	(7,098)	(17,154)	(27,209)	(5,915)	(14,295)	(22,674)
Borrowings	(6,340)	(11,853)	(17,198)	(20,626)	(41,713)	(62,081)
Other	(16)	(60)	(103)	(401)	(602)	(804)
Total Trading	**(15,963)**	**(23,898)**	**(31,172)**	**(40,199)**	**(69,125)**	**(95,404)**
Total Banking	**(234,581)**	**(437,350)**	**(631,955)**	**(166,096)**	**(330,138)**	**(484,852)**
Total	**(250,544)**	**(461,248)**	**(663,127)**	**(206,295)**	**(399,263)**	**(580,256)**

The sensitivity analysis was carried out considering the following scenarios:

• Scenario 1: refers to the probable stress scenario for risk factors, and available market information (B3 S.A., ANBIMA, etc.) was used as basis for the preparation of this scenario. Accordingly, the risk factors considered were as follows: (i) R$/US$4.41 (R$/US$3.72 in 2017); (ii) fixed interest rate – 9.05% p.a. (9.02% p.a. in 2017); (iii) Ibovespa – 74,704 points (64,942 points in 2017); and (iv) 6.22% p.a. exchange coupon (5.19% p.a. in 2017).

• Scenario 2: As established by CVM Instruction 475/08, this scenario considered a deterioration of the risk factors of approximately 25%. Accordingly, the risk factors considered were as follows: (i) US$5.51 (R$/US$4.65 in 2017); (ii) fixed interest rate – 11.31% p.a. (12.39% p.a. in 2017); and (iii) Ibovespa – 56,028 points (48,706 points in 2017); and (iv) 7.78% p.a. exchange coupon (6.49% p.a. in 2017).

• Scenario 3: As established by CVM Instruction 475/08, this scenario considered a deterioration of the risk factors of approximately 50%. Accordingly, the risk factors considered were as follows: (i) R$/US$6.61 (R$/US$5.58 in 2017); (ii) fixed interest rate 13.58% p.a. (13.53% p.a. in 2017); and (iii) Ibovespa – 37,352 points (30,460 points in 2017); and (iv) 9,33% p.a. exchange coupon (7.78% p.a. in 2017).

It is important to mention that the results shown in the tables above reflect the impacts for each scenario projected on a static position of the portfolio as at December 31, 2018 and 2017. The market dynamics changes this position continually and does not necessary reflect the actual position on the reporting date. Additionally, as mentioned above, the Trading and banking portfolio positions are continuously managed to mitigate the related risks, according to the strategy defined by Management and, when there are any indication of deterioration of a certain position, proactive actions are taken to minimize possible adverse impacts to maximize the risk/return ratio for the Bank.

a.5) Backtesting

Backtesting is the comparison between the former estimated gain/loss and the effective gain/loss. The purpose is to analyze the model adequacy. For purposes of backtesting, effective gains/losses are used for each business unit.

b) Liquidity risk

Liquidity risk is the risk of mismatches between tradable assets and payable liabilities — payables and receivables mismatches — that might affect the payment ability of the Bank, taking into consideration the different currencies and settlement terms of its assets and liabilities.

The model risk is not included among them, which is defined as the potential loss for incorrect estimates and calculation of the parameters and assumptions included in the liquidity risk management methodologies. This risk is more related to the operations rather than liquidity.

c) Credit risk

The credit risk is the risk of incurring losses due to borrower or counterparty default under agreed financial obligations, the depreciation of a credit agreement due to the downgrading of the borrowers' risk ratings, the decrease in gains or returns, the advantages granted in restructurings, and the recovery costs.

Classification of operations

For the classification of the lending operations, Daycoval adopts consistent, verifiable criteria that combine the borrower's economic, financial, personal and market information with the accessory collaterals provided for the operation. Based on this information, the minimum provision will be recognized to cover the risks assumed, as prescribed by BACEN Resolution 2682/99.

Daycoval credit scoring models

These are statistical models designed and used for risk rating in the credit granting process following the adoption of the credit policies previously analyzed and approved.

Treasury - financing of government bonds, over-the-counter derivatives and brokers

Low-risk strategies are adopted in the structuring of operations based on the exposure limit analysis against the counterparties' equity, trading agreements previously agreed and according to the objective technical assessment conditions of the counterparties' credit risk and strict selection of brokers related to prime banks to deal with the positions allocated.

d) Operational risk

Operational risk is the possibility of an entity incurring losses due to failure, deficiency or ineffectiveness of internal processes, people and systems, or external events. It includes the legal risk associated to inadequacy or deficiency in contracts entered into by the Bank, as well as penalties due to noncompliance with legal provisions, and compensation paid for damages caused to third parties as a result of the activities conducted by the Bank.

In managing operational risks, the Bank relies on a qualified risk management framework to identify, control and identify operational risks, as well as to disseminate the risk mitigation culture.

e) Social and environmental risk

Refers to the possibility of incurring losses arising from social and environmental damages, related to each entity individually, comprising Daycoval Group, in accordance with the following principles:

- Significance: Establishes as significance criterion the most representative segment in its product portfolio; and

- Proportionality: Establishes as proportionality criterion the credit operations of the most significant segment, whose economic activity may pose a higher risk of causing social and environmental damages associated with the customer's total debt amount in an institution.

(Convenience Translation into English from
the Original Previously Issued in Portuguese)

Banco Daycoval S.A.

Individual and Consolidated Financial Statements
for the Six-month Period and for the
Year Ended December 31, 2017 and
Independent Auditor's Report

Deloitte Touche Tohmatsu Auditores Independentes

(Convenience Translation into English from the Original Previously Issued in Portuguese)

INDEPENDENT AUDITOR'S REPORT

To the Management and Shareholders of
Banco Daycoval S.A.

Opinion

We have audited the accompanying individual and consolidated financial statements of Banco Daycoval S.A. ("Bank" or "Daycoval") and its subsidiaries ("Consolidated"), which comprise the balance sheet as at December 31, 2017 and the income statement, statement of changes in equity and statement of cash flows for six-month period and for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the individual and consolidated financial position of Banco Daycoval S.A. as at December 31, 2017, and its individual and consolidated financial performance and its individual and consolidated cash flows for six-month period and for the year then ended, in accordance with accounting practices adopted in Brazil applicable to financial institutions authorized to operate by the Central Bank of Brazil ("BACEN").

Basis for Opinion

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Individual and Consolidated Financial Statements* section of our report. We are independent of the Bank and its subsidiaries in accordance with the relevant ethical requirements in the Code of Ethics for Professional Accountants and the professional standards issued by the Federal Accounting Council ("CFC"), and we have fulfilled our other ethical responsibilities in accordance with these standards. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the individual and consolidated financial statements as a whole, and in forming our opinion thereon, and, therefore, we do not provide a separate opinion on these matters.

Allowance for loan losses on the corporate segment

Allowances for loan losses are recognized pursuant to the regulations issued by the Central Bank of Brazil ("BACEN"), notably the National Monetary Council (CMN) Resolution 2682, and are based on the analyses of outstanding lending transactions (past-due and current), in accordance with the internal policies that consider the determination of credit ratings.

The estimate of the allowance for loan losses involves internal models while determining the borrower's rating, that take into account the financial and economic data, market inputs, masterfile information, restricted collaterals, default level, among others. The borrower's rating is also revised by the Bank's Management when the financial condition of a specific company or a given economic sector changes. As such revision involves a high level of judgment in the estimate of the loss by Management, we believe that this matter is a key audit matter in our audit approach, including the involvement of senior members of our staff.

How our audit addressed this matter

Our audit procedures included, but were not limited to: (i) understanding the internal model used to determine the rating; (ii) understanding the provisioning criteria adopted by the Bank; (iii) reading the Bank's provisioning policy; (iv) testing the design, implementation and effectiveness of internal controls; (v) challenging the main assumptions and significant judgments made by Management while determining the credit rating; and (vi) recalculating the amounts provisioned on a sampling basis.

Based on the audit procedures performed, we believe that the criteria adopted by the Bank's Management and the policy used to determine the allowance for loan losses were appropriate, within the context of the financial statements taken as a whole.

Other Matters

Statements of value added

The individual and consolidated statements of value added ("DVA") for six-month period and for the year then ended December 31, 2017, prepared under the responsibility of the Bank's management, were subject to audit procedures performed together with the audit of the Bank's financial statements. In forming our opinion, we assess whether these statements are reconciled with the financial statements and accounting records, as applicable, and whether their form and content are in accordance with the criteria set out in technical pronouncement CPC 09 - Statement of Value Added.

In our opinion, these statements of value added were fairly prepared, in all material respects, in accordance with the criteria set out in such technical pronouncement and are consistent in relation to the individual and consolidated financial statements taken as a whole.

Other Information Accompanying the Individual and Consolidated Financial Statements and the Independent Auditor's Report

Management is responsible for such other information. The other information comprises the Management Report.

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

In connection with our audit of the individual and consolidated financial statements, our responsibility is to read the Management Report and, in doing so, consider whether such report is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the Management Report, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Individual and Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the individual and consolidated financial statements in accordance with accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank of Brazil ("BACEN"), and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the individual and consolidated financial statements, Management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Bank and its subsidiaries or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's and its subsidiaries' financial reporting process.

Auditor's Responsibilities for the Audit of the Individual and Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the individual and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Brazilian and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Brazilian and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the individual and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's and its subsidiaries' internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's and its subsidiaries' ability to continue as going concerns. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the individual and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank and its subsidiaries to cease to continue as going concerns.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the individual and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and, where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The accompanying individual and consolidated financial statements have been translated into English for the convenience of readers outside Brazil.

São Paulo, February 21, 2018

DELOITTE TOUCHE TOHMATSU
Auditores Independentes

Carlos Claro
Engagement Partner

(Convenience Translation into English from the Original Previously Issued in Portuguese)

BALANCE SHEETS AS AT DECEMBER 31, 2017 AND 2016
(In thousands of Brazilian reais - R$)

ASSETS	Note	2017		2016	
		Bank	Consolidated	Bank	Consolidated
CURRENT ASSETS		**15,055,548**	**15,395,584**	**12,452,386**	**12,735,527**
Cash		**114,709**	**117,096**	**135,303**	**136,627**
Interbank investments	**Note 5**	**4,628,900**	**4,460,547**	**3,066,538**	**3,002,248**
Money market investments		3,973,111	3,973,111	2,731,808	2,731,808
Interbank deposits		507,599	339,246	254,234	189,944
Foreign currency investments		148,190	148,190	80,496	80,496
Securities and derivatives	**Note 6**	**87,505**	**288,379**	**89,523**	**229,999**
Own portfolio		58,728	198,682	80,573	161,785
Linked to repurchase commitments		23,255	23,255	-	-
Derivatives		5,522	5,522	8,950	8,950
Asset-backed technical reserves		-	60,920	-	59,264
Interbank accounts		**148,723**	**148,723**	**150,979**	**150,979**
Unsettled payments and receipts		-	-	4	4
Restricted deposits - Central Bank of Brazil		148,555	148,555	150,684	150,684
Correspondents		168	168	291	291
Lending operations		**6,400,449**	**6,409,566**	**5,868,464**	**5,871,491**
Lending operations - public sector	Note 7.a)	19,786	19,786	29,029	29,029
Lending operations - private sector	Note 7.a)	6,794,720	6,804,582	6,173,235	6,176,829
(Allowance for loan losses)	Note 9	(414,057)	(414,802)	(333,800)	(334,367)
Leasing operations		**-**	**275,995**	**-**	**222,163**
Leases receivable	Note 7.a)	-	283,640	-	233,803
(Allowance for lease losses)	Note 9	-	(7,645)	-	(11,640)
Other receivables		**3,541,216**	**3,563,485**	**2,981,385**	**3,003,673**
Guarantees and collaterals		34,656	34,656	-	-
Foreign exchange portfolio	Note 10.a)	590,979	590,979	515,792	515,792
Income receivable		8,034	8,577	3,914	4,173
Insurance premiums	Note 19.a)	-	442	-	681
Trading account	Note 6.f)	2,404	2,404	4,113	4,113
Other	Note 10.b)	3,145,587	3,166,871	2,615,596	2,636,944
(Allowance for other loan losses)	Note 9	(240,444)	(240,444)	(158,030)	(158,030)
Other assets	**Note 11**	**134,046**	**131,793**	**160,194**	**118,347**
Repossessed assets		103,784	104,380	103,277	104,518
(Allowance for repossessed assets losses)		(10,532)	(10,532)	(13,238)	(13,238)
Prepaid expenses		40,794	37,945	70,155	27,067
NONCURRENT LONG-TERM ASSETS		**8,025,826**	**8,304,840**	**8,799,598**	**9,019,174**
Interbank investments	**Note 5**	**16,468**	**16,468**	**47,705**	**40,447**
Interbank deposits		16,468	16,468	47,705	40,447
Securities and derivatives	**Note 6**	**1,316,296**	**1,368,421**	**2,304,806**	**2,349,230**
Own portfolio		976,397	1,026,470	2,049,613	2,094,037
Linked to repurchase commitments		129,662	129,662	44,228	44,228
Derivatives		88,292	88,292	83,409	83,409
Linked to guarantees		121,945	121,945	127,556	127,556
Funds used to guarantee technical reserves		-	2,052	-	-
Lending operations		**4,522,352**	**4,530,157**	**4,475,317**	**4,476,561**
Lending operations - public sector	Note 7.a)	97,931	97,931	21,664	21,664
Lending operations - private sector	Note 7.a)	4,685,750	4,694,060	4,701,050	4,703,097
(Allowance for loan losses)	Note 9	(261,329)	(261,834)	(247,397)	(248,200)
Leasing operations		**-**	**237,054**	**-**	**164,070**
Leases receivable	Note 7.a)	-	242,558	-	169,351
(Allowance for lease losses)	Note 9	-	(5,504)	-	(5,281)
Other receivables		**2,086,477**	**2,104,276**	**1,811,578**	**1,828,674**
Foreign exchange portfolio	Note 10.a)	-	-	7,573	7,573
Other	Note 10.b)	2,086,722	2,104,521	1,811,641	1,828,737
(Allowance for other loan losses)	Note 9	(245)	(245)	(7,636)	(7,636)
Other assets	**Note 11**	**84,233**	**48,464**	**160,192**	**160,192**
Prepaid expenses		84,233	48,464	160,192	160,192
PERMANENT ASSETS		**82,714**	**85,877**	**16,359**	**19,646**
Investments		**1,067,338**	**619**	**495,085**	**626**
Equity in domestic subsidiaries		1,066,892	-	494,639	-
Other investments		446	619	446	626
Property and equipment in use		**82,268**	**85,113**	**15,913**	**18,908**
Other property and equipment in use	Note 14	100,937	106,438	40,564	46,292
(Accumulated depreciation)	Note 14	(18,669)	(21,325)	(24,651)	(27,384)
Intangible assets		**-**	**145**	**-**	**112**
TOTAL ASSETS		**24,230,980**	**23,786,301**	**21,762,982**	**21,774,347**

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

(Convenience Translation into English from the Original Previously Issued in Portuguese)

BALANCE SHEETS AS AT DECEMBER 31, 2017 AND 2016
(In thousands of Brazilian reais - R$)

LIABILITIES	Note	2017		2016	
		Bank	Consolidated	Bank	Consolidated
CURRENT LIABILITIES		**10,767,653**	**10,860,162**	**9,981,181**	**10,077,745**
Deposits	**Note 15**	**3,585,127**	**3,582,377**	**3,498,433**	**3,500,998**
Demand deposits		736,540	735,496	599,050	598,615
Interbank deposits		337,395	337,395	339,946	339,946
Time deposits		2,506,517	2,504,811	2,551,795	2,554,795
Foreign currency deposit		4,675	4,675	7,642	7,642
Money market funding	**Note 15**	**1,860,116**	**1,860,116**	**1,802,497**	**1,802,497**
Own portfolio		152,610	152,610	44,206	44,206
Third parties		1,674,825	1,674,825	1,758,291	1,758,291
Freely portfolio		32,681	32,681	-	-
Funds from acceptance and issuance of securities		**3,545,362**	**3,545,137**	**2,654,647**	**2,654,422**
Mortgage loan notes	Note 16.1)	415,483	415,483	452,769	452,769
Agribusiness letters of credit	Note 16.1)	462,328	462,328	372,541	372,541
Financial bills	Note 16.1)	2,636,234	2,636,234	1,798,481	1,798,481
Securities issued abroad	Note 16.2)	31,317	31,092	30,856	30,631
Interbank accounts		**1,906**	**1,906**	**1,699**	**1,699**
Interbranch accounts		**63,797**	**63,797**	**63,911**	**63,911**
Borrowings	**Note 17**	**759,309**	**759,309**	**1,104,246**	**1,104,246**
Foreign borrowings		759,309	759,309	1,104,246	1,104,246
Domestic onlendings - official institutions	**Note 18**	**264,747**	**264,747**	**128,346**	**128,346**
BNDES		214,580	214,580	73,079	73,079
FINAME		50,167	50,167	55,267	55,267
Derivatives	**Note 6.f)**	**8,829**	**8,829**	**34,116**	**34,116**
Technical reserves - insurance	**Note 19.b)**	**-**	**60,838**	**-**	**57,394**
Other payables		**678,460**	**713,106**	**693,286**	**730,116**
Collected taxes and other		8,362	8,378	6,931	6,933
Foreign exchange portfolio	Note 20.a)	142,708	142,708	60,883	60,883
Social and statutory	Note 20.b)	72,945	74,063	59,734	61,306
Tax and social security	Note 20.c)	229,199	245,870	261,961	279,848
Trading account	Note 6.f)	1,685	1,685	1,299	1,299
Other	Note 20.d)	223,561	240,402	302,478	319,847
NONCURRENT LONG-TERM LIABILITIES		**10,415,773**	**9,820,283**	**9,099,321**	**8,949,878**
Deposits	**Note 15**	**1,567,368**	**1,480,270**	**1,816,112**	**1,727,062**
Interbank deposits		-	-	13,730	13,730
Time deposits		1,567,368	1,480,270	1,802,382	1,713,332
Funds from acceptance and issuance of securities		**5,448,491**	**4,905,716**	**4,614,062**	**4,546,561**
Mortgage loan notes	Note 16.1)	91,317	91,317	89,854	89,854
Agribusiness letters of credit	Note 16.1)	20,173	20,173	41,967	41,967
Financial bills	Note 16.1)	3,665,592	3,136,883	2,812,687	2,759,560
Securities issued abroad	Note 16.2)	1,671,409	1,657,343	1,669,554	1,655,180
Borrowings	**Note 17**	**973,244**	**973,244**	**299,444**	**299,444**
Foreign borrowings		973,244	973,244	299,444	299,444
Domestic onlendings - official institutions	**Note 18**	**207,271**	**207,271**	**200,912**	**200,912**
BNDES		140,011	140,011	122,733	122,733
FINAME		67,260	67,260	78,179	78,179
Derivatives	**Note 6.f)**	**553**	**553**	**2,209**	**2,209**
Other payables		**2,218,846**	**2,253,229**	**2,166,582**	**2,173,690**
Tax and social security	Note 20.c)	216,929	222,982	167,677	167,677
Other	Note 20.d)	2,001,917	2,030,247	1,998,905	2,006,013
DEFERRED INCOME		**38,526**	**95,884**	**25,042**	**88,393**
NONCONTROLLING INTERESTS		**-**	**944**	**-**	**893**
EQUITY		**3,009,028**	**3,009,028**	**2,657,438**	**2,657,438**
Capital -		**1,892,143**	**1,892,143**	**1,892,143**	**1,892,143**
Residents in Brazil	Note 23.a)	1,892,143	1,892,143	1,892,143	1,892,143
Earnings reserves	Note 23.e)	1,111,764	1,111,764	778,596	778,596
Valuation adjustments to equity -					
Available-for-sale marketable securities		5,121	5,121	(13,301)	(13,301)
TOTAL LIABILITIES		**24,230,980**	**23,786,301**	**21,762,982**	**21,774,347**

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

(Convenience Translation into English from the Original Previously Issued in Portuguese)

INCOME STATEMENTS
FOR THE SIX-MONTH PERIOD ENDED DECEMBER 31, 2017 AND
FOR THE YEAR ENDED DECEMBER 31, 2017 AND 2016
(In thousands of Brazilian reais - R$)

	Note	2nd half of 2017		2017		2016	
		Bank	Consolidated	Bank	Consolidated	Bank	Consolidated
INCOME FROM FINANCIAL INTERMEDIATION		**1,652,696**	**1,820,991**	**3,519,538**	**3,845,433**	**2,927,449**	**3,235,027**
Lending operations	Note 24.a)	1,384,702	1,385,421	2,779,916	2,780,991	2,896,954	2,898,058
Leasing operations	Note 24.b)	-	162,276	-	313,667	-	285,679
Securities transactions	Note 24.c)	282,390	287,690	662,127	673,280	675,015	695,140
Derivatives	Note 24.d)	(84,721)	(84,721)	(59,411)	(59,411)	(713,867)	(713,197)
Foreign exchange transactions	Note 24.e)	70,325	70,325	136,906	136,906	69,347	69,347
EXPENSES ON FINANCIAL INTERMEDIATION		**(919,802)**	**(1,003,975)**	**(2,185,291)**	**(2,367,568)**	**(2,429,696)**	**(2,617,688)**
Funding operations	Note 24.f)	(603,167)	(576,334)	(1,394,782)	(1,358,821)	(1,655,297)	(1,638,446)
Borrowings and onlending	Note 24.g)	(60,355)	(60,355)	(191,662)	(191,662)	(105,102)	(105,102)
Leasing operations	Note 24.b)	-	(110,408)	-	(214,680)	-	(191,006)
Financial assets sale or transfer		(17,998)	(17,998)	(48,773)	(48,773)	(60,722)	(60,722)
Allowance for loan losses	Note 9	(238,282)	(238,880)	(550,074)	(553,632)	(608,575)	(622,412)
GROSS PROFIT FROM FINANCIAL INTERMEDIATION		**732,894**	**817,016**	**1,334,247**	**1,477,865**	**497,753**	**617,339**
OTHER OPERATING INCOME (EXPENSES)		**(288,210)**	**(350,990)**	**(528,752)**	**(631,404)**	**105,335**	**21,893**
Income from services provided		70,592	75,518	125,040	134,290	93,956	101,714
Income from insurance operations	Note 19.d)	-	1,718	-	3,929	-	4,250
Personnel expenses	Note 24.h)	(141,101)	(162,466)	(269,753)	(304,601)	(255,150)	(286,634)
Other administrative expenses	Note 24.i)	(240,253)	(232,496)	(468,617)	(455,288)	(465,854)	(464,019)
Tax expenses	Note 24.j)	(55,951)	(62,463)	(111,164)	(123,090)	(103,932)	(114,978)
Equity in subsidiaries	Note 12	32,433	-	61,690	-	39,985	-
Other operating income	Note 24.k)	181,558	187,847	379,461	391,896	1,072,145	1,091,342
Other operating expenses	Note 24.l)	(135,488)	(158,648)	(245,409)	(278,540)	(275,815)	(309,782)
OPERATING INCOME		**444,684**	**466,026**	**805,495**	**846,461**	**603,088**	**639,232**
NONOPERATING INCOME		**6,024**	**7,524**	**12,985**	**16,034**	**(1,239)**	**1,706**
Income		13,253	14,753	28,897	31,947	24,500	27,638
Expenses		(7,229)	(7,229)	(15,912)	(15,913)	(25,739)	(25,932)
INCOME BEFORE INCOME TAXES		**450,708**	**473,550**	**818,480**	**862,495**	**601,849**	**640,938**
INCOME TAX AND SOCIAL CONTRIBUTION	**Note 21.a)**	**(144,672)**	**(166,667)**	**(237,030)**	**(279,249)**	**(150,056)**	**(187,443)**
Provision for income tax		(85,088)	(99,717)	(131,117)	(159,114)	(163,458)	(185,173)
Provision for social contribution		(73,040)	(81,153)	(111,123)	(128,417)	(136,408)	(153,513)
Deferred tax assets		13,456	14,203	5,210	8,282	149,810	151,243
PROFIT SHARING	**Note 26.1)**	**(32,440)**	**(33,263)**	**(59,976)**	**(61,716)**	**(44,923)**	**(46,553)**
NONCONTROLLING INTERESTS		**-**	**(24)**	**-**	**(56)**	**-**	**(72)**
NET INCOME		**273,596**	**273,596**	**521,474**	**521,474**	**406,870**	**406,870**
Number of shares	Note 23.b)	204,123,780	204,123,780	204,123,780	204,123,780	204,123,780	204,123,780
Earnings per share - R$		1.34034	1.34034	2.55469	2.55469	1.99325	1.99325

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

(Convenience Translation into English from the Original Previously Issued in Portuguese)

STATEMENTS OF CHANGES IN EQUITY
FOR THE SIX-MONTH PERIOD ENDED DECEMBER 31, 2017 AND
FOR THE YEAR ENDED DECEMBER 31, 2017 AND 2016
(Em milhares de reais - R$)

	Note	Capital	Capital reserves	Earnings reserves: Legal	Earnings reserves: Bylaws	Adjustments of equity valuation	Treasury shares	Retained earnings	Total
BALANCE AS AT JUNE 30, 2017		**1,892,143**	**-**	**157,767**	**633,223**	**5,040**	**-**	**139,485**	**2,827,658**
Adjustment to fair value-									
Available-for-sale marketable securities		-	-	-	-	81	-	-	81
Net income for the six month period		-	-	-	-	-	-	273,596	273,596
Allocations:									
Legal reserve		-	-	13,680	-	-	-	(13,680)	-
Statutory reserve		-	-	-	307,094	-	-	(307,094)	-
Interest on capital	Note 23.d)	-	-	-	-	-	-	(92,307)	(92,307)
BALANCE AS AT DECEMBER 31, 2017		**1,892,143**	**-**	**171,447**	**940,317**	**5,121**	**-**	**-**	**3,009,028**
BALANCE AS AT DECEMBER 31, 2016		**1,892,143**	**-**	**145,373**	**633,223**	**(13,301)**	**-**	**-**	**2,657,438**
Adjustment to fair value-									
Available-for-sale marketable securities		-	-	-	-	18,422	-	-	18,422
Net income for the year		-	-	-	-	-	-	521,474	521,474
Allocations:									
Legal reserve		-	-	26,074	-	-	-	(26,074)	-
Statutory reserve		-	-	-	307,094	-	-	(307,094)	-
Interest on capital	Note 23.d)	-	-	-	-	-	-	(188,306)	(188,306)
BALANCE AS AT DECEMBER 31, 2017		**1,892,143**	**-**	**171,447**	**940,317**	**5,121**	**-**	**-**	**3,009,028**

STATEMENTS OF CHANGES IN EQUITY
FOR THE SIX-MONTH PERIOD ENDED DECEMBER 31, 2017 AND
FOR THE YEAR ENDED DECEMBER 31, 2017 AND 2016
(Em milhares de reais - R$)

				Earnings reserves					
	Note	Capital	Capital reserves	Legal	Bylaws	Adjustments of equity valuation	Treasury shares	Retained earnings	Total
BALANCE AS AT DECEMBER 31, 2015		**1,892,143**	**810**	**125,029**	**818,576**	**(38,239)**	**(11,568)**	**-**	**2,786,751**
Adjustment to fair value-									
Available-for-sale marketable securities		-	-	-	-	24,938	-	-	24,938
Acquisition of own shares		-	-	-	-	-	(328,698)	-	(328,698)
Sale of Bank's shares		-	-	-	(158)	-	276	-	118
Cancellation / redemption of own shares		-	-	-	(378,060)	-	339,990	-	(38,070)
Exercise of options to purchase shares granted		-	(810)	-	-	-	-	810	-
Net income for the year		-	-	-	-	-	-	406,870	406,870
Allocations:									
Legal reserve		-	-	20,344	-	-	-	(20,344)	-
Statutory reserve		-	-	-	192,865	-	-	(192,865)	-
Interest on capital	Note 23.d)	-	-	-	-	-	-	(194,471)	(194,471)
BALANCE AS AT DECEMBER 31, 2016		**1,892,143**	**-**	**145,373**	**633,223**	**(13,301)**	**-**	**-**	**2,657,438**

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

(Convenience Translation into English from the Original Previously Issued in Portuguese)

STATEMENTS OF CASH FLOWS
FOR THE SIX-MONTH PERIOD ENDED DECEMBER 31, 2017 AND
FOR THE YEAR ENDED DECEMBER 31, 2017 AND 2016
(In thousands of Brazilian reais - R$)

	2nd half of 2017		2017		2016	
	Bank	Consolidated	Bank	Consolidated	Bank	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES						
PROFIT FOR THE EXERCISE	**273,596**	**273,596**	**521,474**	**521,474**	**406,870**	**406,870**
Adjustments to reconcile profit for the exercise net cash provided by operating activities						
Depreciation and amortization	3,124	3,239	4,103	4,329	3,997	4,272
Deferred taxes	(13,456)	(14,203)	(5,210)	(8,282)	(149,810)	(151,243)
Provision for risks	128,628	145,919	245,219	266,441	339,617	342,442
Provision for guarantees and collaterals	1,044	1,044	1,859	1,859	(3,333)	(3,333)
Allowance for loan losses	193,245	196,438	475,051	482,381	577,737	587,204
Allowance for leasing losses	-	(2,595)	-	(3,772)	-	4,370
Allowance for other loan losses	45,037	45,037	75,023	75,023	30,838	30,838
Allowance for losses on other assets	(577)	(577)	(2,706)	(2,706)	1,768	1,768
Exchange rate changes on cash and cash equivalents	36,125	36,125	60,591	60,591	(53,740)	(53,740)
Gains on disposal of permament assets	(1,713)	(1,713)	(3,427)	(3,427)	-	-
Shere of profit (loss) of subsidiaries	(32,433)	-	(61,690)	-	(39,985)	-
TOTAL RECONCILIATION ADJUSTMENTS	**359,024**	**408,714**	**788,813**	**872,437**	**707,089**	**762,578**
ADJUSTED PROFIT FOR THE EXERCISE	**632,620**	**682,310**	**1,310,287**	**1,393,911**	**1,113,959**	**1,169,448**
CHANGES IN ASSETS AND LIABILITIES	**24,020**	**(524,736)**	**753,652**	**170,836**	**219,625**	**160,702**
(Increase) Decrease in interbank investments	(94,361)	15,703	(222,128)	(125,323)	(189,196)	(145,734)
(Increase) Decrease in securities and derivates	1,158,019	1,101,161	982,007	913,908	(455,425)	(439,270)
(Increase) Decrease in interbank and interbranch accounts	15,831	15,831	2,349	2,349	96,103	96,103
(Increase) Decrease in lending operations	(765,279)	(783,343)	(1,054,071)	(1,074,051)	(109,821)	(116,991)
(Increase) Decrease in leasing operations	-	(116,263)	-	(117,336)	-	(59,886)
(Increase) Decrease in other receivables	(1,273,189)	(1,277,843)	(856,512)	(858,663)	(605,746)	(594,884)
(Increase) Decrease in other assets	40,752	38,200	104,813	100,988	112,045	123,382
Increase (Decrease) in deposits	(116,412)	(118,432)	(162,050)	(165,413)	521,011	486,502
Increase (Decrease) in money market funding	173,311	173,311	141,085	141,085	44,206	44,206
Increase (Decrease) in funds from acceptance and issuance of securities	930,438	458,322	2,080,036	1,604,454	896,975	852,158
Increase (Decrease) in borrowings and onlendings	115,280	115,280	32,223	32,223	(132,325)	(132,326)
Increase (Decrease) in other payables	(88,166)	(68,038)	(171,719)	(149,974)	171,388	187,787
Income tax and social contribution paid	(74,413)	(78,066)	(135,865)	(140,902)	(132,726)	(135,184)
Increase (Decrease) in deferred income	2,209	(559)	13,484	7,491	3,136	(5,161)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	**656,640**	**157,574**	**2,063,939**	**1,564,747**	**1,333,584**	**1,330,150**
CASH FLOWS FROM INVESTING ACTIVITIES						
Disposal of property and equipment in use	-	-	7,231	7,231	-	-
Capital increase in subsidiaries	(500,000)	-	(500,000)	-	-	-
Acquisition of property and equipment in use	(77,494)	(77,509)	(80,186)	(80,240)	(737)	(855)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	**(577,494)**	**(77,509)**	**(572,955)**	**(73,009)**	**(737)**	**(855)**
CASH FLOWS FROM FINANCING ACTIVITIES						
Increase (Decrease) in funds from acceptance and issuance of securities	(21,665)	(21,665)	(354,892)	(354,583)	(1,635,236)	(1,633,418)
Increase (Decrease) in borrowings and onlendings	(468,382)	(468,382)	439,400	439,400	(920,146)	(920,145)
Interest on capital/dividends paid	(47,032)	(47,032)	(143,032)	(143,032)	(153,564)	(153,564)
(Purchase) Sale of own shares	-	-	-	-	(366,768)	(366,768)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	**(537,079)**	**(537,079)**	**(58,524)**	**(58,215)**	**(3,075,714)**	**(3,073,895)**
EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(36,125)**	**(36,125)**	**(60,591)**	**(60,591)**	**53,740**	**53,740**
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(494,058)**	**(493,139)**	**1,371,869**	**1,372,932**	**(1,689,127)**	**(1,690,860)**
Cash and cash equivalents at beginning of six-month period / year endend	3,055,243	3,056,711	1,189,316	1,190,640	2,878,443	2,881,500
Cash and cash equivalents at end of six-month period / year ended	2,561,185	2,563,572	2,561,185	2,563,572	1,189,316	1,190,640
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(494,058)**	**(493,139)**	**1,371,869**	**1,372,932**	**(1,689,127)**	**(1,690,860)**

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

(Convenience Translation into English from the Original Previously Issued in Portuguese)

STATEMENTS OF VALUE ADDED
FOR THE SIX-MONTH PERIOD ENDED DECEMBER 31, 2017 AND
FOR THE YEAR ENDED DECEMBER 31, 2017 AND 2016
(In thousands of Brazilian reais - R$)

	2nd half of 2017		2017		2016	
	Bank	Consolidated	Bank	Consolidated	Bank	Consolidated
REVENUES	**1,587,254**	**1,757,784**	**3,351,670**	**3,682,283**	**3,327,885**	**3,621,802**
Income from financial intermediation	1,652,696	1,820,991	3,519,538	3,845,433	2,927,449	3,235,027
Revenue from services	70,592	75,518	125,040	134,290	93,956	101,714
Allowance for loan losses	(238,282)	(238,880)	(550,074)	(553,632)	(608,575)	(622,412)
Other	102,248	100,155	257,166	256,192	915,055	907,473
EXPENSES	**(681,520)**	**(765,095)**	**(1,635,217)**	**(1,813,936)**	**(1,821,121)**	**(1,995,276)**
Expenses on financial intermediation	(681,520)	(765,095)	(1,635,217)	(1,813,936)	(1,821,121)	(1,995,276)
INPUTS PURCHASED FROM THIRD PARTIES	**(228,387)**	**(219,317)**	**(447,912)**	**(431,893)**	**(446,506)**	**(441,748)**
Materials, electric power and other	(36,091)	(38,400)	(67,985)	(72,941)	(70,412)	(75,737)
Outside services	(192,894)	(181,515)	(380,526)	(359,551)	(376,239)	(366,163)
Asset recovery	598	598	599	599	145	152
GROSS VALUE ADDED	**677,347**	**773,372**	**1,268,541**	**1,436,454**	**1,060,258**	**1,184,778**
DEPRECIATION AND AMORTIZATION	**(3,124)**	**(3,239)**	**(4,103)**	**(4,329)**	**(3,997)**	**(4,272)**
TOTAL WEALTH CREATED BY THE CONSOLIDATED	**674,223**	**770,133**	**1,264,438**	**1,432,125**	**1,056,261**	**1,180,506**
WEALTH RECEIVED IN TRANSFER	**32,433**	**-**	**61,690**	**-**	**39,985**	**-**
Equity in subsidiaries	32,433	-	61,690	-	39,985	-
WEALTH FOR DISTRIBUTION	**706,656**	**770,133**	**1,326,128**	**1,432,125**	**1,096,246**	**1,180,506**
DISTRIBUTION OF WEALTH	**706,656**	**770,133**	**1,326,128**	**1,432,125**	**1,096,246**	**1,180,506**
EMPLOYEES	**150,767**	**181,588**	**286,706**	**331,290**	**261,676**	**290,494**
Salaries and wages	93,385	119,840	180,257	216,317	176,515	196,120
Benefits	52,749	56,514	97,650	104,862	77,565	84,536
Severance pay fund (FGTS)	4,633	5,234	8,799	10,111	7,596	9,838
TAXES	**274,149**	**305,583**	**501,944**	**560,838**	**412,493**	**465,223**
Federal	269,191	299,704	491,448	548,482	402,540	453,273
State	381	381	1,482	1,516	2,484	2,538
Municipal	4,577	5,498	9,014	10,840	7,469	9,412
LENDERS AND LESSORS	**8,144**	**9,342**	**16,004**	**18,467**	**15,207**	**17,847**
Rentals	8,144	9,342	16,004	18,467	15,207	17,847
SHAREHOLDERS	**273,596**	**273,596**	**521,474**	**521,474**	**406,870**	**406,870**
Interest on capital	92,307	92,307	188,306	188,306	194,471	194,471
Retained earnings of six-month period / year endend	181,289	181,289	333,168	333,168	212,399	212,399
NONCONTROLLING INTERESTS	**-**	**24**	**-**	**56**	**-**	**72**

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

1. GENERAL INFORMATION

Bank Daycoval S.A. (the “Bank” or “Daycoval”) is a publicly-held entity, organized as a full-service bank authorized to operate commercial, foreign exchange, investment, and lending and financing portfolios, through its direct and indirect subsidiaries, and also leasing portfolio, asset management, life insurance, pension plans and provision of services. The Bank is part of Daycoval Group and conducts its businesses on an integrated basis.

a) Joint Tender Offer for purposes of cancellation of the publicly-held company registration and delisting from Level 2 of the Corporate Governance segment of BM&FBOVESPA:

Bank Daycoval S.A., in conformity with the provisions set forth in article 157, paragraph 4, of Law 6404, of December 15, 1976, as amended, and the Brazilian Securities and Exchange Commission (“CVM”) Instruction 358, of January 3, 2002, as amended, has informed to the market on June 24, 2015 that its controlling shareholders, together with the Bank, pursuant to articles 49, 50 and 52 of the Bank’s Bylaws, CVM Instruction 361, of March 5, 2002, as amended, intends to conduct: (i) a tender offer for the acquisition of the Shares Subject to the Tender Offer, for purposes of cancellation of the Bank’s registration for trading of shares in the market as securities issuer, class "A", as set forth in CVM Instruction 480, of December 7, 2009, as amended, along with (ii) a tender offer for the acquisition of the Shares Subject to the Tender Offer, for the Bank’s delisting from the special listing segment of B3 S.A. - Brasil, Bolsa, Balcão (“B3 S.A.”), called Level 2 of the Corporate Governance segment (“Tender Offer”).

On July 1, 2016, Bank Daycoval and its controlling shareholders disclosed the notice on the Joint Tender Offer for the Acquisition of Preferred Shares issued by Banco Daycoval. The notice contains all information necessary for the Tender Offer held on August 11, 2016.

On that date, Bank Daycoval has communicated the successful outcome of the joint tender offer auction for the acquisition of all preferred shares issued by the Bank and held by the Bank’s noncontrolling shareholders and management.

As a result of the Auction, the current controlling shareholders of Banco Daycoval (“Controlling Shareholders”), together with Banco Daycoval (“Offerors”), acquired 58,394,941 preferred shares issued by Banco Daycoval, corresponding to 23.80% of the Bank’s capital, at the unit price of R$9.08, totaling R$530.226, of which 31,143,119 preferred shares in the amount of R$282,780, acquired by Banco Daycoval and 27,251,822 preferred shares in the amount of R$247,446, acquired by the Controlling Shareholders, at the ratio and within the limits set in the Notice disclosed on July 1, 2016.

As the number of preferred shares issued by Banco Daycoval and held by its noncontrolling shareholders acquired by the Offerors in the Auction exceeded the minimum amount of two thirds of the outstanding shares of Banco Daycoval, as set forth in article 16, II, of CVM Instruction 361 and in the Notice, Banco Daycoval has continued with the acts necessary for the Conversion of Registration, in the manner and within the deadline set forth in CVM Instruction 480, upon the subsequent delisting from the Level 2 of the Corporate Governance segment of B3 S.A.

The Extraordinary General Meeting held on September 5, 2016 decided on and approved the redemption of 3,891,298 outstanding preferred shares that have not been acquired by the Offerors on the Auction date, representing 1.58% of Banco Daycoval’s capital. The redemption price was R$9.18 per share.

After the completion of the joint tender offer, Banco Daycoval bought back 4,942,839 preferred shares held by related parties in the amount of R$45,374, with redemption price of R$9.18 per share.

The meeting of the Board of Directors held on December 20, 2016 decided on and approved the cancellation of all treasury shares, totaling 37,340,711 registered preferred shares, without decreasing capital.

2. PRESENTATION OF THE FINANCIAL STATEMENTS

The Bank's financial statements information, including its foreign branch, and the consolidated financial statements information ("Consolidated"), approved by Management on February 21, 2018, has been prepared in accordance with the accounting practices adopted in Brazil, based on the accounting guidelines set forth in the Brazilian Corporate Law (Law 6404/76), and the changes introduced by Law 11638/07 and Law 11941/09 for the accounting for transactions, coupled with the standards and instructions of the National Monetary Council ("CMN"), the Central Bank of Brazil ("BACEN"), and the Standard Chart of Accounts for Financial Institutions ("COSIF"), the Brazilian Securities and Exchange Commission ("CVM"), the National Private Insurance Council ("CNSP"), the Private Insurance Authority ("SUSEP"), and Accounting Pronouncements Committee ("CPC") , when applicable.

All relevant information in the Financial Statements Information of Banco Daycoval S.A., and only such information, is being disclosed and corresponds to the information used by the Bank's Management in managing the Bank.

As part of the process of convergence with the International Financial Reporting Standards (IFRS), the Accounting Pronouncements Committee (CPC) has issued several pronouncements related to the international accounting convergence process that have been approved by the CVM but not all of them have been ratified by the BACEN. Thus, in the preparation of the Financial Statements, the Bank has adopted the following pronouncements that have been approved by the BACEN, s follows:

Pronouncements of CPC	Resolution BACEN / CMN
CPC 00 (R1) - Conceptual Framework to Prepare and Disclose the Financial Report	4.144/12
CPC 01 (R1) - Impairment of Assets	3.566/08
CPC 02 (R2) - Effects of Changes in Exchange Rates and Translation of Financial Statements	4.524/16
CPC 03 (R2) - Statements of Cash Flows	3.604/08
CPC 04 (R1) - Intangible Assets	4.534/16
CPC 05 (R1) - Related-party Disclosures	3.750/09
CPC 10 (R1) - Share-based Payment	3.989/11
CPC 23 - Accounting Policies, Changes in Accounting Estimates and Errors	4.007/11
CPC 24 - Events After the Reporting period	3.973/11
CPC 25 - Provisions, Contingent Liabilities and Contingent Assets	3.823/09
CPC 27 - Property, Plant and Equipment	4.535/16
CPC 33 (R1) - Employee Benefits	4.424/15

The consolidated financial statements comprise the Bank, its foreign branch and the following direct and indirect subsidiaries:

	Ownership interest - %	
	2017	2016
Leasing operations		
Daycoval Leasing – Banco Múltiplo S.A. ("Daycoval Leasing")	100.00	100.00
Financial activity - Foreign branch		
Banco Daycoval S.A. - Cayman Branch	100.00	100.00
Insurance and pension plan activity		
Dayprev Vida e Previdência S.A. ("Dayprev")	97.00	97.00
Non-financial activity		
ACS Participações Ltda. ("ACS")	99.99	99.99
Daycoval Asset Management Administração de Recursos Ltda. ("Daycoval Asset")	99.99	99.99
IFP Promotora de Serviços de Consultoria e Cadastro Ltda. ("IFP")	99.99	99.99
SCC Agência de Turismo Ltda. ("SCC")	99.99	99.99
Treetop Investments Ltd. ("Treetop")	99.99	99.99

In the consolidated financial statements, the balances and transactions between the Bank, its foreign branch, and its direct and indirect subsidiaries have been eliminated. Profit and equity amounts related to noncontrolling interests were disclosed in a separate caption.

3. SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies adopted by Banco Daycoval in the preparation of the individual and consolidated financial Statements information can be summarized as follows:

a) Income and expenses are recorded on the accrual basis. Fixed-rate transactions are stated at the final amount, and income and expenses for future period are recognized as a reduction of the related assets and liabilities. Finance income and costs are recorded on a pro rata basis and calculated based on the exponential method, except those related to discounted notes or foreign transactions, which are calculated under the straight-line method. Floating-rate transactions or those indexed to foreign currencies are adjusted through the balance sheet date.

b) Interbank investments and other receivables, except securities and derivatives, are stated at cost, plus inflation adjustment, exchange rate changes and contractual interest. When the realizable amount of an asset is lower than its carrying amount, an allowance for impairment is recorded to adjust such asset to its realizable amount.

c) Under BACEN Resolution 3604/08, cash and cash equivalents are represented by cash and bank deposits, recorded in captions “Cash and cash equivalents”, “Interbank investments”, and “Securities - own portfolio”, with original investment term of 90 days or less; the risk of change in their fair value is considered immaterial.

d) Securities are stated at cost plus income earned, as follows: (i) fixed-income securities are adjusted at the applicable interest rate based on the respective maturities; (ii) shares are adjusted based on the average price informed by the Stock Exchange where the shares are more traded; and (iii) investments in investment funds are adjusted based on the share price informed by the fund managers.

Securities are classified in conformity with BACEN Circular Letter 3068/01 into one of the following categories:

• Trading securities - securities acquired for the purpose of being actively and frequently traded, adjusted to fair value as a contra-entry to profit or loss.

• Available-for-sale securities - securities not acquired for the purpose of being actively and frequently traded, which Management does not intend to hold to maturity. The adjustments to fair value (unrealized gains and losses) are recorded as a separate component of equity, net of taxes, and are recognized in profit or loss when realized.

• Held-to-maturity securities - securities that the Bank has the positive intent and ability to hold to maturity and stated at cost, plus income earned, as a contra-entry to profit or loss.

• Bonuses arising from investments in shares issued by publicly-traded companies are recorded in the securities portfolio only according to the respective quantities, without modifying the amount of investments, when the corresponding shares are considered “ex-rights” on the stock exchange.

Dividends and interest on capital arising from investments in shares issued by publicly-traded companies are recorded as income when the related shares are considered “ex-rights” on the stock exchange.

e) Derivatives consist of forward, futures and swap options and are recorded in conformity with BACEN Circular Letter 3082/02, which provides for the adoption of the following criteria:

• Option transactions - premiums received or paid are recorded at fair value in caption “Derivatives” in assets or liabilities, respectively, until the option is exercised, and recorded as a decrease or increase in the cost of the asset subject to the option, for the exercise of the option, or as income or expense in the event of non-exercise;

• Futures transactions - daily adjustments are recorded at fair value in caption “Trading account” in assets or liabilities and allocated daily to profit or loss as income (when relating to gains) or expense (when relating to losses);

• Currency swap and forward transactions (NDF) - differential receivable or payable is recorded at fair value in caption “Derivatives” in assets or liabilities, respectively, and allocated to profit or loss as income (when relating to gains) or expense (when relating to losses); and

• Forward transactions - recorded at the final contractual amount, less the difference between such amount and the cash price of the asset, adjusted to fair value, income and expenses being recognized over the contractual terms.

Derivative transactions are stated at fair value, with gains and losses recorded as described below:

• Derivatives not qualified as hedge - in income or expense in profit or loss; and

• Derivatives qualified as hedge - classified as market risk hedge or cash flow hedge.

Market risk hedges are used to offset the risks arising from the exposure to changes in the fair value of the hedged item, with gains or losses recorded as a contra-entry to income or expense in profit or loss.

Cash flow hedges are used to offset the changes in estimated future cash flows, the effective portion used in such offset being recorded as a contra-entry to a separate item of equity, net of taxes, and any other change as a contra-entry to income or expense in profit or loss.

f) Leasing operations were reclassified so as to reflect its financial position in conformity with the financial method.

g) Lending and leasing operations are classified based on Management’s risk assessment, considering the past experience with prior borrowers, the risk rating of such borrowers and their guarantors, the economic environment, and specific and overall portfolio risks, pursuant to CMN Resolution 2682/99, which requires a periodic analysis of the portfolio and its classification into nine risk rating levels from AA (minimum risk) to H (maximum risk - loss).

Also according to CMN Resolution 2682/99, the income from lending operations past due for more than 60 days, regardless of the risk rating, is only recognized when received, and H-rated loans remain as such for 180 days, after which period they are written off against the existing allowance and are controlled in memorandum accounts, no longer being recorded in the balance sheet.

h) A financial asset is derecognized, as prescribed by CMN Resolution 3533/08, when the contractual rights to the financial asset’s cash flows expire or when the asset is sold or transferred, which should be classified into the following categories:

• Transactions with substantial transfer of the risks and rewards: the assignor substantially transfers all the risks and rewards of ownership of the financial asset as follows: (i) unconditional sale of the financial asset; (ii) sale of the financial asset with repurchase option at its fair value on the repurchase date; and (iii) sale of the financial asset with call or put options, whose exercise is unlikely to occur;

• Transactions with substantial retention of the risks and rewards: the assignor substantially retains all the risks and rewards of ownership of the financial asset as follows: (i) sale of the financial asset with repurchase commitment at a fixed price or at the sales price plus any yields; (ii) securities lending agreements; (iii) sale of the financial assets with total return rate swap agreement, which transfers the market risk exposure back to the assignor; (iv) sale of the financial asset with call or put options whose exercise is likely to occur; and (v) sale of receivables, when the losses incurred by the buyer or assignee, if any, are compensated by the seller or assignor, or whose sale is made together with the acquisition of subordinated units of the buyer Receivables Investment Fund (FIDC); and

• Transactions with no substantial transfer or retention of the risks and rewards: transactions in which the assignor neither transfers nor substantially retains all the risks and rewards of ownership of the financial asset.

The transfer or retention of the risks and rewards of ownership of the financial asset is analyzed by comparing Daycoval's exposure, before and after the sale or transfer, with the changes in the present value of the financial asset's expected cash flows, adjusted at the appropriate market interest rate.

The allowance for loan losses is recorded as prescribed by CMN Resolution 2682/99.

i) Foreign exchange transactions are stated at realizable values, plus income and exchange rate changes calculated on a daily pro rata basis, and the allowance for other loan losses, pursuant to CMN Resolution 2682/99, when applicable.

j) Prepaid expenses related to commissions paid to bank correspondents are controlled by contract and accounted for in caption "Prepaid expenses in assets, in the balance sheet". Such expenses are recognized as "Other administrative expenses" in profit or loss on a pro rata basis, over the respective contractual terms, or fully recognized, when such contracts are settled in advance.

Upon enactment of BACEN Circular 3738/14, the Bank opted for recognizing prepaid expenses as follows:

(i) Two-thirds of the amount of commissions paid beginning January 1, 2015 were recorded as "Prepaid expenses" in assets, in the balance sheet, being amortized within up to 36 months as from the initial recognition and the remaining amount directly recognized as expense;

(ii) One-third of the amount of commissions paid beginning January 1, 2016 was recorded as "Prepaid expenses" in assets, in the balance sheet, being amortized within up to 36 months as from the initial recognition and the remaining amount directly recognized as expense; and

(iii) For commissions paid beginning January 1, 2017, the total amount is recognized as expense.

As set forth in §4, Art. 1 of BACEN Circular 3693/13, as amended by BACEN Circular Letter 3738/14, beginning January 1, 2020, all amounts potentially recorded in assets, relating to the compensation of domestic corresponding referred to in the main paragraph, must be immediately written down, as a contra entry to an appropriate expense account for the period, it being prohibited any additional recognition or the maintenance of amounts of such nature in assets.

k) Investments in subsidiaries are stated under the equity method, which is applied to all associates over which the Bank has significant influence, that is, in which the Bank holds at least 20% of the voting capital.

l) Other investments are stated at cost, less allowance for loss, when applicable.

m) Property and equipment are stated at cost, except for real estate owned by the subsidiary, which is recorded at cost plus mark-to-market adjustment. Depreciation is calculated under the straight-line method at the annual rates stated in note 14, which take into consideration the economic useful lives of the assets.

n) Intangible assets correspond to rights acquired in intangible assets used in the maintenance of the Bank's and its subsidiaries' activities or exercised for such purpose; intangible assets with finite lives are amortized on a straight-line basis over the estimated period they will generate economic benefits.

o) The impairment of non-monetary assets is recognized as a loss when the carrying amount of an asset or a cash-generating unit is higher than its recoverable or realizable value. A cash-generating unit is the smallest identifiable group of assets that generates cash flows substantially independent from other assets or groups of assets. Impairment losses are recorded in profit or loss for the period they are recognized, when applicable.

The amounts of non-financial assets, except those recorded in captions "Other assets" and "Other receivables - tax credits", are periodically tested for impairment, at least annually.

As at December 31, 2017, the allowance for impairment of repossessed assets was recognized in the amount of R$10,532 (R$13,238 in 2016) (Note 11). No evidence of impairment of other non-financial assets was identified.

p) Known or estimated liabilities, charges and risks, including tax charges calculated based on profit or loss, are stated at the adjusted amount through the balance sheet date. Liabilities denominated in foreign currencies are translated into local currency at the exchange rates in effect on the balance sheet date, as informed by BACEN, and liabilities subject to inflation adjustments are stated at the adjusted amount through the balance sheet date. Hedged liabilities are adjusted to fair value.

q) The provision for income tax is recorded at the rate of 15%, plus a 10% surtax, when applicable. The social contribution was calculated on adjusted profit at the rate of 20%. Law 13169/15, which amends Law 7689/88, raised the social contribution rate to 20% on profit for the period from September 1, 2015 to December 31, 2018. Beginning January 1, 2019, such rate will return to 15%.

r) Income tax credits are recognized on temporary additions and deductions and Daycoval Leasing's prior-year tax losses, based on the legislation in effect on the date of recognition. Due to the amendment to Law 7689/88, mentioned in item "q)" above, social contribution tax credits were recorded as follows: (i) applying the 15% rate on temporary additions and deductions calculated through August 31, 2015 and on those additions and deductions that are expected to be realized after December 31, 2018; and (ii) 20% rate on temporary additions and deductions that are expected to be realized from September 1, 2015 to December 31, 2018. Beginning January 1, 2019, the tax rate will return to 15%. These tax credits will be realized when the amounts on which they were recognized are utilized and/or reversed.

s) Technical reserves for insurance and unsettled claims - refer to Dayprev's share in DPVAT Insurance Consortium and recorded in accordance with the statements received from Seguradora Líder.

t) Contingent assets and liabilities and legal, tax and social security obligations:

Contingent assets and liabilities and legal, tax and social security obligations are recognized, measured, and disclosed, as follows:

• Contingent assets - not recorded in the financial statements information, except when there is evidence that they will be realized and will not be subject to appeals;

Contingent liabilities - recorded in the financial statements information when the risk of loss in an administrative or legal proceeding is assessed by the legal counsel and Management as probable, with probable outflow of funds to settle obligations, and when the related amounts can be reliably measured. Contingent liabilities assessed as possible loss by the legal counsel are only disclosed in the explanatory information, whereas those assessed as remote loss do not require the recognition of a provision and disclosure; and

• Legal obligations (tax and social security) - refer to lawsuits challenging the legality and constitutionality of certain taxes and contributions. The amount under litigation is determined, accrued and adjusted on a monthly basis, regardless of its likelihood of loss.

u) Deferred income refers to: (i) income received in advance for which there is no projected future payment, recognized in the income statements based on the term of the transaction sthat originated them, both in the Bank and the Consolidated; and (ii) negative goodwill on the acquisition of Banco CIT Brasil, which was not absorbed in the consolidation of the Financial Statements Information, reclassified from "Investments", in permanent assets, to "Deferred income", in the amount of R$54,642 (R$61,544 as at December 31, 2016) only for the Consolidated.

v) Earnings per share are calculated based on the number of shares at the balance sheet dates.

w) Uses of estimates - The preparation of the financial statements information requires Management to make estimates and adopts assumptions that, in its best judgment, affect the reported amounts of certain assets and liabilities (financial or not), revenues, expenses and other transactions, such as: (i) depreciation rates of property and equipment items and lease property and equipment; (ii) amortization of deferred assets; (iii) allowance for loan and lease losses; (iv) measurement of financial instruments; and (v) provisions for contingencies. Actual results could differ from those estimates.

x) Fixed-rate financial assets and financial liabilities are adjusted to present value by unearned income and unearned expenses, which adjust these instruments to the amounts that would be obtained upon realization should they be cash transactions, as well as floating-rate financial instruments, which are realized at their cash value and are periodically adjusted by their respective transactions rates.

y) Functional and reporting currency, foreign currency-denominated transactions and share of profit (loss) of foreign entities:

I - Functional and reporting currency:
Daycoval's Interim Financial Information is stated in Brazilian reais (R$), which is the Bank's functional and reporting currency.
As prescribed by CMN Resolution 4524/16, Daycoval has defined that the functional and reporting currency for each of its direct and indirect subsidiaries, including foreign entities, will also be the Brazilian real (R$).

II – Translation of foreign currency-denominated transactions:
Based on the functional currency used for the foreign entities, as defined in item "i" above, the transactions in a currency other than the respective functional currencies are translated using the exchange rates of the respective trial balance or balance sheet for monetary items, assets and liabilities stated at fair value or market price and for non-monetary items.

III- Share of profit (loss) of foreign entities:
The share of profit (loss) of foreign entities, the functional currency of which is defined in item "I" above, is recognized directly in Daycoval's income statements, in "Share of profit (loss) of subsidiaries".

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are broken down as follows:

	Bank		Consolidated	
	2017	**2016**	**2017**	**2016**
Cash	114,709	135,303	117,096	136,627
Money market investments [(1)]	2,298,286	973,517	2,298,286	973,517
Foreign currency investments [(2)]	148,190	80,496	148,190	80,496
Total cash and cash equivalents	**2,561,185**	**1,189,316**	**2,563,572**	**1,190,640**

(1) Money market investments comprising cash and cash equivalents are stated net of the amount recorded under "Money market investments – third-party portfolio" which as at 2017 amounts to R$1,674,825 (R$1,758,291 in 2016), for the Bank and the Consolidated.

(2) Refers to foreign currency investments maturing within up to 90 days from the investment date.

5. INTERBANK INVESTMENTS

Interbank investments are broken down as follows:

	Bank			
	2017		**2016**	
Investments type	**Maturity**	**Value**	**Maturity**	**Valor**
Money market investments	Up to 1st business day	3,973,111	Up to 1st business day	2,731,808
Interbank deposits	Up to May 2022	524,067	Up to May 2022	301,939
Foreign currency	Up to 2nd business day	148,190	Up to 2nd business day	80,496
Total		**4,645,368**		**3,114,243**

In 2017, total interbank investments for the Consolidated is R$4,477,015 (R$3,042,695 in 2016).

6. SECURITIES AND DERIVATIVES

a) Breakdown by category and type:

	Bank			
	2017		2016	
	Adjusted cost	Fair value [1]	Adjusted cost	Fair value [1]
Available-for-sale securities	**1,309,861**	**1,309,987**	**2,321,152**	**2,301,970**
Own portfolio	**1,034,950**	**1,035,125**	**2,149,010**	**2,130,186**
Treasury bills (LFT)	890,575	890,610	2,053,136	2,049,895
National Treasury Bills (LTN)	66,815	66,667	6,529	6,370
National Treasury Notes (NTN-B)	27,603	27,841	38,802	29,483
Foreign securities	49,957	50,007	49,208	43,533
Investment fund units	-	-	1,335	905
Shares of listed companies	**152,943**	**152,917**	**44,345**	**44,228**
Linked to repurchase commitments	152,943	152,917	44,345	44,228
Treasury bills (LFT)	**121,968**	**121,945**	**127,797**	**127,556**
Linked to guarantees [2]	121,968	121,945	127,797	127,556
Treasury bills (LFT)	**1,309,861**	**1,309,987**	**2,321,152**	**2,301,970**
Total Securities				

	Consolidated			
	2017		2016	
	Adjusted cost	Fair value [1]	Adjusted cost	Fair value [1]
Trading securities	**60,920**	**60,920**	**57,407**	**57,407**
Assets-backed technical reserves (Note 19.c)	**60,920**	**60,920**	**57,407**	**57,407**
Investment fund units	60,920	60,920	57,407	57,407
Available-for-sale securities	**1,497,321**	**1,502,066**	**2,447,783**	**2,429,463**
Own portfolio	**1,220,358**	**1,225,152**	**2,273,784**	**2,255,822**
Treasury bills (LFT)	919,672	919,704	2,080,125	2,076,878
National Treasury Bills (LTN)	-	-	500	500
National Treasury Notes (NTN-B)	66,815	66,667	6,529	6,370
Foreign securities	60,429	62,254	69,759	59,534
Investment fund units	171,325	171,375	113,450	107,774
Shares of listed companies	2,117	5,152	3,421	4,766
Linked to repurchased commitments	**152,943**	**152,917**	**44,345**	**44,228**
Treasury bills (LFT)	152,943	152,917	44,345	44,228
Linked to guarantees [2]	**121,968**	**121,945**	**127,797**	**127,556**
Treasury bills (LFT)	121,968	121,945	127,797	127,556
Assets-backed technical reserves (Note 19.c)	**2,052**	**2,052**	**1,857**	**1,857**
Treasury bills (LFT)	2,052	2,052	1,857	1,857
Total Securities	**1,558,241**	**1,562,986**	**2,505,190**	**2,486,870**

(1) The securities' fair value was calculated based on the prices and rates prevailing as at December 31, 2017 and 2016, as disclosed by the Brazilian Financial and Capital Markets Association (ANBIMA), by the managers of the investment fund in which the Bank invests, the B3 S.A.- Brasil, Bolsa, Balcão, and other market makers in the case of securities acquired abroad.

(2) As securities linked to guarantees refer to securities linked to: (i) transactions conducted at the B3 S.A.- Brasil, Bolsa, Balcão, and CETIP S.A - Mercados Organizados, in the amount of R$121,945 (R$127,556 as at December 31, 2016) (Note 6.m).

b) Breakdown by maturity:

	Bank						
	2017						
	Without maturity	Up to 3 months	3 to 12 months	1 to 3 Years	3 to 5 years	Over 5 years	Total
Federal government securities	**-**	**26,560**	**4,781**	**182,686**	**819,950**	**198,162**	**1,232,139**
Treasury Bills (LFT)	-	26,560	2,794	182,367	819,950	133,801	1,165,472
National Treasury Notes (NTN-B)	-	-	1,987	319	-	64,361	66,667
Foreign securities	**-**	**544**	**91**	**-**	**15,721**	**11,485**	**27,841**
Eurobonds and similar instruments	-	544	91	-	15,721	11,485	27,841
Investment fund units	**50,007**	**-**	**-**	**-**	**-**	**-**	**50,007**
Real estate investment fund	39,434	-	-	-	-	-	39,434
Fixed-income investment fund	9,847	-	-	-	-	-	9,847
Other investment funds	726	-	-	-	-	-	726
Total	**50,007**	**27,104**	**4,872**	**182,686**	**835,671**	**209,647**	**1,309,987**

	2016					
	Without maturity	3 to 12 months	1 to 3 Years	3 to 5 years	Over 5 years	Total
Federal government securities	**-**	**36,135**	**79,703**	**1,122,048**	**990,163**	**2,228,049**
Treasury Bills (LFT)	-	31,970	77,498	1,122,048	990,163	2,221,679
National Treasury Notes (NTN-B)	-	4,165	2,205	-	-	6,370
Foreign securities	**-**	**-**	**676**	**33**	**28,774**	**29,483**
Eurobonds and similar instruments	-	-	676	33	28,774	29,483
Private-sector securities	**905**	**-**	**-**	**-**	**-**	**905**
Shares of listed companies	905	-	-	-	-	905
Investment fund units	**43,533**	**-**	**-**	**-**	**-**	**43,533**
Real estate investment fund	34,386	-	-	-	-	34,386
Fixed-income investment fund	8,786	-	-	-	-	8,786
Other investment funds	361	-	-	-	-	361
Total	**44,438**	**36,135**	**80,379**	**1,122,081**	**1,018,937**	**2,301,970**

	Consolidated						
	2017						
	Without maturity	Up to 3 months	3 to 12 months	1 to 3 Years	3 to 5 years	Over 5 years	Total
Federal government securities	**-**	**37,310**	**4,781**	**201,810**	**821,222**	**198,162**	**1,263,285**
Treasury Bills (LFT)	-	37,310	2,794	201,491	821,222	133,801	1,196,618
National Treasury Notes (NTN-B)	-	-	1,987	319	-	64,361	66,667
National Treasury Bills (LTN)	**2,684**	**544**	**91**	**2,703**	**26,042**	**30,190**	**62,254**
Foreign securities	2,684	544	91	2,703	26,042	30,190	62,254
Eurobonds and similar instruments	**5,152**	**-**	**-**	**-**	**-**	**-**	**5,152**
Private-sector securities	5,152	-	-	-	-	-	5,152
Shares of listed companies	**232,295**	**-**	**-**	**-**	**-**	**-**	**232,295**
Investment fund units	165,400	-	-	-	-	-	165,400
Fixed-income investment fund	39,434	-	-	-	-	-	39,434
Real estate investment fund	21,466	-	-	-	-	-	21,466
Multimarket investment fund	5,269	-	-	-	-	-	5,269
Equity funds	726	-	-	-	-	-	726
Other investment funds	**240,131**	**37,854**	**4,872**	**204,513**	**847,264**	**228,352**	**1,562,986**
Total							

	2016					
	Without maturity	Up to 3 months	3 to 12 months	1 to 3 Years	3 to 5 years	Over 5 years	Total
Federal government securities	**-**	**500**	**48,055**	**95,148**	**1,123,523**	**990,163**	**2,257,389**
Treasury Bills (LFT)	-	-	43,890	92,943	1,123,523	990,163	2,250,519
National Treasury Notes (NTN-B)	-	-	4,165	2,205	-	-	6,370
National Treasury Bills (LTN)	-	500	-	-	-	-	500
Foreign securities	**2,547**	**-**	**-**	**2,365**	**9,787**	**44,835**	**59,534**
Eurobonds and similar instruments	2,547	-	-	2,365	9,787	44,835	59,534
Private-sector securities	**4,766**	**-**	**-**	**-**	**-**	**-**	**4,766**
Shares of listed companies	4,766	-	-	-	-	-	4,766
Investment fund units	**165,181**	**-**	**-**	**-**	**-**	**-**	**165,181**
Fixed-income investment fund	106,507	-	-	-	-	-	106,507
Real estate investment fund	34,386	-	-	-	-	-	34,386
Multimarket investment fund	19,765	-	-	-	-	-	19,765
Equity fund	4,162	-	-	-	-	-	4,162
Other investment funds	361	-	-	-	-	-	361
Total	**172,494**	**500**	**48,055**	**97,513**	**1,133,310**	**1,034,998**	**2,486,870**

c) Derivatives:

The Bank conducts derivative transactions recorded in balance sheet, profit or loss and memorandum accounts to meet its own and the clients' needs.

Derivatives used are properly approved based on the product use policy. Pursuant to this policy, prior to the implementation of each product, all aspects should be analyzed, such as: objectives, methods of use, underlying risks and appropriate supporting operational infrastructure.

The credit and market risk components of derivatives are monitored on a daily basis, and specific limits are set for derivative transactions for clients and also for registration and settlement chambers. Such limits are managed through a system that consolidates exposures by counterparty. Any discrepancies are promptly identified and addressed for immediate solution.

The market risk of derivatives is managed based on a prevailing risk policy, pursuant to which potential risks of price fluctuations in the financial markets are centralized in the Treasury department, which provides hedge for the other areas.

The main derivative financial instruments used by the Bank include swaps, non-deliverable forwards (NDF), US dollar futures (DOL), interest rate (DI) and foreign exchange coupon (DDI). BACEN Circular Letter 3082/02 permitted a specific accounting in those cases derivatives are used to hedge against changes in the fair value or cash flow of the Bank.

No derivative transactions were conducted between the Group companies.

d) Hedge:

The hedging strategy is determined based on the Bank's operating risk exposure limits. Whenever its transactions have risk exposures above the preset limits, which might result in significant fluctuations in the Bank's profit or loss, the Bank uses derivatives, contracted in the organized or over-the-counter market, to hedge against such risks, according to the hedging rules set forth in BACEN Circular Letter 3082/02.

The hedge instruments seek to mitigate market, currency fluctuation and interest rate risks. According to the market liquidity, the maturity dates of hedge instruments are the closest possible to the dates of the financial flows of the hedged transactions so as to ensure an efficient hedge.

Hedge Accounting

Market Risk Hedge

The Bank has a market risk hedge structure designed to offset the risks arising from the exposure to changes in the fair value relating to the fluctuation of foreign currency (US dollar and euro fluctuation) and of the Libor interest rate on foreign borrowings - (hedged items) recorded in "Payables for securities issued abroad" (Note 16.2) and "Payables for foreign borrowings" (Note 17).

The table below summarizes the market risk hedge structure:

2017

				Changes in fair value		
Hedged item	**Maturity**	**Principal Value**	**Hedge Instrument**	**Hedged item**	**Hedge Instrument**	**Effectiveness**
IIC Funding - A/B Loan	07/17/2018	USD 55.000	Swap	(37,951)	37,744	99.45%
IFC Funding	03/15/2019	USD 105.000	Swap	(23,217)	24,952	107.47%
IFC Funding	03/15/2019	€ 55,500	Swap	(20,509)	21,233	103.53%
Foreign issuance	03/18/2019	USD 500.000	Swap	44,948	(49,487)	110.10%
IIC Funding - A/B Loan	07/15/2020	USD 20.000	Swap	(7,718)	7,764	100.60%
IFC Funding [(1)]	03/13/2022	USD 110.000	Swap	36,374	(32,385)	89.03%
			Total	**(8,073)**	**9,821**	

(1) The accounting hedge structure for these transactions was established by linking a cash flow swap contract to each borrowing maturity, either interest or principal plus interest, and the Bank´s long position is identical to the yield of borrowings agreements.

2016

				Changes in fair value		
Hedged item	**Maturity**	**Principal Value**	**Hedge Instrument**	**Hedged item**	**Hedge Instrument**	**Effectiveness**
IIC Funding - A/B Loan	07/17/2017	USD 73.000	Swap	(7,604)	7,604	100.00%
IIC Funding - A/B Loan	07/17/2017	€ 43,000	Swap	(1,375)	1,655	120.36%
IIC Funding - A/B Loan	07/16/2018	USD 55.000	Swap	(4,418)	4,418	100.00%
Foreign issuance	03/18/2019	USD 500.000	Swap	(86,877)	86,877	100.00%
IIC Funding - A/B Loan	07/15/2020	USD 20.000	Swap	(752)	752	100.00%
			Total	**(101,026)**	**101,306**	

The accounting hedge structure for these transactions was established by linking a cash flow swap contract to each borrowing maturity, either interest or principal plus interest, and the Bank´s long position is identical to the yield of borrowings agreements.

e) Fair value:

The fair value of derivative instruments is determined using available market information, mainly prices and rates disclosed by the B3 S.A. - Brasil, Bolsa, Balcão. When applicable, the Bank adopts mathematical models of rate interpolation for intermediate terms, and rate extrapolation for longer terms.

The following pricing methodologies were adopted for calculating the fair value of derivatives:

• Futures transactions - quotations disclosed by B3 S.A. - Brasil, Bolsa, Balcão.

Swap agreements and non-deliverable forwards (NDF) - use of the future cash flow, discounted to present value based on future interest curves, obtained from information disclosed by B3 S.A. - Brasil, Bolsa, Balcão.

f) Breakdown of balances recorded in balance sheet accounts in captions "Derivatives" and "Trading account":

	2017		2016	
	Current	Noncurrent	Current	Noncurrent
Assets				
Derivatives	**5,522**	**88,292**	**8,950**	**83,409**
Swaps - differential receivable	4,547	88,262	8,792	83,409
Currency forward receivable	975	30	158	-
Trading account	**2,404**	**-**	**4,113**	**-**
Futures pending settlement	**2,404**	**-**	**4,097**	**-**
Dollar futures (DOL)	481	-	2,156	-
Foreign exchange coupon (DDI)	367	-	1,823	-
Interest rate (DI)	1,556	-	118	-
		-	**16**	**-**

	2017		2016	
	Current	Noncurrent	Current	Noncurrent
Liabilities				
Derivatives	**8,829**	**553**	**34,116**	**2,209**
Swaps - differential payable	4,361	498	33,728	2,209
Currency forward payable	4,468	55	388	-
Trading account	**1,685**	**-**	**1,299**	**-**
Futures pending settlement	**1,685**	**-**	**1,299**	**-**
Foreign exchange coupon (DDI)	153	-	1,174	-
Interest rate (DI)	1,254	-	113	-
Dollar futures (DOL)	278	-	12	-

Differentials receivable and payable and daily adjustments paid or received for financial assets and financial liabilities are recorded in respective balance sheet accounts as "Derivatives" and "Trading account" which, as at December 31, 2017 and 2016, are adjusted to fair value, and the notional values of these transactions are recorded in memorandum accounts (Note 6.k)).

g) Breakdown by type of contract and counterparty (Bank and consolidated):

		2017		2016	
		Amounts		Amounts	
Contracts	**Type of counterparty**	**receivable**	**(payable)**	**receivable**	**(payable)**
Futures	B3 S.A. - Brasil, Bolsa, Balcão	2,404	(1,685)	4,097	(1,299)
	Total futures transactions	**2,404**	**(1,685)**	**4,097**	**(1,299)**
Swap	Financial institutions	89,241	(4,090)	92,185	(35,937)
	Companies	3,568	(769)	16	-
	Total	**92,809**	**(4,859)**	**92,201**	**(35,937)**
Forward	Companies	1,005	(4,523)	158	(388)
	Total forward transactions	**1,005**	**(4,523)**	**158**	**(388)**

h) Swap contracts (Bank and Consolidated):

	2017					
	Notional value	Cost Value		Fair Value		Differential receivable (payable)
		Bank	Counterparty	Bank	Counterparty	
Lending operations						
Accounting hedge objective (Note 6.d)	**2,689,602**	**2,730,320**	**2,693,505**	**2,733,306**	**2,690,806**	**42,500**
Libor x CDI	680,490	716,586	682,462	719,111	679,866	39,245
Euribor x CDI	184,449	185,976	184,449	185,976	184,449	1,527
Libor x CDI	47,913	50,508	49,844	50,969	49,741	1,228
Pre x CDI	1,776,750	1,777,250	1,776,750	1,777,250	1,776,750	500
Trading objective	**1,740,962**	**2,182,324**	**2,138,689**	**2,202,206**	**2,151,897**	**50,309**
Dollar x CDI	610,174	1,048,794	1,010,093	1,068,178	1,023,530	44,648
CDI x Dollar	1,130,483	1,133,061	1,128,142	1,133,559	1,127,905	5,654
CDI x IGP-M	305	469	454	469	462	7
Total lending operations	**4,430,564**	**4,912,644**	**4,832,194**	**4,935,512**	**4,842,703**	**92,809**
Borrowing operations						
Accounting hedge objective (Note 6.d)	**1,952,585**	**1,948,605**	**1,952,585**	**1,948,605**	**1,952,585**	**(3,980)**
Libor x CDI	175,835	175,426	175,835	175,426	175,835	(409)
EMTA x Pre	1,776,750	1,773,179	1,776,750	1,773,179	1,776,750	(3,571)
Trading objective	**48,100**	**54,362**	**55,605**	**54,873**	**55,752**	**(879)**
Dollar x CDI	14,682	14,648	14,683	14,649	14,683	(34)
Pre x Dollar	331	338	405	343	406	(63)
IPC-A x CDI	17,092	23,142	23,455	23,379	23,455	(76)
CDI x Dollar	15,995	16,234	17,062	16,502	17,208	(706)
Total de borrowing operations	**2,000,685**	**2,002,967**	**2,008,190**	**2,003,478**	**2,008,337**	**(4,859)**

	2016					
	Notional value	Cost Value		Fair Value		Differential receivable (payable)
		Bank	Counterparty	Bank	Counterparty	
Lending operations						
Accounting hedge objective (Note 6.d)	**1,776,750**	**1,935,335**	**1,934,821**	**1,935,335**	**1,934,821**	**514**
Pre x CDI	1,776,750	1,935,335	1,934,821	1,935,335	1,934,821	514
Trading objective	**1,696,179**	**2,174,502**	**2,086,650**	**2,213,300**	**2,121,613**	**91,687**
Dollar x CDI	610,175	983,950	904,374	1,022,748	939,339	83,409
CDI x Dollar	1,084,464	1,188,619	1,180,348	1,188,619	1,180,347	8,272
IPCA x CDI	1,540	1,933	1,928	1,933	1,927	6
Total lending operations	**3,472,929**	**4,109,837**	**4,021,471**	**4,148,635**	**4,056,434**	**92,201**
Borrowing operations						
Accounting hedge objective (Note 6.d)	**2,398,983**	**2,320,768**	**2,352,040**	**2,319,584**	**2,352,524**	**(32,940)**
Libor x CDI	473,100	483,093	489,455	483,241	489,656	(6,415)
Euribor x CDI	149,133	148,725	158,738	147,393	159,022	(11,629)
EMTA x Pre	1,776,750	1,688,950	1,703,847	1,688,950	1,703,846	(14,896)
Trading objective	**85,965**	**98,478**	**101,365**	**98,354**	**101,351**	**(2,997)**
CDI x Dollar	3,002	3,911	3,999	3,911	3,958	(47)
CDI x IGPM	4,930	6,884	6,952	6,884	6,944	(60)
IPC-A x CDI	22,297	27,846	27,888	27,800	27,887	(87)
Dollar x CDI	44,048	49,414	49,912	49,413	49,912	(499)
Euro x CDI	11,688	10,423	12,614	10,346	12,650	(2,304)
Total de borrowing operations	**2,484,948**	**2,419,246**	**2,453,405**	**2,417,938**	**2,453,875**	**(35,937)**

i) Forward contracts (Bank and Consolidated):

	2017					
		Cost Value		Fair Value		
Currency Forward	Notional value	Bank	Counterparty	Bank	Counterparty	Differential receivable (payable)
Trading objective						
Non-deliverable currency forward sale	73,746	73,631	73,908	73,631	73,148	483
Non-deliverable currency forward purchase	93,319	93,855	93,801	93,855	93,333	522
Total lending operations	**167,065**	**167,486**	**167,709**	**167,486**	**166,481**	**1,005**
Trading objective						
Non-deliverable currency forward sale	153,698	154,528	154,472	154,528	155,136	(608)
Non-deliverable currency forward purchase	173,377	180,694	176,053	180,694	184,609	(3,915)
Total de Borrowing operations	**327,075**	**335,222**	**330,525**	**335,222**	**339,745**	**(4,523)**

	2016					
		Cost Value		Fair Value		
Currency Forward	Notional value	Bank	Counterparty	Bank	Counterparty	Differential receivable (payable)
Trading objective						
Non-deliverable currency forward sale	4,726	4,781	4,664	4,771	4,613	158
Total lending operations	**4,726**	**4,781**	**4,664**	**4,771**	**4,613**	**158**
Trading objective						
Non-deliverable currency forward purchase	8,776	8,984	8,709	8,492	8,880	(388)
Total de Borrowing operations	**8,776**	**8,984**	**8,709**	**8,492**	**8,880**	**(388)**

j) Future contracts (Bank and Consolidated):

	2017				
	Notional value			Daily adjustments	
Contracts	Long Position	Short Position	Total exposure	receivable	(payable)
Trading objective					
Foreign exchange coupon (DDI)	74,188	182,001	256,189	367	(153)
Interest rate (DI)	486,555	5,253,184	5,739,739	1,556	(1,254)
Dollar futures (DOL)	-	111,906	111,906	481	(278)
Total	**560,743**	**5,547,091**	**6,107,834**	**2,404**	**(1,685)**

	2016				
	Notional value			Daily adjustments	
Contracts	Long Position	Short Position	exposure	receivable	(payable)
Trading objective					
Foreign exchange coupon (DDI)	135,643	176,871	312,514	1,823	(1,174)
Interest rate (DI)	2,851	2,773,012	2,775,863	118	(113)
Dollar futures (DOL)	-	210,961	210,961	2,156	(12)
Total	**138,494**	**3,160,844**	**3,299,338**	**4,097**	**(1,299)**

k) Operations by maturity (notional values) (Bank and Consolidated)

	2017					
Contracts	**Up to 3 months**	**From 3 to 12 months**	**From 1 to 3 years**	**From 3 to 5 years**	**Over 5 years**	**Total**
Futures	2,465,989	1,305,664	1,150,601	739,840	445,740	**6,107,834**
Swap	3,861	243,024	5,834,625	349,739	-	**6,431,249**
Forward	420,141	73,215	784	-	-	**494,140**
Total	**2,889,991**	**1,621,903**	**6,986,010**	**1,089,579**	**445,740**	**13,033,223**

	2016					
Contracts	**Up to 3 months**	**From 3 to 12 months**	**From 1 to 3 years**	**From 3 to 5 years**	**Over 5 years**	**Total**
Futures	842,476	1,671,354	691,435	91,222	2,851	**3,299,338**
Swap	7,693	400,956	5,485,344	63,884	-	**5,957,877**
Forward	3,904	9,598	-	-	-	**13,502**
Total	**854,073**	**2,081,908**	**6,176,779**	**155,106**	**2,851**	**9,270,717**

l) Trading location (Bank and Consolidated):

	Notional value	
	2017	**2016**
Futures / Swap / Forward		
B3 S.A. - Brasil, Bolsa, Balcão	13,033,223	9,270,717

m) Collateral margins (Bank and Consolidated)

	2017		2016	
Federal government securities	**Cost Value**	**Market value**	**Cost Value**	**Market value**
Treasury Bills (LFT)	121,968	121,945	127,797	127,556

Federal government bonds are pegged to guarantees for outstanding futures transactions at B3 S.A. - Brasil, Bolsa, Balcão as at December 31, 2017 and 2016.

7. LENDING, OTHER LENDING AND LEASING OPERATIONS

a) Breakdown of the loan, other loan and leasing portfolio:

	Bank			
	2017		2016	
	Current	Noncurrent	Current	Noncurrent
Loans	4,751,701	4,063,289	4,325,983	3,945,097
Discounted trade notes	712,695	624	786,832	1,120
Loans assigned with substantial retention of Financing	66,367	93,128	140,993	276,492
Rural and agro-industrial financing	1,225,529	626,640	889,591	489,439
Total lending operations	58,214	-	58,865	10,566
	6,814,506	**4,783,681**	**6,202,264**	**4,722,714**
Guarantees and collaterals	34,656	-	-	-
Payables for purchase of assets (Note 10.b)	8,955	18,370	9,571	11,500
Other credit and notes receivable (Note 10.b)	2,497,922	6,394	1,970,048	29,815
Financed imports (Note 20.a)	12,921	-	14,583	-
Advances on foreign exchange contracts (Note 10.a and 20.a)	440,196	-	461,619	6,431
Total other credits	**2,994,650**	**24,764**	**2,455,821**	**47,746**
Total	**9,809,156**	**4,808,445**	**8,658,085**	**4,770,460**

	Consolidated			
	2017		2016	
	Current	Noncurrent	Current	Noncurrent
Loans	4,751,701	4,063,289	4,325,983	3,945,097
Discounted trade notes	712,695	624	786,832	1,120
Loans assigned with substantial retention of Financing	66,367	93,128	140,993	276,492
Rural and agro-industrial financing	1,235,391	634,950	893,185	491,486
Total lending operations	58,214	-	58,865	10,566
	6,824,368	**4,791,991**	**6,205,858**	**4,724,761**
Financial leasing	256,543	223,309	203,159	157,343
Operating leasing	27,097	19,249	30,644	12,008
Total leasing operations	**283,640**	**242,558**	**233,803**	**169,351**
Guarantees and collaterals	34,656	-	-	-
Payables for purchase of assets (Note 10.b)	8,955	18,370	9,571	11,500
Other credit and notes receivable (Note 10.b)	2,497,922	6,394	1,970,048	29,815
Financed imports (Note 20.a)	12,921	-	14,583	-
Advances on foreign exchange contracts (Note 10.a and 20.a)	440,196	-	461,619	6,431
Total other credits	**2,994,650**	**24,764**	**2,455,821**	**47,746**
Total	**10,102,658**	**5,059,313**	**8,895,482**	**4,941,858**

b) Breakdown of the loan, other loan and leasing portfolio by risk level:

	Bank			
	2017		2016	
Risk Level	**Total portfolio**	**Allowance**	**Total portfolio**	**Allowance**
AA	260	-	183	-
A	6,797,217	33,985	6,326,856	31,634
B	5,488,692	54,887	4,805,325	48,053
C	1,286,020	38,581	1,295,022	38,851
D	151,680	15,168	203,223	20,322
E	101,795	30,539	72,753	21,826
F	73,480	36,740	150,508	75,254
G	40,941	28,659	212,506	148,754
H	677,516	677,516	362,169	362,169
Total	**14,617,601**	**916,075**	**13,428,545**	**746,863**

	Consolidated			
	2017		2016	
Risk Level	**Total portfolio**	**Allowance**	**Total portfolio**	**Allowance**
AA	260	-	183	-
A	7,000,817	35,003	6,539,783	32,700
B	5,692,878	56,928	4,943,074	49,430
C	1,398,304	41,950	1,320,917	39,628
D	166,628	16,663	215,657	21,564
E	105,157	31,548	79,789	23,937
F	74,512	37,256	152,154	76,077
G	40,965	28,676	213,217	149,252
H	682,450	682,450	372,566	372,566
Total	**15,161,971**	**930,474**	**13,837,340**	**765,154**

c) Breakdown of the loan, other loan and leasing portfolio by business sector

	Bank		Consolidated	
	2017	2016	2017	2016
Private sector	**14,499,884**	**13,274,213**	**15,044,254**	**13,683,008**
Industrial	3,749,945	3,148,473	3,900,884	3,258,808
Commercial	2,703,347	1,955,411	2,823,197	2,007,609
Financial	43,899	149,343	48,484	156,628
Other services	2,354,462	2,146,650	2,623,181	2,385,612
Individuals	5,648,231	5,874,336	5,648,231	5,874,336
Rural	-	-	277	15
Public sector	**117,717**	**154,332**	**117,717**	**154,332**
Total	**14,617,601**	**13,428,545**	**15,161,971**	**13,837,340**

d) Breakdown of the loan, other loan and leasing portfolio by maturity

	Bank		Consolidated	
	2017	2016	2017	2016
Current				
Up to 3 months	5,493,045	4,871,670	5,600,496	4,946,453
3 to 12 months	4,017,344	3,566,993	4,198,735	3,727,050
1 to 3 years	3,341,888	3,261,193	3,558,678	3,419,258
3 to 5 years	1,103,847	1,141,549	1,137,864	1,154,852
Over 5 years	362,710	367,718	362,771	367,748
Total a vencer	**14,318,834**	**13,209,123**	**14,858,544**	**13,615,361**
Past-due				
Up to 60 days	107,018	92,865	110,779	93,289
61 to 90 days	27,811	29,043	28,025	29,769
91 to 180 days	67,103	57,619	67,417	58,509
181 to 360 days	96,835	39,895	97,206	40,412
Total	**298,767**	**219,422**	**303,427**	**221,979**
Total	**14,617,601**	**13,428,545**	**15,161,971**	**13,837,340**

e) Concentration of credit risk:

	Bank			
	2017		2016	
Largest debtors	Amount	% on portfolio	Amount	% on portfolio
10 largest debtors	1,245,158	8.52	1,042,806	7.77
50 next largest debtors	1,673,291	11.45	1,427,305	10.63
100 next largest debtors	1,340,197	9.17	1,236,685	9.21
Other debtors	10,358,955	70.86	9,721,749	72.39
Total	**14,617,601**	**100.00**	**13,428,545**	**100.00**

	Consolidated			
	2017		2016	
Largest debtors	Amount	% on portfolio	Amount	% on portfolio
10 largest debtors	1,412,008	9.31	1,207,384	8.73
50 next largest debtors	1,816,963	11.98	1,520,501	10.99
100 next largest debtors	1,443,061	9.52	1,305,994	9.44
Other debtors	10,489,939	69.19	9,803,461	70.84
Total	**15,161,971**	**100.00**	**13,837,340**	**100.00**

f) Renegotiated lending and leasing operations:

During the 2017, the Bank renegotiated delinquent customers' loans in the amount of R$501,025, respectively (R$571,433 in 2016) and Daycoval Leasing renegotiated leasing operations in the amount of R$9,537 (R$6,761 in 2016).

g) Recovery of loans written off as loss:

During 2017, the Bank recovered credits previously written off as loss, in the amounts of R$146,184 (R$161,024 in 2016) (Note 24.a) and Daycoval Leasing recovered R$4,196 in 2017 (recovered R$2,007 in 2016) (Note 24.b), recognized in the income statements.

8. ASSIGNMENT OF LOANS (Bank and Consolidated):

Loan assignments carried out by the Bank meet the accounting criteria described in CMN Resolution 3533/08 (Note 3.h), regarding the classification of these assignments in the category "Operations with substantial retention of risks and benefits.

During year ended December 31, 2017, there were no assignment of loans.

During the year ended December 31, 2016, the Bank assignment the amount of R$610,552 to other financial institutions comprising the financial system. The carrying amount of these assignments recorded under "Lending operations" (Note 7.a)) as at December 31, 2017 the amounts of R$159,495 (R$417,485 in 2016) with the related obligation arising from the assignment recognized under "Other payables - Sundry- Payables for sale and transfer of financial assets" (Note 20.d), the amounting of R$197,407 (R$542,236 in 2016).

Such loan assignments did not generate advanced profit or loss for the Bank.

9. ALLOWANCE FOR LOAN, OTHER CREDIT AND LEASE LOSSES

The allowance for loan, other credit and lease losses was recognized based on the criteria described in note 3.g) and is considered sufficient to cover probable losses.

During year ended December 31, 2016, the changes in the expenses on the allowance for loan, other credit and lease losses, recognized in the income statements, under “Allowance for loan losses”, were as follows:

	Bank	Daycoval Leasing		
	Lending operations and other credits	**Lending operations**	**Leasing operations**	**Total Consolidated**
2017				
Opening balance	**746,863**	**1,370**	**16,921**	**765,154**
Recognition of (expenses on) allowance for loan losses	550,074	1,397	2,161	**553,632**
Write-off as loss	(380,862)	(1,517)	(5,933)	**(388,312)**
Closing balance	**916,075**	**1,250**	**13,149**	**930,474**
Current assets - lending operations	414,057	745	-	**414,802**
Noncurrent long-term assets - lending operations	261,329	505	-	**261,834**
Current assets - other sundry credits	240,444	-	-	**240,444**
Noncurrent assets - other sundry credits	245	-	-	**245**
Current assets - leasing	-	-	7,645	**7,645**
Noncurrent long-term assets - leasing	-	-	5,504	**5,504**
Total allowance for loan, other credit and lease losses	**916,075**	**1,250**	**13,149**	**930,474**

	Bank	Daycoval Leasing		
	Lending operations and other credits	**Lending operations**	**Leasing operations**	**Total Consolidated**
2016				
Opening balance	**735,162**	**836**	**12,551**	**748,549**
Recognition of (expenses on) allowance for loan losses	608,575	1,353	12,484	**622,412**
Write-off as loss	(596,874)	(819)	(8,114)	**(605,807)**
Closing balance	**746,863**	**1,370**	**16,921**	**765,154**
Current assets - lending operations	333,800	567	-	**334,367**
Noncurrent long-term assets - lending operations	247,397	803	-	**248,200**
Current assets - other sundry credits	158,030	-	-	**158,030**
Noncurrent assets - other sundry credits	7,636	-	-	**7,636**
Current assets - leasing	-	-	11,640	**11,640**
Noncurrent long-term assets - leasing	-	-	5,281	**5,281**
Total allowance for loan, other credit and lease losses	**746,863**	**1,370**	**16,921**	**765,154**

10. OTHER CREDITS

Other credits are broken down as follows:

a) Foreign exchange portfolio (Bank and Consolidated)

	2017		2016	
	Current	**Noncurrent**	**Current**	**Noncurrent**
Foreign exchange purchased pending settlement	508,577	-	472,973	5,538
Right on foreign exchange sold	74,832	-	41,304	-
(-) Advances received in local currency	(13,524)	-	(15,613)	-
Income receivable from advances granted (Note 7.a))	21,094	-	17,128	2,035
Total	**590,979**	**-**	**515,792**	**7,573**

b) Sundry:

	Bank			
	2017		2016	
	Current	**Noncurrent**	**Current**	**Noncurrent**
Salary advances	927	-	652	-
Advances for payment of our account	7,184	-	4,538	-
Tax credits (Note 21.c)	440,690	497,671	497,983	423,595
Debtors for purchase of assets (Note 7.a)	8,955	18,370	9,571	11,500
Debtors for escrow deposits [(1)]	-	1,570,448	-	1,349,789
Recoverable taxes [(2)]	137,830	-	134,616	-
Reimbursable payments	970	-	838	-
Discount on the acquisition of lending operations [(3)]	(4,687)	(6,161)	(22,594)	(3,058)
Other credits and notes receivables (Note 7.a)	2,497,922	6,394	1,970,048	29,815
Sundry debtors	55,796	-	19,944	-
Total	**3,145,587**	**2,086,722**	**2,615,596**	**1,811,641**

	Consolidated			
	2017		2016	
	Current	**Noncurrent**	**Current**	**Noncurrent**
Salary advances	1,023	-	728	-
Advances for payment of our account	7,640	-	4,662	-
Tax credits (Note 21.c)	448,966	507,896	502,900	434,109
Debtors for purchase of assets (Note 7.a)	8,955	18,370	9,571	11,500
Debtors for escrow deposits [(1)]	-	1,578,022	-	1,356,371
Recoverable taxes [(2)]	146,383	-	141,777	-
Reimbursable payments	970	-	838	-
Discount on the acquisition of lending operations [(3)]	(4,687)	(6,161)	(22,594)	(3,058)
Other credits and notes receivables (Note 7.a)	2,497,922	6,394	1,970,048	29,815
Sundry debtors	59,699	-	29,014	-
Total	**3,166,871**	**2,104,521**	**2,636,944**	**1,828,737**

(1) As at December 31, 2017, refers to the accounting for deposits linked to legal requirements (Note 22.b), made for the filing of appeals relating to: (i) taxes and contributions in the amount of R$1,535,080 for the Bank and R$1,540,853 for the Consolidated (R$1,315,649 for the Bank and R$1,321,059 for the Consolidated in 2016); (ii) labor, amounting to R$12,339 for the Bank and R$14,024 for the Consolidated (R$11,810 for the Bank and R$12,873 for the Consolidated in 2016); and (iii) civil, amounting to R$23,029 for the Bank and R$23,145 for the Consolidated (R$22,330 for the Bank and R$22,439 for the Consolidated in 2016).

(2) As at December 31, 2017, the caption "Recoverable taxes" is composed mainly of prepaid income tax and social contribution in the amount of R$135,865 (R$132,725 as at 2016) for the Bank, and R$140,902 (R$135,184 as at 2016) for the Consolidated.

(3) As at December 31, 2017 and 2016, refers to discounts obtained on the acquisition of lending operations of Banco Citibank S.A., to be recognized in the income statements of Banco Daycoval, in caption "Lending operations", due to the term of transactions.

11. OTHER ASSETS (Bank and Consolidated)

	2017		2016	
Other assets	**Current**	**Noncurrent**	**Current**	**Noncurrent**
Repossessed assets [1]	103,784	-	103,277	-
(-) Allowance for depreciation of repossessed assets	(10,532)	-	(13,238)	-
Total repossessed assets [2]	**93,252**	**-**	**90,039**	**-**
Prepaid expenses [3]				
Bank	40,794	84,233	70,155	160,192
Consolidated	37,945	48,464	27,067	160,192

(1) Refer to assets received as payment for loans.

(2) As at December 31, 2017, the total of repossessed assets amounts to R$93,848 (R$91,280 in 2016) for the Consolidated.

(3) Refer mainly to expenses on commissions paid in advance upon origination of loans (Note 3.j).

As mentioned in Note 3.j), the Bank opted for the alternative set forth in paragraph 1 of Circular Letter 3693/13, as amended by Circular Letter 3738/14, both from BACEN, recognizing in "Prepaid expenses". Commissions paid to correspondents for origination of credit operations in previous years to 2017. During the year ended December 31, 2017, the total commissions paid to third parties for the origination of loans, according to the criteria established in the aforementioned regulations, recognized in the income statements (Note 24.i) amounted to R$145,882 (R$87,318 in 2016).

12. INVESTMENTS

Investments are represented by investments in subsidiaries; the main information on these investments are as follows:

a) Direct subsidiaries:

	Daycoval Leasing		Dayprev	
	2017	2016	2017	2016
Total Assets	622,404	476,079	93,052	87,884
Total Liabilities	272,015	156,635	61,395	58,113
Equity	350,389	319,444	31,657	29,771
Negative goodwill on acquisition (Nota 3.u)	(54,642)	(61,544)	-	-
Capital	206,805	206,805	15,000	15,000
Number of shares	5,780,078,463	5,780,078,463	14,550,000	14,550,000
Net income for the year	30,945	31,267	1,883	2,420
Ownership interest - %	100.00%	100.00%	97.00%	97.00%
Adjusted investment	**295,747**	**257,899**	**30,532**	**28,878**
Share of profit (loss) of subsidiaries of the period	**30,945**	**30,844**	**1,826**	**2,348**

	ACS		Daycoval Asset	
	2017	2016	2017	2016
Total Assets	755,815	228,029	38,132	35,936
Total Liabilities	12,683	11,350	2,034	1,647
Equity	743,132	216,679	36,098	34,289
Capital	623,448	123,448	1,554	1,554
Number of shares	536,730,077	536,730,077	14,253	14,253
Net income for the year	22,620	3,715	1,810	3,078
Ownership interest - %	99.99%	99.99%	99.99%	99.99%
Adjusted investment	**704,515**	**173,573**	**36,098**	**34,289**
Share of profit (loss) of subsidiaries of the period	**27,109**	**3,715**	**1,810**	**3,078**

b) Indirect subsidiaries

	Treetop [3]		IFP		SCC	
	2017	2016	2017	2016	2017	2016
Total Assets	56,225	48,936	65,174	58,070	12,984	12,655
Total Liabilities	-	-	14,677	4,756	217	342
Equity	56,225	48,936	50,497	53,314	12,767	12,313
Capital	8,828	8,697	60,020	60,020	10,020	10,020
Number of shares	2,668,585	2,668,585	60,020,000	60,020,000	10,020,000	10,020,000
Net income for the year	2,738	2,776	(2,816)	198	455	518
Ownership interest - %	100.00%	100.00%	99.99%	99.99%	99.99%	99.99%
Adjusted investment	**56,225**	**48,936**	**50,492**	**53,313**	**12,766**	**12,312**
Share of profit (loss) of subsidiaries of the period (2)	**2,738**	**2,776**	**(2,816)**	**198**	**455**	**518**

(1) In July 2017, the Bank increased the capital of ACS Participações by R$500 million.

(2) As at December 31, 2017, the share of profit (loss) of subsidiaries for the year ended, in the amount of R$377 (revenue of R$3,492 in 2016), was recognized in profit or loss of ACS Participações (direct parent company), mentioned in item 12.a) above.

(3) During the year ended December 31, 2017, income from exchange variation in the amount of R$717 was recognized in the result of ACS Participações (direct parent company), as mentioned in table 12a) above (expense of R$8,923 in 2016) on the investment in Treetop.

13. FOREIGN BRANCH

The balances of the transactions of Banco Daycoval S.A. - Cayman Branch (foreign branch) conducted with third parties and included in the Bank's financial statement information as at December 31, 2017 and 2016, are as follows:

	2017		2016	
	US$ thousand	R$ thousand [1]	US$ thousand	R$ thousand [1]
Assets				
Cash and cash equivalents	443	1,465	217	707
Interbank investments	30,550	101,059	18,400	59,967
Securities	8,417	27,840	9,324	30,388
Lending operations	34,354	113,644	48,290	157,382
Other credits	-	-	20,684	67,410
Other assets	-	-	71	233
Total assets	**73,764**	**244,008**	**96,986**	**316,087**
Liabilities				
Demand deposit	26,342	87,139	14,361	46,805
Time deposits	24,446	80,869	36,763	119,814
Funds from acceptance and issuance of securities	5,190	17,169	5,063	16,501
Borrowings and onlendings	6,517	21,557	26,584	86,640
Deferred income	106	349	182	593
Total liabilities	**62,601**	**207,083**	**82,953**	**270,353**

(1) The amounts in US dollars were translated into Brazilian reais (R$) based on the R$/US$3.080 and R$/US$3.2591 exchange rates disclosed by BACEN, as at December 31, 2017 and 2016, respectively.

During the year ended December 31, 2017, income from exchange variation in the amount of R$878 (expense of R$9,273 in 2016) on the investment in Banco Daycoval S.A. - Cayman Branch was recognized in the Bank's income statement.

14. PROPERTY AND EQUIPMENT

		Bank			
		2017			2016
Description	Annual depreciation %	Cost	Accumulated depreciation	Net amount	Net amount
Facilities	10	917	(876)	41	38
Fixed assets underway	10	5,841	(4,235)	1,606	1,905
Communications equipment	10	776	(388)	388	447
Security equipment	10	1,384	(684)	700	790
Vehicles and airplane	10	78,098	(2,988)	75,110	10,280
Computers and peripherals	20	13,921	(9,498)	4,423	2,453
Total assets		**100,937**	**(18,669)**	**82,268**	**15,913**

		Consolidated			
		2017			2016
Description	Depreciação anual - %	Cost	Accumulated depreciation	Net amount	Net amount
Properties [2]	4	2,140	-	2,140	2,140
Facilities	10	1,080	(876)	204	165
Fixed assets increment [1]	10	6,786	(5,027)	1,759	2,065
Communications equipment	10	1,916	(442)	1,474	1,534
Security equipment	10	1,384	(684)	700	790
Vehicles and airplane	10	79,211	(3,722)	75,489	10,815
Computers and peripherals	20	13,921	(10,574)	3,347	1,399
Total assets		**106,438**	**(21,325)**	**85,113**	**18,908**

(1) Properties held by the direct subsidiary are stated at cost plus mark-to-market, which will be realized over the remaining useful life of the asset, as established by BACEN Resolution 3565/08.

15. DEPOSITS AND MONEY MARKET FUNDING

Demand deposits, interbank deposits, time deposits and foreign-currency deposits and money market funding are negotiated at usual market rates. Their aging list is as follows:

	Bank					
	2017					
	Without Maturity	Up to 3 months	3 to 12 Months	1 to 3 years	3 to 5 years	Total
Demand deposits	736,540	-	-	-	-	736,540
Interbank deposits	-	32,903	304,492	-	-	337,395
Time deposits	-	1,089,587	1,416,930	1,489,282	78,086	4,073,885
Foreign-currency deposits	4,675	-	-	-	-	4,675
Total deposits	**741,215**	**1,122,490**	**1,721,422**	**1,489,282**	**78,086**	**5,152,495**
Money market funding	-	1,860,116	-	-	-	1,860,116
Total money market funding	**-**	**1,860,116**	**-**	**-**	**-**	**1,860,116**
Total deposits and money market funding	**741,215**	**2,982,606**	**1,721,422**	**1,489,282**	**78,086**	**7,012,611**

	2016						
	Without Maturity	Up to 3 months	3 to 12 Months	1 to 3 years	3 to 5 years	Over 5 years	Total
Demand deposits	599,050	-	-	-	-	-	599,050
Interbank deposits	-	125,983	213,963	13,730	-	-	353,676
Time deposits	-	1,099,360	1,452,435	1,631,733	148,650	21,999	4,354,177
Foreign-currency deposits	7,642	-	-	-	-	-	7,642
Total deposits	**606,692**	**1,225,343**	**1,666,398**	**1,645,463**	**148,650**	**21,999**	**5,314,545**
Money market funding	-	1,802,497	-	-	-	-	1,802,497
Total money market funding	**-**	**1,802,497**	**-**	**-**	**-**	**-**	**1,802,497**
Total deposits and money market funding	**606,692**	**3,027,840**	**1,666,398**	**1,645,463**	**148,650**	**21,999**	**7,117,042**

	Consolidated					
	2017					
	Without Maturity	Up to 3 months	3 to 12 Months	1 to 3 years	3 to 5 years	Total
Demand deposits	735,496	-	-	-	-	735,496
Interbank deposits	-	32,903	304,492	-	-	337,395
Time deposits	-	1,087,881	1,416,930	1,402,575	77,695	3,985,081
Foreign-currency deposits	4,675	-	-	-	-	4,675
Total deposits	**740,171**	**1,120,784**	**1,721,422**	**1,402,575**	**77,695**	**5,062,647**
Money market funding	-	1,860,116	-	-	-	1,860,116
Total money market funding	**-**	**1,860,116**	**-**	**-**	**-**	**1,860,116**
Total deposits and money market funding	**740,171**	**2,980,900**	**1,721,422**	**1,402,575**	**77,695**	**6,922,763**

	2016						
	Without Maturity	Up to 3 months	3 to 12 Months	1 to 3 years	3 to 5 years	Over 5 years	Total
Demand deposits	598,615	-	-	-	-	-	598,615
Interbank deposits	-	125,983	213,963	13,730	-	-	353,676
Time deposits	-	1,102,360	1,452,435	1,627,815	63,518	21,999	4,268,127
Foreign-currency deposits	7,642	-	-	-	-	-	7,642
Total deposits	**606,257**	**1,228,343**	**1,666,398**	**1,641,545**	**63,518**	**21,999**	**5,228,060**
Money market funding	-	1,802,497	-	-	-	-	1,802,497
Total money market funding	**-**	**1,802,497**	**-**	**-**	**-**	**-**	**1,802,497**
Total deposits and money market funding	**606,257**	**3,030,840**	**1,666,398**	**1,641,545**	**63,518**	**21,999**	**7,030,557**

16. FUNDS FROM ACCEPTANCE AND ISSUANCE OF SECURITIES

16. 1) Financial bills and credit notes:

Program for Public Issuance of Financial Bills Non-Convertible into Banco Daycoval's shares

According to the Notice to the Market published on October 28, 2016, the Bank completed the fifth issuance of Financial Bills, the amount of R$400 million, maturing on November 1, 2018.

	Bank				
	2017				
	Up to 3 months	3 to 12 Months	1 to 3 years	3 to 5 years	Total
Mortgage loan notes (LCI)	195,699	219,784	90,832	485	506,800
Agribusiness letter of credit (LCA)	164,062	298,266	20,173	-	482,501
Financial bills (LF)	246,709	2,389,525	3,480,002	185,590	6,301,826
Total	**606,470**	**2,907,575**	**3,591,007**	**186,075**	**7,291,127**

	2016					
	Up to 3 months	3 to 12 Months	1 to 3 years	3 to 5 years	Over 5 years	Total
Mortgage loan notes (LCI)	206,819	245,950	88,811	1,043	-	542,623
Agribusiness letter of credit (LCA)	157,823	214,718	41,967	-	-	414,508
Financial bills (LF)	260,826	1,537,655	2,725,771	80,334	6,582	4,611,168
Total	**625,468**	**1,998,323**	**2,856,549**	**81,377**	**6,582**	**5,568,299**

	Consolidated				
	2017				
	Up to 3 months	3 to 12 Months	1 to 3 years	3 to 5 years	Total
Mortgage loan notes (LCI)	195,699	219,784	90,832	485	506,800
Agribusiness letter of credit (LCA)	164,062	298,266	20,173	-	482,501
Financial bills (LF)	246,709	2,389,525	2,951,293	185,590	5,773,117
Total	**606,470**	**2,907,575**	**3,062,298**	**186,075**	**6,762,418**

	2016					
	Up to 3 months	3 to 12 Months	1 to 3 years	3 to 5 years	Over 5 years	Total
Mortgage loan notes (LCI)	206,819	245,950	88,811	1,043	-	542,623
Agribusiness letter of credit (LCA)	157,823	214,718	41,967	-	-	414,508
Financial bills (LF)	260,826	1,537,655	2,690,994	61,984	6,582	4,558,041
Total	**625,468**	**1,998,323**	**2,821,772**	**63,027**	**6,582**	**5,515,172**

16.2) Payables for securities issued abroad:

Program for the issuance of securities abroad

The table below shows the features of these programs and the related balances, in local currency:

	Amount issued	Interest rate	Issuance date	Maturity date	2017		2016	
					Bank	Consolidated	Bank	Consolidated
	(US$ thousand)	(p.y.)			(R$ thousand)	(R$ thousand)	(R$ thousand)	(R$ thousand)
Foreign issuance program (1)								
	500,000	5.75%	03/19/2014	03/18/2019	1,685,557	1,671,266	1,683,908	1,669,309
Other issuances								
	5,000	2.50%	07/01/2016	01/03/2019	17,169	17,169	16,502	16,502
			Total issuances		**1,702,726**	**1,688,435**	**1,700,410**	**1,685,811**
			Total current		31,317	31,092	30,856	30,631
			Total noncurrent		1,671,409	1,657,343	1,669,554	1,655,180

(1) As at December 31, 2017 and 2016, the security issued abroad in the amount of US$500 million (US$500 million as at December 31, 2016) is subject to accounting hedge of the market risk (Note 6.d).

17. BORROWINGS (Bank and Consolidated)

2017	Up to 3 months	3 to 12 Months	1 to 3 years	3 to 5 years	Total
Borrowings					
Foreign-currency payables [1]	263,739	197,342	-	-	461,081
Foreign borrowings [2]	7,910	290,318	721,319	251,925	1,271,472
Total	**271,649**	**487,660**	**721,319**	**251,925**	**1,732,553**
2016					
Borrowings					
Foreign-currency payables [1]	312,059	259,560	-	-	571,619
Foreign borrowings [2]	23,645	508,982	282,602	16,842	832,071
Total	**335,704**	**768,542**	**282,602**	**16,842**	**1,403,690**

(1) The balance of "Foreign-currency payables" refers to funding for foreign exchange operations related to export and import financing.

(2) As at December 31, 2017, includes the foreign borrowings, in the amount of US$290 million (US$148 million in 2016), and €55 million (€43 million in 2016), subject to market risk hedge accounting (Note 6.d), whose carrying amount and fair value are R$1,173,388 and R$1,177,735 (R$637,922 and R$638,254 in 2016).

Financial covenants

The Bank is subject to financial covenants related to the maintenance of certain performance, liquidity and debt ratios, linked to loan agreements entered into with the International Finance Corporation (IFC) and the Inter-American Investment Corporation (IIC), which, if not fulfilled, may cause the accelerated settlement of the agreements entered into between the Company and these institutions.

18. ONLENDINGS (Bank and Consolidated)

2017	Up to 3 months	3 to 12 Months	1 to 3 years	3 to 5 years	Over 5 years	Total
Domestic onlendings official institutions						
BNDES Onlendings	42,366	172,214	123,731	16,280	-	354,591
FINAME Onlendings	13,090	37,077	50,159	17,101	-	117,427
Total	**55,456**	**209,291**	**173,890**	**33,381**	**-**	**472,018**

2016	Up to 3 months	3 to 12 Months	1 to 3 years	3 to 5 years	Over 5 years	Total
Domestic onlendings official institutions						
BNDES Onlendings	13,541	59,538	112,131	10,602	-	195,812
FINAME Onlendings	14,355	40,912	63,493	11,601	3,085	133,446
Total	**27,896**	**100,450**	**175,624**	**22,203**	**3,085**	**329,258**

19. INSURANCE OPERATIONS (Consolidated)

a) Insurance premiums receivable:

Represented by DPVAT (mandatory insurance against personal injury caused by vehicles) insurance operations which, as at December 31, 2017, amount to R$442 (R$681 in 2016), recorded in accordance with the statements received by Seguradora Líder dos Consórcios dos Seguros DPVAT, in caption "Other credits – insurance premiums receivable" in current assets.

b) Breakdown of technical reserves:

	2017	2016
Unsettled claims	7,955	16,122
Provision for incurred but not reported losses (IBNR)	52,543	40,832
Other provisions [1]	340	440
Total	**60,838**	**57,394**

(1) Refers to provisions for administrative expenses, recorded in accordance with the statements received from Seguradora Líder dos Consórcios dos Seguros DPVAT.

c) Assets-backed technical reserves:

	2017	2016
Treasury Bills (LFT)	2,052	1,857
Investment fund units	60,920	57,407
Total (Note 6.a.) - Consolidated	**62,972**	**59,264**

d) Profit (loss) on insurance operations:

	2017	2016
Revenue from premiums and contributions	21,612	32,326
Claims expenses	(17,923)	(27,513)
Other operating income and expenses	240	(563)
Total	**3,929**	**4,250**

20. OTHER PAYABLES

a) Foreign exchange portfolio (Bank and Consolidated):

	2017		2016	
	Current	Noncurrent	Current	Noncurrent
Foreign exchange sold pending settlement	75,829	-	41,130	-
(-) Financed imports (Note 7.a)	(12,921)	-	(14,583)	-
Payable for foreign exchange purchased	498,902	-	478,827	4,396
(-) Advances on foreign exchange contracts (Note 7.a)	(419,546)	-	(444,717)	(4,396)
Unearned income on advances granted (Note 7.a)	444	-	226	-
Total	**142,708**	**-**	**60,883**	**-**

b) Social and statutory:

	Bank		Consolidated	
	2017	2016	2017	2016
Dividends and bonuses payable (Note 23.d.2)	38,484	34,771	38,489	34,777
Profit sharing program	34,461	24,963	35,574	26,529
Total	**72,945**	**59,734**	**74,063**	**61,306**

c) Tax and social security

	Bank			
	2017		2016	
	Current	Noncurrent	Current	Noncurrent
Provision for income tax	131,117	-	163,457	-
Provision for social contribution	50,005	-	61,384	-
Taxes and contributions payable	47,196	-	35,018	-
Provision for deferred income tax and social contribution (Note 21.c)	881	216,929	2,102	167,677
Total	**229,199**	**216,929**	**261,961**	**167,677**

	Consolidated			
	2017		2016	
	Current	Noncurrent	Current	Noncurrent
Provision for income tax	142,005	-	170,937	-
Provision for social contribution	53,990	-	65,092	-
Taxes and contributions payable	48,994	-	36,834	-
Provision for deferred income tax and social contribution (Note 21.c)	881	222,982	6,985	167,677
Total	**245,870**	**222,982**	**279,848**	**167,677**

d) Sundry

	Bank			
	2017		2016	
	Current	Noncurrent	Current	Noncurrent
Cashier´s checks	9,703	-	10,254	-
Creditors for unreleased resources	862	-	833	-
Payables for sales operations and transfer of financial assets (Note 8)	70,212	127,195	172,834	369,402
Accrued payments (1)	86,112	-	64,585	-
Provision for risks (Note 22.b) (2)	-	1,874,722	-	1,629,503
Provision for financial collaterals provided (Note 27)	8,401	-	6,542	-
Sundry creditors (3)	48,271	-	47,430	-
Total	**223,561**	**2,001,917**	**302,478**	**1,998,905**

	Consolidated			
	2017		2016	
	Current	Noncurrent	Current	Noncurrent
Cashier´s checks	9,703	-	10,254	-
Creditors for unreleased resources	862	-	833	-
Payables for sales operations and transfer of financial assets (Note 8)	70,212	127,195	172,834	369,402
Accrued payments (1)	92,158	-	69,526	-
Provision for risks (Note 22.b) (2)	-	1,903,052	-	1,636,611
Provision for financial collaterals provided (Note 27)	8,401	-	6,542	-
Sundry creditors (3)	59,066	-	59,858	-
Total	**240,402**	**2,030,247**	**319,847**	**2,006,013**

(1) As at December 31, 2017, caption "Accrued payments" (Bank and Consolidated) mainly comprises the following: (i) personnel expenses in the amount of R$48,448 (Bank) and R$51,131 (Consolidated) (R$44,314 (Bank) and R$46,182 (Consolidated) in 2016); (ii) expenses on suppliers in the amount of R$12,138 (Bank) and R$12,430 (R$7,414 in 2016), Bank and Consolidated, respectively, and (iii) commissions payable in the amount of R$24,176 (R$9,002 in 2016), Bank and Consolidated, respectively.

(2) Pursuant to BACEN Circular Letter No. 3782/16 which creates, excludes and changes line items in the Standard Chart of Accounts for Financial Institutions (Cosif), including the change in the accounting for provisions in liabilities. Accordingly, for purposes of better comparability of the balances reported, the amount of R$1,511,861 was reclassified, for the Bank and Consolidated, from "Legal obligations" to "Provision for risks" as at December 31, 2016.

(3) As at December 31, 2017, caption "Sundry creditors" (Bank and Consolidated) mainly comprises: (i) the unreleased collections, in the amount of R$7,244 (R$8,299 in 2016); (ii) discounted notes partially received, in the amount of R$6,311 (R$7,563 in 2016); and (iii) commitments arising from credit card operations amount to R$21,495 (R$18,716 in 2016).

21. INCOME TAX AND SOCIAL CONTRIBUTION

a) Income tax and social contribution were calculated as follows:

	Bank	
	2017	2016
Profit before taxes on income and profit sharing	**818,480**	**601,849**
(-) Interest on capital (Note 23.d.2)	(188,306)	(194,471)
(-) Profit sharing	(59,976)	(44,923)
Profit before taxes on income	**570,198**	**362,455**
Additions	**872,340**	**1,066,291**
Temporary	817,272	1,013,332
Permanent / other	55,068	52,959
Deductions	**(886,923)**	**(747,028)**
Temporary	(794,009)	(670,122)
Permanent / other	(92,914)	(76,906)
Income tax and social contribution base	**555,615**	**681,718**
Income tax and social contribution at statutory rates tax incentives	(242,240)	(299,866)
Recognition / reversal of tax credits and/or deferred tax liabilities	5,210	149,810
Income Tax and social contribution expenses	**(237,030)**	**(150,056)**

In the Consolidated year ended December 31, 2017, the amount of R$279,279 (R$187,443 in 2016).

b) Deferred income tax and social contribution on temporary additions and deductions (assets and liabilities):

As established by Resolution 3059/02, amended by Resolution 3355/06, both from the CMN, and CVM Instruction 371/02, the recognition of deferred tax assets and liabilities ("tax credits" and "deferred tax liabilities") arising from temporary differences must cumulatively meet the following conditions: (i) history of taxable income or profit for income tax and social contribution purposes, for at least three of the last five fiscal years, which period must include the current year; and (ii) expected future taxable income or profit generation for income tax and social contribution purposes, in subsequent period, based on an internal technical study showing the probability of occurrence of future tax obligations that enable the realization of the tax credit within no more than ten years.

Law 13169/15, which amends Law 7689/88, raises the social contribution rate to 20% of profit for the period from September 1, 2015 to December 31, 2018. Beginning January 1, 2019, such rate will return to 15%. As a result of such change, social contribution credits were recognized as follows: (i) applying the 15% rate on temporary additions and deductions through August 31, 2015 and on those that are expected to be realized in the period subsequent to December 31, 2018; and (ii) 20% tax rate on temporary additions and deductions that are expected to be realized in the period from September 1, 2015 to December 31, 2018. Beginning January 1, 2019, the rate will return to 15%.

c) Origin of tax credits and deferred tax liabilities:

	Bank			
Tax credits:	**2016**	**Recognition**	**Realization**	**2017**
Deferred income tax and social contribution on:				
Provision for tax risks	152,917	9,125	-	162,042
Allowance for loan losses	491,442	213,491	(267,347)	437,586
Adjustment to fair value of securities and derivatives	24,267	110,842	(113,782)	21,327
Inflation adjustment of contingencies	203,017	44,291	-	247,308
Other temporary additions	49,935	30,336	(10,173)	70,098
Total tax credits on temporary differences	**921,578**	**408,085**	**(391,302)**	**938,361**
Deferred tax liabilities:				
Deferred income tax and social contribution on:				
Adjustment to fair value of securities and derivatives	1,822	26,494	(22,266)	6,050
Unrealized profit (loss) on derivatives	2,622	17,588	(16,116)	4,094
Amortization of negative goodwill on the acquisition of Daycoval Leasing	3,048	2,760	-	5,808
Inflation adjustment of escrow deposits	162,287	39,571	-	201,858
Total deferred tax liabilities on temporary differences	**169,779**	**86,413**	**(38,382)**	**217,810**

	2016			
Tax credits:	**2015**	**Recognition**	**Realization**	**2016**
Deferred income tax and social contribution on:				
Provision for tax risks	152,917	-	-	152,917
Allowance for loan losses	390,704	276,108	(175,370)	491,442
Adjustment to fair value of securities and derivatives	28,239	75,503	(79,475)	24,267
Inflation adjustment of contingencies	157,416	48,042	(2,441)	203,017
Other temporary additions	34,724	27,731	(12,520)	49,935
Total tax credits on temporary differences	**764,000**	**427,384**	**(269,806)**	**921,578**
Deferred tax liabilities:				
Deferred income tax and social contribution on:				
Adjustment to fair value of securities and derivatives	4,639	11,183	(14,000)	1,822
Unrealized profit (loss) on derivatives	38,318	16,513	(52,209)	2,622
Amortization of negative goodwill on the acquisition of Daycoval Leasing	233	2,815	-	3,048
Inflation adjustment of escrow deposits	118,949	45,820	(2,482)	162,287
Total deferred tax liabilities on temporary differences	**162,139**	**76,331**	**(68,691)**	**169,779**

For the Consolidated, as at December 31, 2017, total tax credits on temporary differences amount to R$956,862 (R$937,009 in 2016), of which R$448,966 (R$502,900 in 2016) recorded in current assets and R$507,896 (R$434,109 in 2016) recorded in noncurrent long-term assets (Note 10.b). The deferred tax liabilities on temporary differences amount to R$223,863 (R$174,662 in 2016), of which R$881 (R$6,985 in December 31, 2016) recorded in current liabilities and R$222,982 (R$167,677 in 2016) recorded in noncurrent long-term liabilities (Note 20.c).

d) Estimated realization of tax credits

	Bank			Consolidated		
	2017			2017		
	Temporary differences		Total	Temporary differences		Total
Realization term	Income tax	Social contribution	Deferred taxes	Income tax	Social contribution	Deferred taxes
Up to 1 year	253,243	187,447	440,690	257,840	191,126	448,966
Up to 2 years	3,712	2,227	5,939	8,894	6,373	15,267
Up to 3 years	3,896	2,735	6,631	4,239	3,009	7,248
Up to 4 years	3,426	2,056	5,482	3,547	2,153	5,700
Over 5 years	301,217	178,351	479,568	301,249	178,380	479,629
Total	**565,526**	**372,835**	**938,361**	**575,802**	**381,060**	**956,862**

	Bank			Consolidated		
	2016			2016		
	Temporary differences		Total	Temporary differences		Total
Realization term	Income tax	Social contribution	Deferred taxes	Income tax	Social contribution	Deferred taxes
Up to 1 year	276,796	221,187	497,983	279,527	223,373	502,900
Up to 2 years	1,145	916	2,061	5,513	4,410	9,923
Up to 3 years	261,974	145,479	407,453	262,507	145,905	408,412
Up to 4 years	7,644	4,832	12,476	8,176	5,258	13,434
Over 5 years	585	351	936	992	677	1,669
Acima de 5 anos	418	251	669	419	252	671
Total	**548,562**	**373,016**	**921,578**	**557,134**	**379,875**	**937,009**

As at December 31, 2017, the present value of total tax credits is R$790,552 for the Bank (R$809,612 as at 2016) and R$807,679 for the Consolidated (R$823,169 as at 2016), and was calculated based on the expected realization of temporary differences, discounted at the average funding rate of the Bank and Daycoval Leasing, projected for the related period.

Taxable income projections consider macroeconomic assumptions, exchange and interest rates, estimates of new financial operations, among others, which may vary in relation to actual results.

22. CONTINGENT ASSETS AND LIABILITIES AND LEGAL OBLIGATIONS - TAX AND SOCIAL SECURITY

a) Contingent assets - the Bank did not recognize contingent assets as at December 31, 2017 and 2016.

b) Contingent liabilities assessed as probable losses and legal obligations (tax and social security).

The Bank is a party to lawsuits involving labor, civil and tax matters. Provisions are recorded based on the criteria described in note 3.t). The Bank's management understands that the provisions recorded are sufficient to cover probable losses on these lawsuits.

The balances of provisions for tax, civil and labor risks recognized and the respective variations for the year ended December 31, 2017 and 2016, are broken down below

	Bank		Consolidated	
	2017	2016	2017	2016
Legal obligation tax risks (Note 20.d and 22.b.1 and b.2)	1,713,089	1,511,861	1,713,089	1,511,861
Civil lawsuits (Note 20.d)	118,427	97,514	118,903	97,811
Labor lawsuits (Note 20.d)	43,206	20,128	71,060	26,939
Total	**1,874,722**	**1,629,503**	**1,903,052**	**1,636,611**

	2017					
	Bank			Consolidated		
	Tax	Civil	Labor	Tax	Civil	Labor
Balance at the beginning of the year	**1,511,861**	**97,514**	**20,128**	**1,511,861**	**97,811**	**26,939**
Inflation adjustment	110,728	-	-	110,728	-	-
Recognition / (reversal)	90,500	20,913	23,078	90,500	21,092	44,121
Balance at the end of the year	**1,713,089**	**118,427**	**43,206**	**1,713,089**	**118,903**	**71,060**

	2016					
	Bank			Consolidated		
	Tax	Civil	Labor	Tax	Civil	Labor
Balance at the beginning of the year	**1,211,088**	**71,385**	**7,414**	**1,211,088**	**71,648**	**11,434**
Inflation adjustment	120,108	-	-	120,108	-	-
Recognition	180,665	26,129	12,714	180,665	26,163	15,505
Balance at the end of the year	**1,511,861**	**97,514**	**20,128**	**1,511,861**	**97,811**	**26,939**

b.1.) The Bank is challenging in court the legality of certain taxes and contributions and the related amounts are fully accrued.

The main challenges are:

Income tax: (i) challenges the effect of the discontinuation of the inflation adjustment of the balance sheet and the amount accrued in 2017 amounted to R$387,397 (R$325,249 in 2016) and total escrow deposits for this lawsuit amounts to R$390,969 (R$335,710 in 2016).

Social contribution tax: (i) challenges the effect of the discontinuation of the inflation adjustment of the balance sheet, the existence of different tax rates and seeks the recognition of interest on capital as deductible expense for 1996; and (ii) challenges the increase of the social contribution rate from 9% to 15%, as established by Provisional Act 413/08, converted into Law 11727/2008 and from 15% to 20%, converted into Law 13169/2015, which amends Law 7689/88, the latter change relating to the period from September 1, 2015 to December 31, 2018. The amount accrued for this lawsuit in 2017 is R$594,962 (R$493,701 in 2016) and total escrow deposits for this lawsuit amounts to R$585,573 (R$452,960 in 2016).

COFINS (tax on revenue): challenges the constitutionality of Law 9718/98. The amount accrued for this lawsuit in 2017 amounts to R$629,686 (R$593,067 in 2016) and total escrow deposits for this lawsuit amounts to R$455,372 (R$425,712 in 2016).

PIS (tax on revenue): challenges the application of Law 9718/98 and the requirement of determination of the PIS tax base by the tax authorities in noncompliance with Constitutional Amendments 01/94, 10/96 and 17/97. The amount accrued for this lawsuit in 2017 amounts to R$97,799 (R$92,305 in 2016) and total escrow deposits for this lawsuit amounts to R$99,921 (R$94,078 in 2016).

In 2017, other tax challenges are accrued and amount to R$3,245 (R$3,026 in 2016) and total escrow deposits for these lawsuits amount to R$3,245 (R$3,026 in 2016).

b.2.) Daycoval Leasing has been challenging in courts the Tax Assessment Notices and Fine Interpretation issued by the State of São Paulo, as described below:

AIIM No. 4.012.543-9 in the amount of R$54,148, of which R$47,826 are assessed as remote loss, which likelihood of favorable outcome is corroborated upon the execution of ICMS Agreement 36 and ratified by the São Paulo State Decrees 56045/2010 and 56952/2013. In turn, the amount of R$6,322 was assessed as possible loss and subject to payment eligible to the Special Installment Payment Program (PEP) enacted by the São Paulo State government through Decree 60444/2014, in the amount of R$3,857 paid on August 29, 2014.

AIIM No. 4.021.955-0 in the amount of R$4,480 assessed as remote loss based on the reasons described in the preceding item pursuant to ICMS Agreement 36.

AIIM No. 3.125.010-5 in the amount of R$2,310 assessed as remote loss, which discusses the difference in the rate upon the application of the benefit from the CONFAZ Agreement 52/91. Such lawsuit ensures the escrow deposit adjusted as at December 31, 2017 in the amount of R$5.773.

Case No. 0030121-4.2011.8.16.0021 relating to the tax execution of the ISS in the municipality of Cascavel-PR, in the amount of R$20, assessed as remote loss, which claims the collection of ISS relating to lease transactions entered into with customers headquartered in that municipality.

Case No.1011864-86.2015.8.26.0068 relating to the Civil Class Action which is intended to annul the administrative decision handed down by the Court of Taxes and Emoluments of São Paulo, which derecognized the tax assessment under AIIM No. 3.163.973-2, in the amount of R$1,388, assessed as remote loss.

c) Contingent liabilities assessed as possible losses:

Contingent liabilities classified as possible losses are not recognized in the accounts and are represented by civil and labor market.

Contingent liabilities, represented by civil and labor lawsuits, are not recorded. Civil lawsuits amount to approximately R$19,597 for the bank and the Consilidated (R$85,165 for the Bank and R$85,462 for the Consolidated in 2016).

As of December 31, 2017, there are no labor lawsuits classified as possible losses. On December 31, 2016, labor claims at that date, represented a possible loss risk of approximately R$19,158 for the Bank and R$23,670 for the Consolidated.

There are no administrative proceedings in progress for failure to comply with National Financial System rules or fines, which may have a significant impact on the financial results of Banco Daycoval or the companies included in the Consolidated.

23. EQUITY (Controlling Company)

a) Capital:

The Bank's fully subscribed and paid in capital is R$1,892,143, divided into 204,123,780 registered shares, of which 160,869,792 are common and 43,253,988 are preferred shares.

a.1) The meeting of the Board of Directors held on December 20, 2016 decided on and approved the cancellation of all treasury shares, without decreasing capital.

b) Breakdown of common and preferred shares:

	Number of shares	
	2017	**2016**
Common shares	160,869,792	160,869,792
Preferred shares	43,253,988	43,253,988
Total shares	**204,123,780**	**204,123,780**

c) Variations in capital

	Number of shares		
	Common	**Preferred**	**Total**
Number of shares as at December 31, 2015	**160,869,792**	**83,260,449**	**244,130,241**
Acquisition of treasury shares	-	(36,115,163)	(36,115,163)
Redemption of treasury shares	-	(3,891,298)	(3,891,298)
Number of shares as at December 31, 2016	**160,869,792**	**43,253,988**	**204,123,780**
Number of shares as at December 31, 2017	**160,869,792**	**43,253,988**	**204,123,780**

c.1) Treasury shares

The meeting of the Board of Directors, held on December 20, 2016, decided on and approved the cancellation of all treasury shares, without decreasing capital, within the scope of the Public Offering for acquisition of shares (IPO), referred to in Note 1.a).

d) Interest on capital and/or dividends:

According to the bylaws, the shareholders are entitled to dividends and/or interest on capital corresponding to no less than 25% of profit for the year, adjusted in accordance with the Brazilian corporate law.

Interest on capital is calculated on equity, limited to the variation of the TJLP (long-term interest rate), contingent upon the existence of profit determined before its deduction or retained earnings and earnings reserves.

d.1) Statement of calculation of interest on capital

The calculation of interest on capital for the year ended December 31, 2017 and 2016 is as follows:

	2017	**% (a)**	**2016**	**% (a)**
Profit for the year (controlling shareholder)	521,474		406,870	
Recognition of legal reserve	(26,074)		(20,344)	
Adjusted calculation basis	**495,400**		**386,526**	
Gross interest on capital	188,306		194,471	
(-) Withholding income tax relating to interest on capital	(28,246)		(27,163)	
Net interest on capital	**160,060**	**32.31**	**167,308**	**43.29**

(a) Refers to the percentage corresponding to the sum of the net interest on capital on adjusted profit.

d.2) Interest on capital declared and/or paid for the years ended December 31, 2017 and 2016

Interest on capital declared and/or paid is as follows

Board of Director's	Availability date	2017 Price per share ON	2017 Price per share PN	2017 Gross amount	2017 IRRF	2017 Net amount
12/28/2017	01/15/2018	0.2218	0.2218	45,275	(6,791)	38,484
09/29/2017	10/16/2017	0.2304	0.2304	47,032	(7,055)	39,977
06/30/2017	07/17/2017	0.2364	0.2364	48,254	(7,238)	41,016
03/31/2017	04/17/2017	0.2339	0.2339	47,745	(7,162)	40,583
			Total	**188,306**	**(28,246)**	**160,060**

Board of Director's	Availability date	2016 Price per share ON	2016 Price per share PN	2016 Gross amount	2016 IRRF	2016 Net amount
12/28/2016	01/16/2017	0.2004	0.2004	40,907	(6,136)	34,771
09/30/2016	10/17/2016	0.2380	0.2380	48,588	(7,288)	41,300
06/30/2016	07/18/2016	0.2200	0.2200	53,709	(6,988)	46,721
03/31/2016	04/15/2016	0.2100	0.2100	51,267	(6,751)	44,516
			Total	**194,471**	**(27,163)**	**167,308**

e) Earnings reserves

	2017	2016
Earnings reserves	**1,111,764**	**778,596**
Legal reserve [(1)]	171,447	145,373
Statutory reserves [(2)]	940,317	633,223

(1) 5% of profit for the year must be allocated to this reserve until it reaches 20% of capital, according to the prevailing legislation.

(2) Reserve recorded according to the bylaws.

24. INCOME STATEMENTS

INCOME FROM FINANCIAL INTERMEDIATION -

(a) Lending operations

	Bank		Consolidated	
	2017	2016	2017	2016
Advance on deposits	4,099	12,862	4,099	12,862
Secured account / overdraft account	327,227	347,183	327,227	347,183
Discounted notes	205,032	210,056	205,032	210,056
Onlending - Resolution 3844/10	5,854	(3,573)	5,854	(3,573)
Working capital	487,337	538,510	487,337	538,510
Export Credit Notes - CCE	66,490	32,622	66,490	32,622
Onlending – BNDES	34,634	13,033	34,634	13,033
Onlending – FINAME	10,124	8,839	10,124	8,839
Rural credit	6,750	3,991	6,750	3,991
Financing with intervenience	8,525	5,643	8,525	5,643
Foreign currency financing	12,460	11,937	12,460	11,937
Consumer credit - Store owners	4,350	23,200	4,350	23,200
Payroll-deductible loans	1,137,618	1,180,911	1,137,618	1,180,911
Vehicle financing	169,629	204,973	170,720	206,077
Daypag - discount of forwarding agents' checks	1,159	1,320	1,159	1,320
Other lending operations	152,444	144,423	152,428	144,423
Recovery of credits previously written off as loss (Note 7.g)	146,184	161,024	146,184	161,024
Total profit (loss) from lending operations	**2,779,916**	**2,896,954**	**2,780,991**	**2,898,058**

b) Leasing operations (Consolidated)

	2017	2016
Revenue from leasing		
Finance leasing - internal resources	239,821	210,285
Operating leasing - internal resources	46,299	51,306
Finance leasing - external resources	3,622	5,163
Operating leasing - external resources	611	758
Gain on disposal of leased assets	19,118	16,160
Recovery of credits previously written off as loss (Note 7.g)	4,196	2,007
Total revenue from leasing operations	**313,667**	**285,679**
Expenses on leasing		
Finance leasing - internal resources	(178,369)	(148,536)
Operating leasing - internal resources	(34,725)	(40,395)
Loss on disposal of leased assets	(1,586)	(2,075)
Total expenses on leasing operations	**(214,680)**	**(191,006)**

c) Securities transactions:

	Bank		Consolidated	
	2017	2016	2017	2016
Repurchase agreements	424,407	431,294	424,407	431,294
Interbank deposits	33,783	15,720	25,311	12,642
Fixed-income securities	203,790	228,748	208,534	234,788
Variable-income securities	423	55	435	63
Investments in investment fund units	3,604	4,574	18,773	22,032
Gain (loss) on sale of securities	1,866	96	1,866	96
Fair value adjustments	698	-	1,633	97
Foreign investments	671	467	(564)	67
Loss on investments in investment fund units	(144)	(121)	(144)	(121)
Permanent losses on securities	(6,971)	(5,818)	(6,971)	(5,818)
Total profit (loss) on securities operations	**662,127**	**675,015**	**673,280**	**695,140**

d) Derivatives:

	Bank					
	2017			2016		
Derivatives	**Gain**	**Loss**	**Net gain (loss)**	**Gain**	**Loss**	**Net gain (loss)**
Swap	5,651,594	(5,694,338)	(42,744)	4,417,664	(5,109,919)	(692,255)
Currency forward	13,963	(16,398)	(2,435)	23,307	(6,722)	16,585
Futures	674,092	(688,324)	(14,232)	539,262	(577,459)	(38,197)
Total	**6,339,649**	**(6,399,060)**	**(59,411)**	**4,980,233**	**(5,694,100)**	**(713,867)**

	Consolidated					
	2017			2016		
Derivatives	**Gain**	**Loss**	**Net gain (loss)**	**Gain**	**Loss**	**Net gain (loss)**
Swap	5,651,594	(5,694,338)	(42,744)	4,418,334	(5,109,919)	(691,585)
Currency forward	13,963	(16,398)	(2,435)	23,307	(6,722)	16,585
Futures	674,092	(688,324)	(14,232)	539,262	(577,459)	(38,197)
Total	**6,339,649**	**(6,399,060)**	**(59,411)**	**4,980,903**	**(5,694,100)**	**(713,197)**

The gain (loss) on derivatives net losses on mark-to-market in the amount of R$1,760, respectively, for the year ended December 31, 2017 (losses on mark-to market in the amount of R$376,815 in 2016), both for the Bank and Consolidated.

e) Foreign exchange operations (Bank and Consolidated):

	2017	2016
Income from foreign exchange operations	54,441	51,163
Expenses on foreign exchange operations	(3,578)	(3,578)
Exchange rate changes	86,043	21,762
Total profit (loss) on foreign exchange operations	**136,906**	**69,347**

EXPENSES ON FINANCIAL INTERMEDIATION

f) Funding operations:

	Bank		Consolidated	
	2017	2016	2017	2016
Interbank deposits	(31,667)	(56,924)	(31,594)	(55,008)
Time deposits	(413,823)	(522,576)	(404,726)	(512,983)
Repurchase agreements	(167,039)	(193,874)	(167,039)	(193,874)
Foreign securities	(104,627)	(166,726)	(103,415)	(165,929)
Mortgage loan notes	(49,766)	(69,554)	(49,766)	(69,554)
Agribusiness letter of credit	(40,205)	(53,296)	(40,205)	(53,296)
Financial bills	(579,269)	(584,474)	(553,687)	(579,659)
Contributions to the Loan Guarantee Fund - FGC	(8,386)	(7,873)	(8,389)	(8,143)
Total	**(1,394,782)**	**(1,655,297)**	**(1,358,821)**	**(1,638,446)**

g) Borrowings and onlendings (Bank and Consolidated):

	2017	2016
Foreign borrowings	(138,831)	(71,893)
Onlending - BNDES	(24,574)	(9,706)
Onlendings - FINAME	(6,317)	(4,680)
Obligations to foreign banks	(21,940)	(18,823)
Total	**(191,662)**	**(105,102)**

OTHER OPERATING INCOME (EXPENSES)

h) Personnel expenses:

	Bank		Consolidated	
	2017	2016	2017	2016
Executive Committee's and Board of Directors´ compensation	(58,930)	(53,826)	(60,999)	(55,059)
Benefits	(37,669)	(32,623)	(41,957)	(37,936)
Social security charges	(51,823)	(45,993)	(57,881)	(52,531)
Proceeds	(120,841)	(122,251)	(143,252)	(140,603)
Training	(3)	(18)	(6)	(47)
Interns´ compensation	(487)	(439)	(506)	(458)
Total	**(269,753)**	**(255,150)**	**(304,601)**	**(286,634)**

i) Other administrative expenses:

	Bank		Consolidated	
	2017	2016	2017	2016
Public utilities (water, power and gas)	(1,703)	(1,654)	(2,122)	(2,105)
Rent and insurance	(17,349)	(16,569)	(19,906)	(19,379)
Communication	(8,628)	(9,339)	(9,567)	(10,492)
Charitable contributions	(5,980)	(5,065)	(5,980)	(5,065)
Maintenance and upkeep of asset	(2,973)	(2,724)	(3,389)	(3,330)
Consumables	(2,590)	(2,230)	(2,647)	(2,285)
Data processing	(56,925)	(50,099)	(58,218)	(51,586)
Promotions, advertising and publications	(19,819)	(15,937)	(20,506)	(16,781)
Outside, technical and specialized services (1) (2)	(317,039)	(320,793)	(294,199)	(308,401)
Depreciation and amortization	(4,103)	(3,996)	(4,329)	(4,271)
Other administrative expenses	(31,508)	(37,448)	(34,425)	(40,324)
Total	**(468,617)**	**(465,854)**	**(455,288)**	**(464,019)**

(1) In the Bank's financial statements information, includes expenses on commission paid upon origination of lending operations during the December 31,, 2017, in the amount of R$218,759 (R$220,718 at 2016). The amount of R$30,266 in the year eneded (R$17,203 at 2016) paid by the Bank to IFP (associate – Note 12.b), was eliminated in the consolidated interim financial information (Note 2).

(2) Includes the recognition of expenses on commissions paid in advance to third parties, upon origination of lending operations, as determined by Circular Letter 3693/13, as amended by Circular Letter 3738/14, both issued by BACEN, mentioned in Note 3.j) and Note 11.

j) Tax expenses:

	Bank		Consolidated	
	2017	2016	2017	2016
Tax expenses	(6,476)	(6,062)	(6,997)	(6,296)
Services tax (ISS) expenses	(6,210)	(4,674)	(7,829)	(6,474)
Expenses on contributions to COFINS	(84,712)	(80,168)	(93,023)	(87,839)
Expenses on contributions to PIS/PASEP	(13,766)	(13,028)	(15,241)	(14,369)
Total	**(111,164)**	**(103,932)**	**(123,090)**	**(114,978)**

k) Other operating income:

	Bank		Consolidated	
	2017	2016	2017	2016
Exchange rate changes (1)	3,739	680,924	9,630	694,412
Inflation adjustment of escrow deposits	100,640	116,893	101,188	117,431
Other operating income (2)	274,345	274,183	280,341	279,347
Recovery of charges and expenses	737	145	737	152
Total	**379,461**	**1,072,145**	**391,896**	**1,091,342**

(1) The total revenue from exchange rate changes for the Bank and consolidated in the year ended December 31, 2016, was calculated on the following operations: (i) foreign currency-denominated payables (Note 17) in the amount of R$109,280; (ii) foreign borrowings (Note 17), in the amount of R$275,013; and (iii) exchange rate changes on funds from acceptance and issuance of securities - payables for securities issued abroad (Note 16.2.) in the amount of R$288,880.

(2) Total other operating income for the Bank and Consolidated are substantially comprised of income from notes and credits receivable – with no right of recourse which amount to R$221,005 for the year ended December 31, 2017 (R$228,473 in 2016).

l) Other operating expenses:

	Bank		Consolidated	
	2017	**2016**	**2017**	**2016**
Expenses on provisions [(1)] (Note 22.b)	(75,517)	(69,733)	(97,101)	(71,190)
Inflation adjustment of taxes (Note 22.b)	(110,728)	(120,108)	(110,728)	(120,108)
Exchange rate changes	(6,842)	(69,709)	(12,016)	(92,162)
Other operating expenses	(51,665)	(14,261)	(58,012)	(22,584)
Interest expenses	(657)	(2,004)	(683)	(3,738)
Total	**(245,409)**	**(275,815)**	**(278,540)**	**(309,782)**

(1) Expenses for provisions for liabilities for the year ended December 31, 2017 are as follows: (i) civil risk - R$25,192 for the Bank and R$25,222 for the Consolidated (R$52,231 for the Bank and R$52,444 for the Consolidated in 2016); (ii) labor risk - R$26,355 for the Bank and R$47,909 for the Consolidated (R$13,417 for the Bank and R$14,661 for the Consolidated in 2016); and (iii) sureties and sureties - R$23,970 and R$23,970 for the Bank and Consolidated (R$4,085 for the Bank and Consolidated in 2016).

(2) According to Circular Letter BACEN No. 3.782 / 16, which creates, excludes and changes accounting items in the Accounting Plan of Institutions of the National Financial System (Cosif), including the change in the recording of expenses of liabilities. Thus, for a better comparability of the balances presented, the amount of R$69,733 for the Bank and R$71,190 for the Consolidated, from the item "Other operating expenses" was reclassified to the "Expenses for contingent liabilities" item as at December 31, 2016.

25. CAPITAL MANAGEMENT AND BASEL ACCORD

Capital management

Daycoval carefully manages its capital base to cover the risks inherent to its business, Daycoval's capital adequacy is monitored upon compliance with the rules and proportions established by the Basel Committee on Banking Supervision and adopted by the Central Bank of Brazil, among others.

The main purpose of Daycoval's capital management is to ensure the compliance with foreign capital requirements to maintain a solid credit rating and proper capital structure to support its business and maximize the share value to its shareholders.

Basel Accord

BACEN has issued, beginning March 1, 2013, which have become effective beginning October 1, 2013, a set of standards that govern the Basel Committee's recommendations relating to the capital structure of the financial institutions. Known as Basel III, these new standards improve the capacity of these institutions to absorb the impacts from possible crisis, by strengthening the financial stability and increasing the quantity and quality of the regulatory capital.

These standards address the following issues:

• New regulatory capital calculation methodology (Regulatory Capital (PR)), which remains divided in tiers I and II;

• New required capital calculation methodology, by adopting the minimum requirements of PR, Tier I and Principal Capital, and introduction of the Principal Capital Additional; and

• New optional methodology to determine the minimum capital requirements for the credit cooperatives that joined the Prudential Simplified Regime (RPS), and introduction of the Principal Capital Additional specifically for these cooperatives.

In addition to the issues above, the CMN established a new method to prepare and submit information using a new document called Analytic Trial Balance - Prudential Financial, which started to be used as the basis to calculate the Regulatory Capital (PR) beginning January 2015.

The Basel III rules seek to improve the capital quality of the financial institutions, by restricting the use of financial instruments that are not able to absorb losses and deducting assets that could impact the capital value due to their low liquidity, their dependency on future earnings for realization purposes or whose value cannot be easily accurately. These instruments comprise tax credits, intangible assets and investments in non-controlled companies, specifically those operating in the insurance market.

The new minimum capital requirements establish the percentage amount of the risk-weighted assets and represent the capital requirements to be complied with by the financial institutions, based on the schedule below:

	2016	2017	2018	2019
Principal capital [(a)] (minimum + additional	5.125 to 5.75%	5.75 to 7.0%	6.375 to 8.28%	7.0 to 9.5%
Tier I [(b)] (minimum + additional)	6.625 to 7.25%	7.25 to 8.5%	7.875 to 9.75%	8.5 to 11.0%
PR [(c)] (minimum + additional)	10.5 to 11.125%	10.5 to 11.75%	10.5 to 12.375%	10.5 to 13.0%

a) Principal Capital - comprised of shares, reserves and retained earnings;

b) Tier I - comprised of Principal Capital and other instruments to absorb losses while the institution continue as a going concern; and

c) PR (Regulatory Capital) - comprised of Tier I and other underlying instruments to absorb losses upon the institution's liquidation.

The Principal Capital Additional, which represents the supplementary maintenance (fixed) and cyclic (variable) capital, was also created, and at the end of the transition period, it must represent no less than 2.5% and no more than 5% of the risk-weighted assets, whose percentage is established by BACEN according to current macroeconomic conditions.

These new Basel III standards are effective beginning October 1, 2013, based on the international schedule until their effective implementation on January 1, 2022.

The table below shows the calculation of regulatory capital requirements and the Basel ratio:

	2017	2016
Regulatory capital for comparison with risk-weighted assets (RWAs)	**3,005,343**	**2,653,669**
Regulatory Capital – Tier I	**3,009,028**	**2,657,438**
Equity	3,009,028	2,657,438
Valuation adjustments to equity –derivatives for cash flow hedge	**(3,685)**	**(3,769)**
Prudential adjustment - Bacen Resolution 4277/13	(3,685)	(3,769)
Risk-Weighted Assets (RWA)Exposure to credit risk - RWAcpad	**20,190,981**	**16,704,276**
Exposure to credit risk - RWAcpad	15,361,106	13,007,385
Foreign exchange asset - RWAcam	1,367,270	353,653
Assets indexed to fixed interest - RWAjur1	833,557	909,720
Assets indexed to foreign exchange coupon - RWAjur2	120,650	214,502
Assets indexed to inflation - RWAjur3	108,314	6,588
Shares - RWApacs	68,209	57,150
Operacional risk - RWAopad	2,331,875	2,155,278
Minimum Required Regulatory Capital (RWA x 9.25%) (9.875% in 2016) (1)	**1,867,666**	**1,649,547**
Basel ratio	**14.88%**	**15.89%**
Portion of the interest rate in the Banking Book (Pbanking)	144,409	38,511

(1) The minimum requirement for Reference Equity (PR), determined by CMN Resolution No. 4,193 / 13, which corresponds to the application of the "F" factor on the amount of risk-weighted assets (RWA), will be phased out as follows: i) 9.875% by 2016; (ii) 9.25% until December 31, 2017; (iii) 8.625% until December 31, 2018; and (iv) 8% as of January 1, 2019.

On December 31, 2017 and 2016, the Bank's Reference Equity exceeded by 60.91% and 60.87%, respectively, the Minimum Reference Equity Required by BACEN.

26. EMPLOYEE BENEFITS

26.1.) Education incentive and profit sharing programs

As part of its strategy of being ranked among the best companies to work in Brazil, the Bank invests in the training and welfare of its employees, through programs involving college and MBA and postgraduate students, participates in the federal government's Minor Apprentice program, and implements its own internship programs.

The Bank offers a profit sharing program to all employees. This program is designed in partnership with the Union of Bank Employees and is tied to performance goals annually evaluated, using the criteria according to the Performance Evaluation program.

26.2) Share remuneration

Due to the conclusion of the public offering for the acquisition of preference shares issued by Banco Daycoval (Note 1.a), the Stock Purchase Granting Plans were terminated and the beneficiaries who granted the shares were granted the right to exercise to the purchase concurrent with the sale of the total of shares acquired.

27. GUARANTEES AND COLLATERALS PROVIDED ON BEHALF OF THIRD PARTIES (BANK AND CONSOLIDATED)

Guarantees and collaterals provided on behalf of third parties are as follows:

Breakdown	2017	2016
Import financing	20,711	17,182
Collaterals beneficiaries	850,161	531,712
Totals	**870,872**	**548,894**

Bank guarantees and collaterals provided and liabilities assumed to third parties are subject to finance charges and counter-guarantees provided by beneficiaries.

The following table sets forth the guarantees and bank guarantees provided and liabilities assumed with third parties, recorded in clearing accounts, as of December 31, 2017 and 2016:

	Up to 3 months	3 to 12 months	1 to 3 years	3 to 5 years	Over 5 years	Total
2017	408,031	281,680	77,656	103,505	-	**870,872**
2016	176,325	155,452	103,656	16,185	97,276	**548,894**

The Bank does not guarantee any transaction of direct and indirect subsidiaries, their officers and directors and their family members.

As prescribed by CMN Resolution 4512/16 relating to accounting procedures applicable in assessing and recording the provision for collaterals provided, the Bank recorded the provision for bank guarantees, as at December 31, 2017, in the amount of R$8,401 (R$6,542 as at December 31, 2016) based on the parameters set by CMN Resolution 2682/99, which requires the periodical analysis of the portfolio and its classification into nine levels, "AA" being minimum risk and "H" maximum risk - loss.

28. RELATED-PARTY TRANSACTIONS

a) The direct and indirect subsidiaries and the Bank's shareholders enter into transactions with the Bank under usual market conditions. These transactions are contracted at rates consistent with those prevailing in the market on the transaction and settlement dates.

The table below shows the transactions between the Bank and its related parties as at December 31, 2017 and 2016:

	Bank			
	2017		2016	
Transactions	**Assets (liabilities)**	**Income (expenses)**	**Assets (liabilities)**	**Income (expenses)**
Demand deposits	**(3,406)**	**-**	**(3,497)**	**-**
Direct subsidiaries	**(56)**	**-**	**(66)**	**-**
ACS Participações Ltda.	(12)	-	(17)	-
Daycoval Asset Management Ltda.	(30)	-	(35)	-
Dayprev Vida e Previdência S.A.	(14)	-	(14)	-
Indirect subsidiaries	**(978)**	**-**	**(371)**	**-**
IFP Promotora de Serviços de Consultoria e Cadastro Ltda.	(190)	-	(313)	-
SCC Agência de Turismo Ltda.	(11)	-	(3)	-
Treetop Investments Ltd.	(777)	-	(55)	-
Other associates	**(4)**	**-**	**(3)**	**-**
Shtar Empreendimentos e Participações S.A.	(2)	-	(2)	-
Valco Adm. Part. e Representações Ltda.	(2)	-	(1)	-
Other related parties – individuals	**(2,368)**	**-**	**(3,057)**	**-**
Interbank deposits	**(166,365)**	**(16,875)**	**(165,821)**	**(23,355)**
Direct subsidiaries	**(16,359)**	**(1,888)**	**(20,167)**	**(2,781)**
ACS Participações Ltda.	(14,652)	(1,719)	(18,629)	(2,574)
Daycoval Asset Management Ltda.	(1,707)	(169)	(1,538)	(207)
Indirect subsidiaries	**(72,445)**	**(7,209)**	**(65,899)**	**(9,447)**
IFP Promotora de Serviços de Consultoria e Cadastro Ltda.	(59,988)	(5,933)	(54,002)	(7,791)
SCC Agência de Turismo Ltda.	(12,457)	(1,276)	(11,897)	(1,656)
Other related parties – individuals	**(77,561)**	**(7,778)**	**(79,755)**	**(11,127)**
Interbank deposits	**168,352**	**8,472**	**71,548**	**1,042**
Controlling shareholder	**168,352**	**8,472**	**71,548**	**1,042**
Banco Daycoval S.A.	168,352	8,472	71,548	1,042
Financial bills	**(656,288)**	**(37,395)**	**(162,828)**	**(13,694)**
Direct subsidiaries	**(528,709)**	**(25,583)**	**(53,136)**	**(4,825)**
ACS Participações Ltda.	(528,709)	(25,583)	(53,136)	(4,825)
Other related parties – individuals	**(127,579)**	**(11,812)**	**(109,692)**	**(8,869)**
Agribusiness letter of credit	**(3,517)**	**(273)**	**(1,072)**	**(217)**
Other related parties – individuals	(3,517)	(273)	(1,072)	(217)
Mortgage Loan Notes	**(3,718)**	**(468)**	**(7,285)**	**(1,127)**
Other related parties – individuals	(3,718)	(468)	(7,285)	(1,127)
Securities issued abroad	**(14,291)**	**(808)**	**(14,599)**	**(401)**
Indirect subsidiaries	**(14,291)**	**(808)**	**(14,599)**	**(401)**
Treetop Investments Ltd.	(14,291)	(808)	(14,599)	(401)
Prepaid expenses	**38,618**	**(26,548)**	**43,105**	**(17,203)**
Indirect subsidiaries	**38,618**	**(26,548)**	**43,105**	**(17,203)**
IFP Promotora de Serviços de Consultoria e Cadastro Ltda.	38,618	(26,548)	43,105	(17,203)

	Daycoval Leasing			
	2017		2016	
Transaction	**Assets (liabilities)**	**Income (expenses)**	**Assets (liabilities)**	**Income (expenses)**
Interbank deposits	**(168,352)**	**(8,472)**	**(71,548)**	**(1,042)**
Controlling shareholder	**(168,352)**	**(8,472)**	**(71,548)**	**(1,042)**
Banco Daycoval S.A.	(168,352)	(8,472)	(71,548)	(1,042)

b) The table below shows the yield rates and respective terms of the transactions between the Bank and its related parties as at December 31, 2017:

Description	Interest rate	Assets (liabilities) Up to 3 months	3 to 12 months	1 to 3 years	3 to 5 years	Total
Interbank deposits		**-**	**168,352**	**-**	**-**	**168,352**
Controlling shareholder		**-**	**168,352**	**-**	**-**	**168,352**
Daycoval Leasing - Banco Múltiplo S.A.	Floating	-	168,352	-	-	168,352
Time deposits		**(4,965)**	**(14,681)**	**(138,129)**	**(8,590)**	**(166,365)**
Direct subsidiaries		**(1,707)**	**-**	**(14,262)**	**(390)**	**(16,359)**
ACS Participações Ltda.	Floating	-	-	(14,262)	(390)	(14,652)
Daycoval Asset Management Ltda.	Floating	(1,707)	-	-	-	(1,707)
Indirect subsidiaries		**-**	**-**	**(72,445)**	**-**	**(72,445)**
IFP Promotora de Serviços de Consultoria e Cadastro Ltda.	Floating	-	-	(59,988)	-	(59,988)
SCC Agência de Turismo Ltda.	Floating	-	-	(12,457)	-	(12,457)
Other related parties - individuals	Fixed /Floating	**(3,258)**	**(14,681)**	**(51,422)**	**(8,200)**	**(77,561)**
Financial bills		**-**	**(2,769)**	**(649,584)**	**(3,935)**	**(656,288)**
Direct subsidiaries		**-**	**-**	**(528,709)**	**-**	**(528,709)**
ACS Participações Ltda.	Fixed /Floating	-	-	(528,709)	-	(528,709)
Other related parties - individuals	Fixed /Floating	**-**	**(2,769)**	**(120,875)**	**(3,935)**	**(127,579)**
Agribusiness letter of credit		**(264)**	**(2,647)**	**(606)**	**-**	**(3,517)**
Other related parties - individuals	Fixed /Floating	(264)	(2,647)	(606)	-	(3,517)
Mortgage Loan Notes		**(343)**	**(828)**	**(2,547)**	**-**	**(3,718)**
Other related parties - individuals	Fixed /Floating	(343)	(828)	(2,547)	-	(3,718)
		(225)	**-**	**(14,066)**	**-**	**(14,291)**
Securities issued abroad						
Indirect subsidiaries		**(225)**	**-**	**(14,066)**	**-**	**(14,291)**
Treetop Investments Ltd.	5.75%	(225)	-	(14,066)	-	(14,291)
Prepaid expenses						
Indirect subsidiaries		**178**	**2,309**	**36,131**	**-**	**38,618**
IFP Promotora de Serviços de Consultoria e Cadastro Ltda.	n.a.	178	2,309	36,131	-	38,618

(1) The rates of remuneration vary from: (i) Pre-fixed from 10.01% to 14.70% pa; and (ii) Postfixed from 93% to 115% of the CDI.

Under Brazilian law, financial institutions may not grant loans or advances or guarantee operations of their controlling shareholders, affiliated companies, administrators, or relatives of their administrators until the second degree. Accordingly, the Bank does not grant loans or advances, nor does it guarantee any operation of companies directly or indirectly controlled by its directors or their family members.

c) Compensation of key management personnel:

The Annual Shareholders' Meeting sets the overall compensation of Management, as established by the Bank's bylaws.

For the year ending December 31, 2017, the overall compensation of up to R$60 million (R$55 million for the year ended December 31, 2016) was set at the Annual and Extraordinary General Meeting held on April 28, 2017.

	2017	2016
Total compensation	58,930	53,826
Direct and fringe benefits (healthcare plan)	1,070	1,174

The Bank does not offer other short or long-term post-employment or severance benefits to its key management personnel.

d) Ownership interest:

As at December 31,2017 and 2016, the members of the Board of Directors and the Executive Committee held jointly the following interest in the Bank's capital:

	Percentual de participação em relação à classe de ações	
	2017	2016
Common shares (ON)	100.00%	100.00%
Preferred shares (PN) (1) (2)	100.00%	100.00%

(1) Does not consider treasury shares.

(2) Percentage interest after the Public Offering (Note 1.a).

29. OTHER INFORMATION

a) Asset management:

Daycoval Asset Management is responsible for the management and management of third party funds through investment funds whose net assets as of December 31, 2017 totaled R$2,5 billion (R$1,5 billion in 2016).

b) Insurance coverage against losses:

Despite the low risk exposure as a result of their assets not being physically concentrated, the Bank and its subsidiaries insure their assets at amounts considered sufficient to cover probable losses.

c) Relationship with Auditors:

In accordance with CVM Instruction 381, of January 14, 2003, we inform that the firm engaged to review the Bank's financial staantement information and audit the financial statements for the year ending December 31, 2017, has not provided any other services to the Bank and the Group companies, other than the independent audit services.

Our policy, including our subsidiaries, to engage non-audit services from our independent auditors, is based on applicable regulation and internationally accepted principles that preserve the independence of the auditor. These principles consist of: (a) the auditor must not audit its own work; (b) the auditor must not exercise managerial functions in its client; and (c) the auditor must not promote the interests of its client.

d) Audit Committee:

As required by CMN Resolution 3198/04, and with a view to adopting the industry best practices when conducting its businesses, Extraordinary General Meeting held on March 26, 2009 has decided on and approved the establishment of an Audit Committee, which will be comprised of 3 independent members, pursuant to the prevailing legislation. The establishment of this committee was ratified by the Central Bank of Brazil on May 26, 2009.

30. RISK MANAGEMENT

The risk management is essential for the generation of value to Daycoval, its shareholders, employees and clients. Accordingly, Daycoval establish rules and goals to ensure the proper balance between the expansion and investment return goals and the related risks, efficiently allocating its resources to meet the organization's goals.

The Corporate Risk Management structuring, in addition to complying with the regulatory body requirements, contributes to a better Corporate Governance, which is one of Daycoval's strategic goals, and which was designed based on the purposes, demands and institutional culture.

The identification of risks allows mapping the internal and external risk events that could affect the business unit purposes. In this regard, the Risk Committees and the risk managers play an important role in the Bank's several areas to ensure its continuous expansion.

The Risk Managers identify, measure, control, assess and manage the risks, ensuring the consistency between the risks assumed and the acceptable risk level defined by the Institution, as well as report the exposure to the senior management, business areas and regulatory bodies.

Main risk categories and respective management frameworks:

a) Market risk

Market risk is the risk of incurring losses due to fluctuations in the fair values of the positions held by a financial institution, including the risks to which the transactions subject to exchange rate changes, interest rates, stock prices, and commodity prices are exposed.

a.1) Main market risks to which Daycoval is exposed:

Interest rate risk

Possible interest rate fluctuations that could adversely affect the value of the financial instruments. This risk is classified as follows:

• Parallel change risk: exposure of profit and loss to parallel changes in the interest curve, resulting in equal differentials for all terms.

• Risk of changes in curve slop: exposure of profit or loss to the changes in the timeframe structure of the interest curve, resulting in changes in pending or curve form.

Currency price risk

The exposure of foreign currency positions to the changes in the exchange type.

Price risk

The exposure of outstanding securities to adverse market price fluctuations. This risk is classified as follows:

• Generic or systematic risk: exposure of the position value to the changes in prices in general;

• Specific risk: exposure not related to the changes in prices in general but related to the issuer's own characteristics

Commodity price risk

The risk related to the effects from the potential changes in the portfolio commodity prices.

a.2) Market Risk management methodologies

Value-at-Risk (VaR)

The Value-at-Risk or VaR is the benchmark used in the market and a measure that properly summarizes the market risk exposure from the trading activities (trading portfolio). It represents the potential maximum loss in the market value that, under normal market conditions, can result in a specific position or portfolio, considering a defined certainty level (confidence level) and time horizon.

Among the different methodologies available to calculate the VaR (parametric, historical simulation and Montecarlo simulation), Daycoval understands that the parametric methodology is the most adequate to the characteristics of the positions of its trading portfolio.

Parametric methodology

It is based on the normality statistics in the distribution of probabilities related to the risk factor changes, based on the volatilities and correlations to determine the potential change of a position. Accordingly, the risk factors must be identified and the positions must be allocated to the defined vertices. Subsequently, the volatilities of each risk factor and the correlations to the positions are applied.

a.3) Stress test

It is a supplementary tool to the VaR measures and scenario analysis used to measure and assess the risk to which the Bank is exposed. It is based on the definition of a set of movements for certain market variables and the determination of the effects from the movements on the portfolio value. The stress test results are periodically analyzed by the Market Risk Committee.

a.4) Scenario analysis

The purpose of the scenario analysis is to assist the senior management in understanding the impact caused by certain events on the Bank, using a risk analysis tool that defines the long-term scenarios that affect the parameters or variables defined for risk measurement.

Differently from the stress tests, which consider the impact from the changes in the market risk factors on the short-term portfolio, the scenario analysis determines the impact from more complex events on the Bank as a whole.

In the definition of the scenarios, the following factors are considered:

• The experience and expertise of the persons responsible for the areas involved;

• The proper number of relevant variables and their explanation power in order to avoid unnecessary problems in the analysis and interpretation of the results.

As a risk management governance practice, Daycoval and its subsidiaries adopt a continuous risk management process that involves controlling all the positions exposed to the market risk. The market risk limits are determined according to the characteristics of the operations, which are segregated in the following portfolios:

• Trading portfolio: refers to transactions with financial instruments and commodities, including derivatives, that are held for the purpose of being actively traded or to hedge other financial instruments comprising the trading portfolio. These held-for-trading transactions are those intended for the resale, obtain gains from actual or expected price fluctuations, or arbitrage.

• Banking portfolio: refers to all transactions that are not classified in the trading portfolio and are represented by transactions arising from the Bank’s business lines.

The segregation above is related to the way Management manages Daycoval’s business and its exposure to the market risks, in conformity with the best market practices, the transaction classification criteria set forth in prevailing regulations issued by BACEN and the –Basel Accord. Therefore, according to the nature of the activities, the sensitivity analysis, as prescribed by CVM Instruction 475/08, was conducted for the trading and banking portfolio operations, as they represent significant exposures for Daycoval’s profit or loss.

The sensitivity analysis of the trading and banking portfolios as at December 31, 2017 and 2016 is as follows:

Financial exposures	2017 Scenarios		
Risk factors	**1**	**2**	**3**
Fixed rate	(18,408)	(35,372)	(50,312)
Foreign currencies	8,029	26,467	44,809
Price indices	(2,878)	(3,610)	(4,342)
Variable income	(5,915)	(14,295)	(22,674)
Borrowings	(20,626)	(41,713)	(62,081)
Other	(401)	(602)	(804)
Total Trading	**(40,199)**	**(69,125)**	**(95,404)**
Total Banking	**(166,096)**	**(330,138)**	**(484,852)**
Total	**(206,295)**	**(399,263)**	**(580,256)**

Financial exposures	2016 Scenarios		
Risk factors	**1**	**2**	**3**
Fixed rate	(9,686)	(23,752)	(38,241)
Foreign currencies	4,566	15,830	26,580
Price indices	(583)	(1,383)	(2,073)
Variable income	(6,877)	(13,754)	(20,630)
Borrowings	(33,913)	(82,359)	(129,580)
Other	(4,908)	(10,784)	(16,527)
Total Trading	**(51,401)**	**(116,202)**	**(180,471)**
Total Banking	**(176,550)**	**(404,795)**	**(613,831)**
Total	**(227,951)**	**(520,997)**	**(794,302)**

The sensitivity analysis was performed considering the following scenarios:

• Scenario 1: refers to the probable stress scenario for risk factors, and available market information (B3 S.A., ANBIMA, etc.) was used as basis for the preparation of this scenario. Accordingly, the risk factors considered were as follows: (i) R$/US$3.72 (R$/US$3.72 in 2016); (ii) fixed interest rate – 9.02% p.a. (14.04% p.a. in 2016); and (iii) Ibovespa – 64,942 points (48,182 points in 2016) and (iv) 5.19% p.a. exchange coupon (5.04% p.a. in 2016).

• Scenario 2: As established by CVM Instruction 475/08, this scenario considered a deterioration of the risk factors of approximately 25%. Accordingly, the risk factors considered were as follows: (i) US$4.65 (R$/US$4.64 in 2016); (ii) fixed interest rate – 12.39% p.a. (11.28% p.a. in 2016); and (iii) Ibovespa – 48,706 points (36,136 points in 2016) and (iv) 6,49% p.a. exchange coupon (6.30% p.a. in 2016).

• Scenario 3: As established by CVM Instruction 475/08, this scenario considered a deterioration of the risk factors of approximately 50%. Accordingly, the risk factors considered were as follows: (i) R$/US$5.58 (R$/US$5.57 in 2016); (ii) fixed interest rate 13.53% p.a. (21.06% p.a. in 2016); and (iii) Ibovespa – 30,460 points (24,091 points in 2016) and 7,78% p.a. exchange coupon (7,56% p.a. in 2016).

It is important to mention that the results shown in the tables above reflect the impacts for each scenario projected on a static position of the portfolio as at December 31, 2017 and 2016. The market dynamics changes this position continually and does not necessary reflect the actual position on the reporting date. Additionally, as mentioned above, the Trading and banking portfolio positions are continuously managed to mitigate the related risks, according to the strategy defined by Management and, when there are any indication of deterioration of a certain position, proactive actions are taken to minimize possible adverse impacts to maximize the risk/return ratio for the Bank.

a.5) Backtesting

Backtesting is the comparison between the former estimated gain/loss and the effective gain/loss. The purpose is to analyze the model adequacy. For purposes of backtesting, effective gains/losses are used for each business unit.

b) Liquidity risk

Liquidity risk is the risk of mismatches between tradable assets and payable liabilities — payables and receivables mismatches — that might affect the payment ability of the Bank, taking into consideration the different currencies and settlement terms of its assets and liabilities.

The model risk is not included among them, which is defined as the potential loss for incorrect estimates and calculation of the parameters and assumptions included in the liquidity risk management methodologies. This risk is more related to the operations rather than liquidity.

c) Credit risk

The credit risk is the risk of incurring losses due to borrower or counterparty default under agreed financial obligations, the depreciation of a credit agreement due to the downgrading of the borrowers' risk ratings, the decrease in gains or returns, the advantages granted in restructurings, and the recovery costs.

Classification of operations

For the classification of the lending operations, Daycoval adopts consistent, verifiable criteria that combine the borrower's economic, financial, personal and market information with the accessory collaterals provided for the operation. Based on this information, the minimum provision will be recognized to cover the risks assumed, as prescribed by BACEN Resolution 2682/99.

Daycoval credit scoring models

These are statistical models designed and used for risk rating in the credit granting process following the adoption of the credit policies previously analyzed and approved.

Treasury - financing of government bonds, over-the-counter derivatives and brokers

Low-risk strategies are adopted in the structuring of operations based on the exposure limit analysis against the counterparties' equity, trading agreements previously agreed and according to the objective technical assessment conditions of the counterparties' credit risk and strict selection of brokers related to prime banks to deal with the positions allocated.

d) Operational risk

Operational risk is the possibility of an entity incurring losses due to failure, deficiency or ineffectiveness of internal processes, people and systems, or external events. It includes the legal risk associated to inadequacy or deficiency in contracts entered into by the Bank, as well as penalties due to noncompliance with legal provisions, and compensation paid for damages caused to third parties as a result of the activities conducted by the Bank.

In managing operational risks, the Bank relies on a management structure able to identify, monitor, control and mitigate operational risks, as well as disseminating the risk mitigation culture. This structure is composed of the Operational Risk Committee, Operational Risk Management and Internal Operational Risk Agents (AIROs). The AIROs are selected and trained to act as partners of the Operational Risk area to identify, control and monitor actions that involve any type of risk.

e) Social and environmental risk

Refers to the possibility of incurring losses arising from social and environmental damages, related to each entity individually, comprising Daycoval Group, in accordance with the following principles:

- Significance: Establishes as significance criterion the most representative segment in its product portfolio; and
- Proportionality: Establishes as proportionality criterion the credit operations of the most significant segment, whose economic activity may pose a higher risk of causing social and environmental damages associated with the

Social and environmental risk management framework

In managing social and environmental risks, the Bank adopts a framework that contains mechanisms that enable the implementation and dissemination of the social and environmental culture, policies, systems, routines and procedures that are in line with the nature and complexity of business, both of the entities comprising the Daycoval Group and the services and products sold.

(Convenience Translation into English from the Original Previously Issued in Portuguese)

Banco Daycoval S.A.

Individual and Consolidated
Interim Financial Information for the
Quarter Ended March 31, 2019 and
Report on Review of Interim
Financial Information

Deloitte Touche Tohmatsu Auditores Independentes

(Convenience Translation into English from the Original Previously Issued in Portuguese)

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

To the Shareholders and Management of
Banco Daycoval S.A.
São Paulo - SP

Introduction

We have reviewed the accompanying individual and consolidated interim financial information of Banco Daycoval S.A. ("Bank"), included in the Interim Financial Information (ITR), for the quarter ended March 31, 2019, which comprises the balance sheet as at March 31, 2019 and the related statements of income, of comprehensive income, of changes in equity and of cash flows for the three-month period then ended, including the explanatory notes.

Management is responsible for the preparation of the individual and consolidated interim financial information in accordance with accounting practices adopted in Brazil, applicable to institutions authorized to operate by the Central Bank of Brazil (BACEN), as well as for the presentation of such information in accordance with the standards issued by the Brazilian Securities Commission (CVM), applicable to the preparation of Interim Financial Information (ITR). Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with Brazilian and international standards on review of interim financial information (NBC TR 2410 and ISRE 2410 - Review of Interim Financial Information Performed by the Independent Auditor of the Entity, respectively). A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with standards on auditing and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion on the individual and consolidated interim financial information

Based on our review, nothing has come to our attention that causes us to believe that the accompanying individual and consolidated interim financial information included in the ITR referred to above was not prepared, in all material respects, in accordance with accounting practices adopted in Brazil, applicable to institutions authorized to operate by BACEN, and presented in accordance with the standards issued by CVM.

Other matters

Statements of value added

We have also reviewed the individual and consolidated interim statements of value added ("DVA") for the three-month period ended March 31, 2019, prepared under the responsibility of the Bank's Management, the presentation of which is required by the standards issued by CVM applicable to the preparation of Interim Financial Information (ITR). These statements were subject to the same review procedures described above and, based on our review, nothing has come to our attention that causes us to believe that they were not prepared, in all material respects, consistently with the individual and consolidated interim financial information taken as a whole.

The accompanying interim financial information has been translated into English for the convenience of readers outside Brazil.

São Paulo, May 7, 2019

DELOITTE TOUCHE TOHMATSU
Auditores Independentes
CRC nº 2 SP 011609/O-8

Carlos Claro
Contador
CRC nº 1 SP 236588/O-4

Company information / Capital arrangement

Number of shares (Units)	Current Quarter 03/31/2019
Paid-in Capital	
Common shares	230,820,429
Preferred shares	0
Total	**230,820,429**
Treasury Shares	
Common shares	0
Preferred shares	0
Total	0

Company information / Dividends and interest on capital

Event	Approved	Earnings	Beginning of payment	Share type	Share class	Earnings per share (R$ / share)
Ordinary General Meeting	03/29/2019	Interest on capital	04/15/2019	Common		0.23740

Individual Financial Statements / Balance Sheet - Asset
(In thousands of Brazilian reais - R$)

Account number	Account description	Current quarter 03/31/2019	Prior year 12/31/2018
1	Total Assets	28,888,984	29,384,947
1.01	Current Assets	18,227,610	18,710,582
1.01.01	Cash and cash equivalents	159,125	151,733
1.01.02	Interbank investments	5,292,332	5,561,479
1.01.02.01	Money market investments	4,445,224	4,702,402
1.01.02.02	Interbank deposits	714,036	690,921
1.01.02.03	Foreign currency investments	133,072	168,156
1.01.03	Securities and derivatives	254,336	516,762
1.01.03.01	Own portfolio	108,878	72,426
1.01.03.02	Linked to repurchase commitments	124,594	139,474
1.01.03.03	Derivatives	20,864	304,862
1.01.04	Interbank accounts	51,135	42,639
1.01.04.01	Unsettled payments and receipts	3,452	-
1.01.04.02	Restricted deposits - Central Bank of Brazil	47,396	42,509
1.01.04.03	Correspondents	287	130
1.01.06	Lending operations	7,461,532	7,441,612
1.01.06.01	Lending operations - Public sector	39,746	38,183
1.01.06.02	Lending operations - Private sector	7,985,431	7,946,219
1.01.06.03	Allowance for loan losses	- 563,645	- 542,790
1.01.08	Other receivables	4,865,967	4,890,837
1.01.08.02	Foreign exchange portfolio	1,459,948	1,064,558
1.01.08.03	Income receivable	14,155	11,660
1.01.08.04	Trading account	1,708	1,779
1.01.08.05	Other	3,554,607	3,951,976
1.01.08.06	(Allowance for other loan losses)	- 164,451	- 139,136
1.01.09	Other assets	143,183	105,520
1.01.09.01	Repossessed assets	134,416	92,832
1.01.09.02	Allowance for repossessed assets losses	- 8,875	- 8,422
1.01.09.03	Prepaid expenses	17,642	21,110
1.02	Noncurrent Long-Term Assets	9,366,715	9,406,614
1.02.01	Interbank investments	6,095	6,711
1.02.01.01	Interbank deposits	6,095	6,711
1.02.02	Securities and derivatives	1,573,972	1,907,165
1.02.02.01	Own portfolio	1,303,109	1,595,899
1.02.02.02	Linked to repurchase commitments	9,097	-
1.02.02.03	Instrumentos Financeiros Derivativos	98,209	95,719
1.02.02.04	Linked to guarantees	163,557	215,547
1.02.05	Lending operations	5,390,530	5,161,949
1.02.05.01	Lending operations - Public sector	62,263	71,994
1.02.05.02	Operações de Crédito - Setor Privado	5,755,871	5,493,477
1.02.05.03	Allowance for loan losses	- 427,604	- 403,522
1.02.07	Other receivables	2,396,118	2,328,540
1.02.07.02	Other	2,396,720	2,329,066
1.02.07.03	Allowance for loan losses	- 602	- 526
1.02.08	Other assets	-	2,249
1.02.08.01	Prepaid expenses	-	2,249

Individual Financial Statements / Balance Sheet - Asset
(In thousands of Brazilian reais - R$)

Account number	Account description	Current quarter 03/31/2019	Prior year 12/31/2018
1.03	Permanent Assets	1,294,659	1,267,751
1.03.01	Investments	1,221,325	1,192,436
1.03.01.02	Direct subsidiaries	1,219,020	1,191,273
1.03.01.04	Other investments	2,305	1,163
1.03.02	Property and equipment in use	73,334	75,315
1.03.02.02	Other property and equipment in use	73,334	75,315

Individual Financial Statements / Balance Sheet - Liability
(In thousands of Brazilian reais - R$)

Account number	Account description	Current quarter 03/31/2019	Prior year 12/31/2018
2	Total Liabilities	28,888,984	29,384,947
2.01	Current Liabilities	12,930,373	15,794,804
2.01.01	Deposits	3,327,037	3,219,471
2.01.01.01	Demand deposits	761,979	864,844
2.01.01.02	Interbank deposits	399,950	373,667
2.01.01.03	Time deposits	2,152,605	1,973,639
2.01.01.04	Foreign currency deposits	12,503	7,321
2.01.02	Money market funding	1,886,688	2,992,328
2.01.02.01	Own portfolio	131,083	136,333
2.01.02.02	Third parties	1,755,605	2,855,995
2.01.03	Funds from acceptance and issuance of securities	5,186,810	6,405,886
2.01.03.01	Mortgage loan notes	740,665	648,667
2.01.03.02	Agribusiness letter of credit	726,059	617,665
2.01.03.03	Financial bills	3,699,245	3,232,736
2.01.03.04	Securities issued abroad	20,841	1,906,818
2.01.04	Interbank accounts	11,363	1,181
2.01.05	Interbank accounts	76,631	107,529
2.01.06	Borrowings	956,365	1,675,209
2.01.06.01	Foreign borrowings	956,365	1,675,209
2.01.07	Domestic onlendings	187,521	193,481
2.01.07.01	BNDES	146,288	151,383
2.01.07.02	FINAME	41,233	42,098
2.01.09	Other payables	1,297,958	1,199,719
2.01.09.01	Collection and Arrec. of Taxes and Similar	14,231	8,562
2.01.09.02	Foreign exchange portfolio	893,279	501,455
2.01.09.03	Social and statutory	68,228	118,434
2.01.09.04	Tax and social security	141,914	330,106
2.01.09.05	Trading account	2,235	3,035
2.01.09.06	Derivatives	20,792	29,662
2.01.09.07	Other	157,279	208,465
2.02	Noncurrent Long-Term Liabilities	12,503,044	10,300,464
2.02.01	Deposits	2,383,753	2,247,127
2.02.01.01	Interbank deposits	1,600	21,813
2.02.01.02	Time deposits	2,382,153	2,225,314
2.02.03	Acceptance and Issuance of Securities	6,959,604	4,964,814
2.02.03.01	Mortgage Loan Notes	143,959	125,237
2.02.03.02	Agrobusiness letter of credit	51,858	46,168
2.02.03.03	Financial bills	6,763,787	4,772,807
2.02.03.04	Securities issued abroad	-	20,602
2.02.06	Borrowings	372,515	371,839
2.02.06.01	Foreign borrowings	372,515	371,839
2.02.07	Domestic onlendings	156,706	173,089
2.02.07.01	BNDES	96,245	108,234
2.02.07.02	FINAME	60,461	64,855
2.02.09	Other payables	2,630,466	2,543,595
2.02.09.02	Tax and Social Security	251,354	245,597

Individual Financial Statements / Balance Sheet - Liability
(In thousands of Brazilian reais - R$)

Account number	Account description	Current quarter 03/31/2019	Prior year 12/31/2018
2.02.09.04	Other	2,229,048	2,150,684
2.02.09.05	Subordinated Debts	150,064	147,314
2.03	Deferred income	48,401	52,641
2.05	Equity	3,407,166	3,237,038
2.05.01	Paid-in Capital	2,253,595	2,253,595
2.05.01.01	Capital	2,253,595	2,253,595
2.05.02	Adjustments	1,142	-
2.05.04	Earnings reserves	979,426	979,426
2.05.04.01	Legal	203,739	203,739
2.05.04.02	Bylaws	775,687	775,687
2.05.05	Valuation adjustments to equity	12,159	4,017
2.05.05.01	Adjustments to securities	12,159	4,017
2.05.06	Retained earnings / accumulated losses	160,844	-

Individual Income Statements
(In thousands of Brazilian reais - R$)

Account number	Account description	Current Quarter from 01/01/2019 to 03/31/2019	Accumulated Prior Year from 01/01/2018 to 03/31/2018
3.01	Income from Financial Intermediation	908,265	820,631
3.01.01	Lending Operations	785,359	722,244
3.01.02	Securities Transactions	117,683	115,480
3.01.03	Derivatives	- 41,517	- 53,381
3.01.04	Foreign Exchange Transactions	42,964	36,288
3.01.05	Sale or Transfer of Financial Assets	3,776	-
3.02	Expenses on Financial Intermediation	- 433,369	- 448,469
3.02.01	Funding Operations	- 283,326	- 250,750
3.02.02	Borrowings and Onlendings	- 24,656	- 28,922
3.02.03	Sale or Transfer of Financial Assets	- 2,579	- 5,875
3.02.04	Financial Assets Sale or Transfer	- 122,808	- 162,922
3.03	Gross Profit From Financial Intermediation	474,896	372,162
3.04	Other Operating (Expenses) Income	- 149,664	- 112,805
3.04.01	Income from Services Provided	43,043	35,419
3.04.02	Personnel Expenses	- 82,458	- 72,315
3.04.03	Other Administrative Expenses	- 127,125	- 116,855
3.04.04	Tax Expenses	- 33,889	- 29,737
3.04.05	Other Operating Income	98,467	85,107
3.04.06	Other Operating Expenses	- 72,516	- 41,307
3.04.07	Equity Income	24,814	26,883
3.05	Income from Operations	325,232	259,357
3.06	Nonoperating Income	- 61	2,517
3.06.01	Income	3,742	4,958
3.06.02	Expenses	- 3,803	- 2,441
3.07	Income Before Taxes on Income and Profit Sharing	325,171	261,874
3.08	Provision for Income Tax and Social Contribution	- 104,316	- 103,572
3.09	Deferred Tax Credits	14,446	21,594
3.10	Statutory Participation / Contributions	- 19,663	- 14,546
3.10.01	Profit Sharing	- 19,663	- 14,546
3.13	Profit/Loss for the Period	215,638	165,350
3.99	Earnings per Share - (R$ / share)	0.93422	0.81005

Individual Statements of Comprehensive Income
(In thousands of Brazilian reais - R$)

Account number	Account description	Current Quarter from 01/01/2019 to 03/31/2019	Accumulated Prior Year from 01/01/2018 to 03/31/2018
4.01	Profit for the Period	215,638	165,350
4.02	Other Comprehensive Income	8,142	1,956
4.02.01	Available-for-sale marketable securities	12,018	3,763
4.02.02	Deferred taxes on valuation adjustments to equity	- 3,876	- 1,807
4.03	Comprehensive Income for the Period	223,780	167,306

Individual Statements of Cash Flows
(In thousands of Brazilian reais - R$)

Account number	Account description	Current Quarter from 01/01/2019 to 03/31/2019	Accumulated Prior Year from 01/01/2018 to 03/31/2018
6.01	Cash from Operating Activities	1,371,180	21,959
6.01.01	Net Cash Operating Activities	352,734	310,850
6.01.01.01	Profit for the period	215,638	165,350
6.01.01.02	Depreciation and amortization	2,526	2,501
6.01.01.03	Deferred taxes	- 14,446	- 21,594
6.01.01.04	Provision for risks	43,750	51,368
6.01.01.05	Provision for guarantees and collaterals granted	2,624	1,759
6.01.01.06	Allowance for loan losses	122,885	186,432
6.01.01.07	Allowance for other loan losses	24,398	- 23,510
6.01.01.08	Allowance for losses on other assets	454	- 391
6.01.01.09	Exchange rate changes on cash and cash equivalents	- 21,913	- 23,300
6.01.01.10	Gains on disposal of permanent assets	1,632	- 882
6.01.01.11	Share of profit (loss) of subsidiaries	- 24,814	- 26,883
6.01.02	Changes In Assets and Liabilities	1,018,446	- 288,891
6.01.02.01	(Increase) Decrease in interbank investments	- 22,498	- 47,611
6.01.02.02	(Increase) Decrease in securities and derivatives	594,891	- 337,410
6.01.02.03	(Increase) Decrease in interbank and interbranch accounts	- 29,212	- 27,990
6.01.02.04	(Increase) Decrease in lending operations	- 371,387	- 365,980
6.01.02.05	(Increase) Decrease in other receivables	- 49,452	490,266
6.01.02.06	(Increase) Decrease in other assets	- 35,868	27,981
6.01.02.07	Increase (Decrease) in deposits	244,193	- 462,034
6.01.02.08	Increase (Decrease) in money market funding	- 5,250	- 114,094
6.01.02.09	Increase (Decrease) in funds from acceptance and issuance of securities	666,300	443,379
6.01.02.10	Increase (Decrease) in borrowings and onlendings	- 100,710	52,224
6.01.02.11	Increase (Decrease) in other payables	157,523	80,613
6.01.02.12	Income tax and social contribution paid	- 25,843	- 23,651
6.01.02.13	Increase (Decrease) in deferred income	- 4,241	- 4,584
6.02	Net Cash Investing Activities	- 545	- 1,237
6.02.02	Disposal of property and equipment in use	- 545	- 1,237
6.03	Net Cash Financing Activities	- 577,028	- 60,325
6.03.01	Increase (Decrease) in funds from acceptance and issuance of securities	109,414	- 68,644
6.03.02	Increase (Decrease) in borrowings and onlendings	- 639,801	- 1,746
6.03.03	Increase (Decrease) in subordinated debts	2,750	10,065
6.03.04	Accrued interest on capital	- 49,391	-
6.04	Exchange Rate Changes on Cash and Cash Equivalents	21,913	23,300
6.05	Increase (Decrease) in Cash and Cash Equivalents	815,520	- 16,303
6.05.01	Cash and cash equivalents opening balance	2,166,296	2,561,185
6.05.02	Cash and cash equivalents closing balance	2,981,816	2,544,882

Individual Statements of Changes in Shareholders Equity - from - 01/01/2019 to 03/31/2019
(In thousands of Brazilian reais - R$)

Account number	Account description	Capital	Capital reserves	Revaluation reserves	Earnings reserves	Retained earnings	Valuation adjustments to equity	Equity
5.01	Opening balance	2,253,595	-	-	979,426	-	4,017	3,237,038
5.03	Adjusted balance	2,253,595	-	-	979,426	-	4,017	3,237,038
5.04	Profit/Loss for the period	-	-	-	-	215,638	-	215,638
5.05	Allocation	-	-	-	-	- 54,794	-	- 54,794
5.05.02	Interest on capital	-	-	-	-	- 54,794	-	- 54,794
5.07	Valuation adjustments to equity	-	-	-	-	-	8,142	8,142
5.07.01	Adjustments to Securities	-	-	-	-	-	8,142	8,142
5.09	Constitution / Realization Reserves Capital	-	1,142	-	-	-	-	1,142
5.09.01	Updating of Equity Securities	-	1,142	-	-	-	-	1,142
5.13	Closing balance	2,253,595	1,142	-	979,426	160,844	12,159	3,407,166

Individual Statements of Changes in Shareholders Equity - from - 01/01/2018 to 03/31/2018
(In thousands of Brazilian reais - R$)

Account number	Account description	Capital	Capital reserves	Revaluation reserves	Earnings reserves	Retained earnings	Valuation adjustments to equity	Equity
5.01	Opening balance	1,892,143	-	-	1,111,764	-	5,121	3,009,028
5.03	Adjusted balance	1,892,143	-	-	1,111,764	-	5,121	3,009,028
5.04	Profit/Loss for the period	-	-	-	-	165,350	-	165,350
5.05	Allocation	-	-	-	-	- 48,867	-	- 48,867
5.05.02	Interest on capital	-	-	-	-	- 48,867	-	- 48,867
5.07	Valuation adjustments to equity	-	-	-	-	-	1,956	1,956
5.07.01	Adjustments to Securities	-	-	-	-	-	1,956	1,956
5.13	Closing balance	1,892,143	-	-	1,111,764	116,483	7,077	3,127,467

Individual Statements of Value Added
(In thousands of Brazilian reais - R$)

Account number	Account description	Current Quarter from 01/01/2019 to 03/31/2019	Accumulated Prior Year from 01/01/2018 to 03/31/2018
7.01	Revenue	854,391	739,438
7.01.01	Income from financial intermediation	908,265	820,631
7.01.02	Revenue from services	43,043	35,419
7.01.03	Allowance for loan losses	- 122,808	- 162,922
7.01.04	Other	25,891	46,310
7.02	Expenses on Financial Intermediation	- 310,561	- 285,547
7.03	Inputs Purchased from Third Parties	- 120,683	- 110,386
7.03.01	Materials and utilities	- 19,807	- 17,490
7.03.02	Outside services	- 100,876	- 92,902
7.03.03	Loss / Recovery of Assets	-	6
7.04	Gross Value Added	423,147	343,505
7.05	Retention	- 2,526	- 2,501
7.05.01	Depreciation and amortization	- 2,526	- 2,501
7.06	Wealth Created	420,621	341,004
7.07	Wealth Received in Transfer	24,814	26,883
7.07.01	Equity Income	24,814	26,883
7.08	Total Wealth for Distribution	445,435	367,887
7.09	Distribution of Wealth	445,435	367,887
7.09.01	Employees	89,089	75,051
7.09.01.01	Salaries and wages	54,063	48,024
7.09.01.02	Benefits	32,163	24,646
7.09.01.03	Severance pay fund (FGTS)	2,863	2,381
7.09.02	Taxes	136,791	123,523
7.09.02.01	Federal	132,805	120,088
7.09.02.02	State	131	395
7.09.02.03	Municipal	3,855	3,040
7.09.03	Lenders and Lessors	3,917	3,963
7.09.03.01	Rentals	3,917	3,963
7.09.04	Shareholders	215,638	165,350
7.09.04.01	Interest on capital	54,794	48,867
7.09.04.03	Retained Income / Loss accumulated	160,844	116,483

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CONSOLIDATED INTERIM FINANCIAL INFORMATION

As permitted by Brazilian National Monetary Council (CMN) Resolution 3853/10 and the Brazilian Central Bank (BACEN) Circular Letter 3447/10, the Bank elected to prepare its Consolidated Interim Financial Information in accordance with the accounting practices adopted in Brazil applicable to financial institutions authorized to operate by the Central Bank of Brazil, as described in Note 2. Accordingly, the standardized tables containing consolidated information are not presented, since they are only applicable in preparing the consolidated financial statements in accordance with the technical pronouncements issued by the Accounting Pronouncements Committee (CPC), as approved by the Brazilian Securities Commission (CVM) issued by the International Accounting Standard Board (IASB).

Below is the consolidated interim financial information for the three-month period ended March 31, 2019, prepared in accordance with the accounting practices adopted in Brazil, applicable to financial institutions authorized to operate by the Central Bank of Brazil.

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BALANCE SHEETS
AS AT MARCH 31, 2019 AND AS AT DECEMBER 31, 2018
(In thousands of Brazilian reais - R$)

ASSETS	Note	Current quarter 03/31/2019	Prior year 12/31/2018
CURRENT ASSETS		**18,402,712**	**18,977,088**
Cash		**161,287**	**153,172**
Interbank investments	**Note 5**	**4,893,139**	**5,190,943**
Money market investments		4,445,224	4,702,402
Interbank deposits		314,843	320,385
Foreign currency investments		133,072	168,156
Securities and derivatives	**Note 6**	**427,735**	**742,889**
Own portfolio		210,196	228,467
Linked to repurchase commitments		124,594	139,474
Derivatives		20,864	304,862
Asset-backed technical reserves		72,081	70,086
Interbank accounts		**51,135**	**42,639**
Unsettled payments and receipts		3,452	-
Restricted deposits - Central Bank of Brazil		47,396	42,509
Correspondents		287	130
Lending operations		**7,495,164**	**7,474,760**
Lending operations - public sector	Note 7.a)	39,746	38,183
Lending operations - private sector	Note 7.a)	8,019,711	7,980,424
(Allowance for loan losses)	Note 9	(564,293)	(543,847)
Leasing operations		**346,716**	**351,000**
Leases receivable	Note 7.a)	354,872	357,253
(Allowance for lease losses)	Note 9	(8,156)	(6,253)
Other receivables		**4,885,056**	**4,917,224**
Foreign exchange portfolio	Note 10.a)	1,459,948	1,064,558
Income receivable		12,664	10,775
Trading account	Note 6.f)	1,708	1,779
Insurance premiums	Note 19.a)	2,354	2,029
Other	Note 10.b)	3,572,833	3,977,219
(Allowance for other loan losses)	Note 9	(164,451)	(139,136)
Other assets	**Note 11**	**142,480**	**104,461**
Repossessed assets		134,513	92,873
(Allowance for repossessed assets losses)		(8,913)	(8,447)
Prepaid expenses		16,880	20,035
NONCURRENT LONG-TERM ASSETS		**9,917,137**	**9,922,919**
Interbank investments	**Note 5**	**6,095**	**6,711**
Interbank deposits		6,095	6,711
Securities and derivatives	**Note 6**	**1,648,164**	**1,957,556**
Own portfolio		1,377,301	1,646,290
Linked to repurchase commitments		9,097	-
Derivatives		98,209	95,719
Linked to guarantees		163,557	215,547
Lending operations		**5,416,935**	**5,189,498**
Lending operations - public sector	Note 7.a)	62,263	71,994
Lending operations - private sector	Note 7.a)	5,782,542	5,521,505
(Allowance for loan losses)	Note 9	(427,870)	(404,001)
Leasing operations		**433,887**	**423,997**
Leases receivable	Note 7.a)	442,443	430,132
(Allowance for lease losses)	Note 9	(8,556)	(6,135)
Other receivables		**2,412,056**	**2,342,908**
Other	Note 10.b)	2,412,658	2,343,434
(Allowance for lease losses)	Note 9	(602)	(526)
Other assets	**Note 11**	**-**	**2,249**
Prepaid expenses		-	2,249
PERMANENT ASSETS		**78,923**	**79,727**
Investments		**2,489**	**1,343**
Other investments		2,489	1,343
Property and equipment in use		**76,372**	**78,318**
Other property and equipment in use	Note 14	109,488	108,958
(Accumulated depreciation)	Note 14	(33,116)	(30,640)
Intangible assets		**62**	**66**
TOTAL ASSETS		**28,398,772**	**28,979,734**

The accompanying notes are an integral part of this interim financial information.

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BALANCE SHEETS
AS AT MARCH 31, 2019 AND AS AT DECEMBER 31, 2018
(In thousands of Brazilian reais - R$)

LIABILITIES	Note	Current quarter 03/31/2019	Prior year 12/31/2018
CURRENT LIABILITIES		**12,481,124**	**15,379,714**
Deposits	**Note 15**	**3,325,163**	**3,218,434**
Demand deposits		760,125	863,807
Interbank deposits		399,950	373,667
Time deposits		2,152,585	1,973,639
Foreign currency deposit		12,503	7,321
Money market funding	**Note 15**	**1,886,688**	**2,992,328**
Own portfolio		131,083	136,333
Third parties		1,755,605	2,855,995
Funds from acceptance and issuance of securities		**4,638,843**	**5,833,047**
Mortgage loan notes	Note 16.1)	740,665	648,667
Agribusiness letters of credit	Note 16.1)	726,059	617,665
Financial bills	Note 16.1)	3,151,278	2,689,289
Securities issued abroad	Note 16.2)	20,841	1,877,426
Interbank accounts		**11,363**	**1,181**
Interbranch accounts		**76,631**	**107,529**
Borrowings	**Note 17**	**956,365**	**1,675,209**
Foreign borrowings		956,365	1,675,209
Domestic onlendings - official institutions	**Note 18**	**187,521**	**193,481**
BNDES		146,288	151,383
FINAME		41,233	42,098
Derivatives	**Note 6.f)**	**20,792**	**29,662**
Technical reserves - insurance	**Note 19.b)**	**71,975**	**67,854**
Other payables		**1,305,783**	**1,260,989**
Collected taxes and other		14,248	8,600
Foreign exchange portfolio	Note 20.a)	893,279	501,455
Social and statutory	Note 20.b)	68,799	119,715
Tax and social security	Note 20.c)	157,465	380,389
Trading account	Note 6.f)	2,235	3,035
Other	Note 20.d)	169,757	247,795
NONCURRENT LONG-TERM LIABILITIES		**12,400,919**	**10,243,815**
Deposits	**Note 15**	**2,302,044**	**2,177,260**
Interbank deposits		1,600	21,813
Time deposits		2,300,444	2,155,447
Funds from acceptance and issuance of securities		**6,896,041**	**4,941,903**
Mortgage loan notes	Note 16.1)	143,959	125,237
Agribusiness letters of credit	Note 16.1)	51,858	46,168
Financial bills	Note 16.1)	6,700,224	4,749,896
Securities issued abroad	Note 16.2)		20,602
Borrowings	**Note 17**	**372,515**	**371,839**
Foreign borrowings		372,515	371,839
Domestic onlendings - official institutions	**Note 18**	**156,706**	**173,089**
BNDES		96,245	108,234
FINAME		60,461	64,855
Other payables		**2,673,613**	**2,579,724**
Tax and social security	Note 20.c)	273,323	262,817
Other	Note 20.d)	2,250,226	2,169,593
Subordinated debts	Note 21	150,064	147,314
DEFERRED INCOME		**108,568**	**118,179**
NONCONTROLLING INTERESTS		**995**	**988**
EQUITY		**3,407,166**	**3,237,038**
Capital -		**2,253,595**	**2,253,595**
Residents in Brazil	Note 24.a)	2,253,595	2,253,595
Capital reserves		1,142	-
Earnings reserves	Note 24.e)	979,426	979,426
Valuation adjustments to equity -			
Available-for-sale marketable securities		12,159	4,017
Retained earnings		160,844	-
TOTAL LIABILITIES		**28,398,772**	**28,979,734**

The accompanying notes are an integral part of this interim financial information.

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INCOME STATEMENTS
FOR THE QUARTER PERIOD ENDED MARCH 31, 2019 AND 2018
(In thousands of Brazilian reais - R$)

	Note	Accumulated from the current year 01/01/2019 to 03/31/2019	Accumulated from the prior year 01/01/2018 to 03/31/2018
INCOME FROM FINANCIAL INTERMEDIATION		**1,018,782**	**911,510**
Lending operations	Note 25.a)	787,610	722,981
Leasing operations	Note 25.b)	107,862	86,189
Securities transactions	Note 25.c)	117,097	117,415
Derivatives	Note 25.d)	(41,517)	(53,381)
Foreign exchange transactions	Note 25.e)	43,954	36,288
Sale transactions or transfer of financial assets		3,776	2,018
EXPENSES ON FINANCIAL INTERMEDIATION		**(496,101)**	**(494,604)**
Funding operations	Note 25.f)	(272,113)	(239,719)
Borrowings and onlending	Note 25.g)	(24,656)	(28,922)
Leasing operations	Note 25.b)	(70,212)	(58,128)
Financial assets sale or transfer		(2,579)	(5,875)
Allowance for loan losses	Note 9	(126,541)	(161,960)
GROSS PROFIT FROM FINANCIAL INTERMEDIATION		**522,681**	**416,906**
OTHER OPERATING INCOME (EXPENSES)		**(184,220)**	**(140,778)**
Income from services provided		46,790	37,867
Income from insurance operations	Note 19.d)	783	1,213
Personnel expenses	Note 25.h)	(93,384)	(81,363)
Other administrative expenses	Note 25.i)	(122,698)	(112,795)
Tax expenses	Note 25.j)	(39,235)	(35,070)
Other operating income	Note 25.k)	103,571	95,373
Other operating expenses	Note 25.l)	(80,047)	(46,003)
OPERATING INCOME		**338,461**	**276,128**
NONOPERATING INCOME		**(92)**	**2,517**
Income		3,763	4,958
Expenses		(3,855)	(2,441)
INCOME BEFORE INCOME TAXES		**338,369**	**278,645**
INCOME TAX AND SOCIAL CONTRIBUTION	**Note 22.a)**	**(101,904)**	**(98,328)**
Provision for income tax		(75,468)	(66,015)
Provision for social contribution		(44,742)	(51,691)
Deferred tax assets		18,306	19,378
PROFIT SHARING	**Note 27.a)**	**(20,819)**	**(14,954)**
NONCONTROLLING INTERESTS		**(8)**	**(13)**
PROFIT FOR THE QUARTER		**215,638**	**165,350**
Number of shares	Note 24.c)	230,820,429	204,123,780
Net income per share at the end of the quarter		0.93422	0.81005

The accompanying notes are an integral part of this interim financial information.

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STATEMENTS OF COMPREHENSIVE INCOME
FOR THE QUARTER PERIOD ENDED MARCH 31, 2019 AND 2018
(In thousands of Brazilian reais - R$, unless otherwise stated)

	Accumulated from the current year 01/01/2019 to 03/31/2019	Accumulated from the prior year 01/01/2018 to 03/31/2018
PROFIT FOR THE QUARTER	**215,638**	**165,350**
OTHER COMPREHENSIVE INCOME	**8,142**	**1,956**
Valuation adjustments to equity		
Available-for-sale marketable securities	12,018	3,763
Deferred taxes on valuation adjustments to equity	(3,876)	(1,807)
COMPREHENSIVE INCOME FOR THE QUARTER	**223,780**	**167,306**

The accompanying notes are an integral part of this interim financial information.

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STATEMENTS OF CASH FLOWS
FOR THE QUARTER PERIOD ENDED MARCH 31, 2019 AND 2018
(In thousands of Brazilian reais - R$)

	Accumulated from the current year 01/01/2019 to 03/31/2019	Accumulated from the prior year 01/01/2018 to 03/31/2018
CASH FLOWS FROM OPERATING ACTIVITIES		
PROFIT FOR THE QUARTER	**215,638**	**165,350**
Adjustments to reconcile profit for the three-months period net cash provided by operating activities		
Depreciation and amortization	2,587	2,556
Deferred taxes	(18,306)	(19,378)
Provision for risks	46,019	46,476
Provision for guarantees and collaterals	2,624	1,759
Allowance for loan losses	121,302	186,811
Allowance for leasing losses	4,324	(1,341)
Allowance for other loan losses	25,390	(23,510)
Allowance for losses on other assets	466	(391)
Exchange rate changes on cash and cash equivalents	(21,913)	(23,300)
Gains on disposal of permanent assets	1,664	(882)
TOTAL RECONCILIATION ADJUSTMENTS	**164,157**	**168,800**
ADJUSTED PROFIT FOR THE QUARTER	**379,795**	**334,150**
CHANGES IN ASSETS AND LIABILITIES	**963,244**	**(310,792)**
(Increase) Decrease in interbank investments	6,158	(15,894)
(Increase) Decrease in securities and derivates	623,818	(349,330)
(Increase) Decrease in interbank and interbranch accounts	(29,212)	(27,990)
(Increase) Decrease in lending operations	(369,143)	(376,888)
(Increase) Decrease in leasing operations	(9,930)	(44,962)
(Increase) Decrease in other receivables	(60,987)	500,672
(Increase) Decrease in other assets	(36,236)	27,937
Increase (Decrease) in deposits	231,514	(452,137)
Increase (Decrease) in money market funding	(5,250)	(114,094)
Increase (Decrease) in funds from acceptance and issuance of securities	621,128	434,002
Increase (Decrease) in borrowings and onlendings	(100,710)	52,224
Increase (Decrease) in other payables	130,130	86,902
Income tax and social contribution paid	(28,425)	(25,058)
Increase (Decrease) in deferred income	(9,611)	(6,176)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	**1,343,039**	**23,358**
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment in use	(1,073)	(1,237)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	**(1,073)**	**(1,237)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (Decrease) in funds from acceptance and issuance of securities	138,806	(68,725)
Increase (Decrease) in borrowings and onlendings	(639,801)	(1,746)
Increase (decrease) of subordinated debts	2,750	10,065
Dividends and interest on capital paid	(49,391)	-
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	**(547,636)**	**(60,406)**
EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**21,913**	**23,300**
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**816,243**	**(14,985)**
Cash and cash equivalents at beginning of the quarter period	2,167,735	2,563,572
Cash and cash equivalents at end of the quarter period	2,983,978	2,548,587
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**816,243**	**(14,985)**

The accompanying notes are an integral part of this interim financial information.

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CONSOLIDATED STATEMENTS OF VALUE ADDED
FOR THE QUARTER PERIOD ENDED MARCH 31, 2019 AND 2018
(In thousands of Brazilian reais - R$)

	Accumulated from the current year 01/01/2019 to 03/31/2019	Accumulated from the prior year 01/01/2018 to 03/31/2018
REVENUES	**963,042**	**840,510**
Income from financial intermediation	1,018,782	911,510
Revenue from services	46,790	37,867
Allowance for loan losses	(126,541)	(161,960)
Other	24,011	53,093
EXPENSES	**(369,560)**	**(332,644)**
Expenses on financial intermediation	(369,560)	(332,644)
INPUTS PURCHASED FROM THIRD PARTIES	**(114,527)**	**(105,634)**
Materials, electric power and other	(22,011)	(18,686)
Outside services	(92,720)	(86,954)
Asset recovery	204	6
GROSS VALUE ADDED	**478,955**	**402,232**
DEPRECIATION AND AMORTIZATION	**(2,587)**	**(2,556)**
TOTAL WEALTH CREATED BY THE CONSOLIDATED	**476,368**	**399,676**
WEALTH RECEIVED IN TRANSFER	**-**	**-**
Equity in subsidiaries	-	-
WEALTH FOR DISTRIBUTION	**476,368**	**399,676**
DISTRIBUTION OF WEALTH	**476,368**	**399,676**
EMPLOYEES	**99,574**	**83,155**
Salaries and wages	60,876	53,839
Benefits	35,402	26,493
Severance pay fund (FGTS)	3,296	2,823
TAXES	**155,768**	**146,558**
Federal	149,622	140,862
State	156	418
Municipal	5,990	5,278
LENDERS AND LESSORS	**5,380**	**4,600**
Rentals	5,380	4,600
SHAREHOLDERS	**215,638**	**165,350**
Interest on capital	54,794	48,867
Retained earnings for the quarter	160,844	116,483
NONCONTROLLING INTERESTS	**8**	**13**

The accompanying notes are an integral part of this interim financial information.

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NOTES TO THE INTERIM INFORMATION (ITR)
FOR THE QUARTER PERIOD ENDED MARCH 31, 2019
(In thousands of Brazilian reais - R$, unless otherwise stated)

1. GENERAL INFORMATION

Banco Daycoval S.A. (the "Bank" or "Daycoval") is a publicly-held entity, organized as a full-service bank authorized to operate commercial, foreign exchange, investment, and lending and financing portfolios, through its direct and indirect subsidiaries, and also leasing portfolio, asset management, life insurance, pension plans and provision of services. The Bank is part of Daycoval Group and conducts its businesses on an integrated basis.

2. PRESENTATION OF THE INTERIM INFORMATION (ITR)

The Bank's interim information, including its foreign branch, and the consolidated interim information ("Consolidated"), approved by Management on May 7, 2019, has been prepared in accordance with the accounting practices adopted in Brazil, based on the accounting guidelines set forth in the Brazilian Corporate Law (Law 6404/76), and the changes introduced by Law 11638/07 and Law 11941/09 for the accounting for transactions, coupled with the standards and instructions of the National Monetary Council ("CMN"), the Central Bank of Brazil ("BACEN"), and the Standard Chart of Accounts for Financial Institutions ("COSIF"), the Brazilian Securities and Exchange Commission ("CVM"), the National Private Insurance Council ("CNSP"), the Private Insurance Authority ("SUSEP"), and Accounting Pronouncements Committee ("CPC") , when applicable.

All relevant information in the interim information (ITR) of Banco Daycoval S.A., and only such information, is being disclosed and corresponds to the information used by the Bank's Management in managing the Bank.

As part of the process of convergence with the International Financial Reporting Standards (IFRS), the Accounting Pronouncements Committee (CPC) has issued several pronouncements related to the international accounting convergence process that have been approved by the CVM but not all of them have been ratified by the BACEN. Thus, in the preparation of the interim information (ITR), the Bank has adopted the following pronouncements that have been approved by the BACEN, s follows:

Pronouncements CPC	Resolution BACEN / CMN
CPC 00 (R1) - Conceptual Framework to Prepare and Disclose the Financial Report	4144/12
CPC 01 (R1) - Impairment of Assets	3566/08
CPC 02 (R2) - Effects of Changes in Exchange Rates and Translation of Financial Statements	4524/16
CPC 03 (R2) - Statements of Cash Flows	3604/08
CPC 04 (R1) - Intangible Assets	4534/16
CPC 05 (R1) - Related-party Disclosures	3750/09
CPC 10 (R1) - Share-based Payment	3989/11
CPC 23 - Accounting Policies, Changes in Accounting Estimates and Errors	4007/11
CPC 24 - Events After the Reporting period	3973/11
CPC 25 - Provisions, Contingent Liabilities and Contingent Assets	3823/09
CPC 27 - Property, Plant and Equipment	4535/16
CPC 33 (R1) - Employee Benefits	4424/15

The consolidated interim information comprise the Bank, its foreign branch and the following direct and indirect subsidiaries:

	Ownership interest - %	
	March 31, 2019	December 31, 2018
Leasing operations		
Daycoval Leasing – Banco Múltiplo S.A. ("Daycoval Leasing")	100.00	100.00
Financial activity - Foreign branch		
Banco Daycoval S.A. - Cayman Branch	100.00	100.00
Insurance and pension plan activity		
Dayprev Vida e Previdência S.A. ("Dayprev")	97.00	97.00
Non-financial activity		
ACS Participações Ltda. ("ACS")	99.99	99.99
Daycoval Asset Management Administração de Recursos Ltda. ("Daycoval Asset")	99.99	99.99
IFP Promotora de Serviços de Consultoria e Cadastro Ltda. ("IFP")	99.99	99.99
SCC Agência de Turismo Ltda. ("SCC")	99.99	99.99
Treetop Investments Ltd. ("Treetop")	99.99	99.99

In the consolidated interim information, the balances and transactions between the Bank, its foreign branch, and its direct and indirect subsidiaries have been eliminated. Profit and equity amounts related to no controlling interests were disclosed in a separate caption.

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3. SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies adopted by Bank in the preparation of the individual and consolidated interim information (ITR) can be summarized as follows:

a) Income and expenses are recorded on the accrual basis. Fixed-rate transactions are stated at the final amount, and income and expenses for future period are recognized as a reduction of the related assets and liabilities. Finance income and costs are recorded on a pro rata basis and calculated based on the exponential method, except those related to discounted notes or foreign transactions, which are calculated under the straight-line method. Floating-rate transactions or those indexed to foreign currencies are adjusted through the balance sheet date.

b) Interbank investments and other receivables, except securities and derivatives, are stated at cost, plus inflation adjustment, exchange rate changes and contractual interest. When the realizable amount of an asset is lower than its carrying amount, an allowance for impairment is recorded to adjust such asset to its realizable amount.

c) Under BACEN Resolution 3604/08, cash and cash equivalents are represented by cash and bank deposits, recorded in captions “Cash and cash equivalents”, “Interbank investments”, and “Securities - own portfolio”, with original investment term of 90 days or less; the risk of change in their fair value is considered immaterial.

d) Securities are stated at cost plus income earned, as follows: (i) fixed-income securities are adjusted at the applicable interest rate based on the respective maturities; (ii) shares are adjusted based on the average price informed by the Stock Exchange where the shares are more traded; and (iii) investments in investment funds are adjusted based on the share price informed by the fund managers.

Securities are classified in conformity with BACEN Circular Letter 3068/01 into one of the following categories:

• Trading securities - securities acquired for the purpose of being actively and frequently traded, adjusted to fair value as a contra-entry to profit or loss.

• Available-for-sale securities - securities not acquired for the purpose of being actively and frequently traded, which Management does not intend to hold to maturity. The adjustments to fair value (unrealized gains and losses) are recorded as a separate component of equity, net of taxes, and are recognized in profit or loss when realized.

• Held-to-maturity securities - securities that the Bank has the positive intent and ability to hold to maturity and stated at cost, plus income earned, as a contra-entry to profit or loss.

• Bonuses arising from investments in shares issued by publicly-traded companies are recorded in the securities portfolio only according to the respective quantities, without modifying the amount of investments, when the corresponding shares are considered “ex-rights” on the stock exchange.

Dividends and interest on capital arising from investments in shares issued by publicly-traded companies are recorded as income when the related shares are considered “ex-rights” on the stock exchange.

e) Derivatives consist of forward, futures and swap options and are recorded in conformity with BACEN Circular Letter 3.082/02, which provides for the adoption of the following criteria:

• Option transactions - premiums received or paid are recorded at fair value in caption “Derivatives” in assets or liabilities, respectively, until the option is exercised, and recorded as a decrease or increase in the cost of the asset subject to the option, for the exercise of the option, or as income or expense in the event of non-exercise;

• Futures transactions - daily adjustments are recorded at fair value in caption “Trading account” in assets or liabilities and allocated daily to profit or loss as income (when relating to gains) or expense (when relating to losses);

• Currency swap and forward transactions (NDF) - differential receivable or payable is recorded at fair value in caption “Derivatives” in assets or liabilities, respectively, and allocated to profit or loss as income (when relating to gains) or expense (when relating to losses); and

• Forward transactions - recorded at the final contractual amount, less the difference between such amount and the cash price of the asset, adjusted to fair value, income and expenses being recognized over the contractual terms.

Derivative transactions are stated at fair value, with gains and losses recorded as described below:

• Derivatives not qualified as hedge - in income or expense in profit or loss; and

• Derivatives qualified as hedge - classified as market risk hedge or cash flow hedge.

Market risk hedges are used to offset the risks arising from the exposure to changes in the fair value of the hedged item, with gains or losses recorded as a contra-entry to income or expense in profit or loss.

Cash flow hedges are used to offset the changes in estimated future cash flows, the effective portion used in such offset being recorded as a contra-entry to a separate item of equity, net of taxes, and any other change as a contra-entry to income or expense in profit or loss.

f) Leasing operations were reclassified so as to reflect its financial position in conformity with the financial method.

g) Lending and leasing operations are classified based on Management's risk assessment, considering the past experience with prior borrowers, the risk rating of such borrowers and their guarantors, the economic environment, and specific and overall portfolio risks, pursuant to CMN Resolution 2682/99, which requires a periodic analysis of the portfolio and its classification into nine risk rating levels from AA (minimum risk) to H (maximum risk - loss).

Also according to CMN Resolution 2682/99, the income from lending operations past due for more than 60 days, regardless of the risk rating, is only recognized when received, and H-rated loans remain as such for 180 days, after which period they are written off against the existing allowance and are controlled in memorandum accounts, no longer being recorded in the balance sheet.

h) A financial asset is derecognized, as prescribed by CMN Resolution 3533/08, when the contractual rights to the financial asset's cash flows expire or when the asset is sold or transferred, which should be classified into the following categories:

• Transactions with substantial transfer of the risks and rewards: the assignor substantially transfers all the risks and rewards of ownership of the financial asset as follows: (i) unconditional sale of the financial asset; (ii) sale of the financial asset with repurchase option at its fair value on the repurchase date; and (iii) sale of the financial asset with call or put options, whose exercise is unlikely to occur;

• Transactions with substantial retention of the risks and rewards: the assignor substantially retains all the risks and rewards of ownership of the financial asset as follows: (i) sale of the financial asset with repurchase commitment at a fixed price or at the sales price plus any yields; (ii) securities lending agreements; (iii) sale of the financial assets with total return rate swap agreement, which transfers the market risk exposure back to the assignor; (iv) sale of the financial asset with call or put options whose exercise is likely to occur; and (v) sale of receivables, when the losses incurred by the buyer or assignee, if any, are compensated by the seller or assignor, or whose sale is made together with the acquisition of subordinated units of the buyer Receivables Investment Fund (FIDC); and

• Transactions with no substantial transfer or retention of the risks and rewards: transactions in which the assignor neither transfers nor substantially retains all the risks and rewards of ownership of the financial asset.

The transfer or retention of the risks and rewards of ownership of the financial asset is analyzed by comparing Daycoval's exposure, before and after the sale or transfer, with the changes in the present value of the financial asset's expected cash flows, adjusted at the appropriate market interest rate.

The allowance for loan losses is recorded as prescribed by CMN Resolution 2682/99.

i) Foreign exchange transactions are stated at realizable values, plus income and exchange rate changes calculated on a daily pro rata basis, and the allowance for other loan losses, pursuant to CMN Resolution 2682/99, when applicable.

j) Prepaid expenses related to commissions paid to bank correspondents are controlled by contract and accounted for in caption "Prepaid expenses in assets, in the balance sheet". Such expenses are recognized as "Other administrative expenses" in profit or loss on a pro rata basis, over the respective contractual terms, or fully recognized, when such contracts are settled in advance.

Upon enactment of BACEN Circular 3738/14, the Bank opted for recognizing prepaid expenses as follows:

(i) Two-thirds of the amount of commissions paid beginning January 1, 2015 were recorded as "Prepaid expenses" in assets, in the balance sheet, being amortized within up to 36 months as from the initial recognition and the remaining amount directly recognized as expense;

(ii) One-third of the amount of commissions paid beginning January 1, 2016 was recorded as "Prepaid expenses" in assets, in the balance sheet, being amortized within up to 36 months as from the initial recognition and the remaining amount directly recognized as expense; and

(iii) For commissions paid beginning January 1, 2017, the total amount is recognized as expense.

As set forth in §4, Art. 1 of BACEN Circular 3693/13, as amended by BACEN Circular Letter 3738/14, beginning January 1, 2020, all amounts potentially recorded in assets, relating to the compensation of domestic corresponding referred to in the main paragraph, must be immediately written down, as a contra entry to an appropriate expense account for the period, it being prohibited any additional recognition or the maintenance of amounts of such nature in assets.

k) Investments in subsidiaries are stated under the equity method, which is applied to all associates over which the Bank has significant influence, that is, in which the Bank holds at least 20% of the voting capital.

l) Other investments are stated at cost, less allowance for loss, when applicable.

m) Property and equipment are stated at cost, except for real estate owned by the subsidiary, which is recorded at cost plus mark-to-market adjustment. Depreciation is calculated under the straight-line method at the annual rates stated in note 14, which take into consideration the economic useful lives of the assets.

n) Intangible assets correspond to rights acquired in intangible assets used in the maintenance of the Bank's and its subsidiaries' activities or exercised for such purpose; intangible assets with finite lives are amortized on a straight-line basis over the estimated period they will generate economic benefits.

o) The impairment of non-monetary assets is recognized as a loss when the carrying amount of an asset or a cash-generating unit is higher than its recoverable or realizable value. A cash-generating unit is the smallest identifiable group of assets that generates cash flows substantially independent from other assets or groups of assets. Impairment losses are recorded in profit or loss for the period they are recognized, when applicable.

The amounts of non-financial assets, except those recorded in captions "Other assets" and "Other receivables - tax credits", are periodically tested for impairment, at least annually.

As of March 31, 2019, the provision for impairment of assets is not for Bank use of R$ 8,875 and for Consolidated R$ 8,913 (R$ 8,422 for the Bank and R$ 8,447 for the Consolidated on December 31, 2018) (Note 11). The recoverable amounts of the other non-financial assets.

p) Known or estimated liabilities, charges and risks, including tax charges calculated based on profit or loss, are stated at the adjusted amount through the balance sheet date. Liabilities denominated in foreign currencies are translated into local currency at the exchange rates in effect on the balance sheet date, as informed by BACEN, and liabilities subject to inflation adjustments are stated at the adjusted amount through the balance sheet date. Hedged liabilities are adjusted to fair value.

q) The provision for income tax is recorded at the rate of 15%, plus a 10% surtax, when applicable. The social contribution was calculated on adjusted profit at the rate of 20%. Law 13.169/15, which amends Law 7.689/88, raised the social contribution rate to 20% on profit for the period from September 1, 2015 to December 31, 2018. Beginning January 1, 2019, such rate will return to 15%.

r) Income tax credits are recognized on temporary additions and deductions and Daycoval Leasing's prior-year tax losses, based on the legislation in effect on the date of recognition. Due to the amendment to Law 7689/88, mentioned in item "q)" above, social contribution tax credits were recorded as follows: (i) applying the 15% rate on temporary additions and deductions calculated through August 31, 2015 and on those additions and deductions that are expected to be realized after December 31, 2018; and (ii) 20% rate on temporary additions and deductions that are expected to be realized from September 1, 2015 to December 31, 2018. Beginning January 1, 2019, the tax rate will return to 15%. These tax credits will be realized when the amounts on which they were recognized are utilized and/or reversed.

s) Technical reserves for insurance and unsettled claims - refer to Dayprev's share in DPVAT Insurance Consortium and recorded in accordance with the statements received from Seguradora Líder.

t) Contingent assets and liabilities and legal, tax and social security obligations:

Contingent assets and liabilities and legal, tax and social security obligations are recognized, measured, and disclosed, as follows:

• Contingent assets - not recorded in the interim information, except when there is evidence that they will be realized and will not be subject to appeals;

• Contingent liabilities - recorded in the interim information when the risk of loss in an administrative or legal proceeding is assessed by the legal counsel and Management as probable, with probable outflow of funds to settle obligations, and when the related amounts can be reliably measured. Contingent liabilities assessed as possible loss by the legal counsel are only disclosed in the explanatory information, whereas those assessed as remote loss do not require the recognition of a provision and disclosure; and

• Legal obligations (tax and social security) - refer to lawsuits challenging the legality and constitutionality of certain taxes and contributions. The amount under litigation is determined, accrued and adjusted on a monthly basis, regardless of its likelihood of loss.

u) Deferred income refers to: (i) income received in advance for which there is no projected future payment, recognized in the income statements based on the term of the transactions that originated them, as at March 31, 2019, in the amount of R$48,401 (R$52,641 as at December 31, 2018) for the Bank and R$62,553 (R$70,439 as at December 31, 2018) for the Consolidated; and (ii) negative goodwill on the acquisition of Banco CIT Brasil, which was not absorbed in the consolidation of the interim information, reclassified from "Investments", in permanent assets, to "Deferred income", in the amount of R$46,015 (R$47,740 as at December 31, 2018).

v) Earnings per share are calculated based on the number of shares at the balance sheet dates.

w) Uses of estimates - The preparation of the interim information requires Management to make estimates and adopts assumptions that, in its best judgment, affect the reported amounts of certain assets and liabilities (financial or not), revenues, expenses and other transactions, such as: (i) depreciation rates of property and equipment items and lease property and equipment; (ii) amortization of deferred assets; (iii) allowance for loan and lease losses; (iv) measurement of financial instruments; and (v) provisions for contingencies. Actual results could differ from those estimates.

x) Fixed-rate financial assets and financial liabilities are adjusted to present value by unearned income and unearned expenses, which adjust these instruments to the amounts that would be obtained upon realization should they be cash transactions, as well as floating-rate financial instruments, which are realized at their cash value and are periodically adjusted by their respective transactions rates.

y) Functional and reporting currency, foreign currency-denominated transactions and share of profit (loss) of foreign entities:

I - Functional and reporting currency:
Daycoval's interim information is stated in Brazilian reais (R$), which is the Bank's functional and reporting currency.
As prescribed by CMN Resolution 4524/16, Daycoval has defined that the functional and reporting currency for each of its direct and indirect subsidiaries, including foreign entities, will also be the Brazilian real (R$).

II – Translation of foreign currency-denominated transactions:
Based on the functional currency used for the foreign entities, as defined in item "i" above, the transactions in a currency other than the respective functional currencies are translated using the exchange rates of the respective trial balance or balance sheet for monetary items, assets and liabilities stated at fair value or market price and for non-monetary items.

III- Share of profit (loss) of foreign entities:
The share of profit (loss) of foreign entities, the functional currency of which is defined in item "I" above, is recognized directly in Daycoval's income statements, in "Share of profit (loss) of subsidiaries".

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4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are broken down as follows:

	Bank		Consolidated	
	March 31, 2019	December 31, 2018	March 31, 2019	December 31, 2018
Cash	159,125	151,733	161,287	153,172
Money market investments (1)	2,689,619	1,846,407	2,689,619	1,846,407
Foreign currency investments (2)	133,072	168,156	133,072	168,156
Total cash and cash equivalents	**2,981,816**	**2,166,296**	**2,983,978**	**2,167,735**

(1) Money market investments comprising cash and cash equivalents are stated net of the amount recorded under "Money market investments – third-party portfolio" which as at March 31, 2019, amounts to $1,755,605 (R$2,855,995 as at December 31, 2018), for the Bank and the Consolidated.

(2) Refers to foreign currency investments maturing within up to 90 days from the investment date.

5. INTERBANK INVESTMENTS

Interbank investments are broken down as follows:

	Bank			
	March 31, 2019		December 31, 2018	
Investments type	Maturity	Value	Maturity	Value
Money market investments	Up to 1st business day	4,445,224	Up to 1st business day	4,702,402
Interbank deposits	Up to May 2022	720,131	Up to May 2022	697,632
Foreign currency	Up to 2nd business day	133,072	Up to 2nd business day	168,156
Total		**5,298,427**		**5,568,190**

As at March 31, 2019, the total interbank investments for the Consolidated is R$4,899,234 (R$5,197,654 as at December 31, 2018).

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6. SECURITIES AND DERIVATIVES

a) Breakdown by category and type:

	Bank			
	March 31, 2019		December 31, 2018	
	Adjusted cost	Fair value [1]	Adjusted cost	Fair value [1]
Free trading securities	**153,018**	**156,063**	**133,791**	**136,877**
Own portfolio	**30,866**	**31,469**	**1,826**	**1,859**
Debentures	30,866	31,469	1,826	1,859
Linked to repurchase commitments	**122,152**	**124,594**	**131,965**	**135,018**
Debentures	122,152	124,594	131,965	135,018
Securities available for sale	**1,523,992**	**1,541,479**	**1,879,784**	**1,886,469**
Own portfolio	**1,351,283**	**1,368,825**	**1,659,743**	**1,666,466**
Treasury bills (LFT)	1,252,137	1,251,720	1,555,928	1,555,776
National Treasury Notes (NTN-B)	327	328	321	322
Foreign securities	46,772	46,847	46,933	45,881
Investment fund units	52,047	69,930	56,561	64,487
Linked to repurchase commitments	**9,098**	**9,097**	**4,456**	**4,456**
Treasury bills (LFT)	9,098	9,097	4,456	4,456
Linked to guarantees (2)	**163,611**	**163,557**	**215,585**	**215,547**
Treasury bills (LFT)	163,611	163,557	215,585	215,547
Held to maturity securities	**11,693**	**11,693**	**-**	**-**
Own portfolio	**11,693**	**11,693**	**-**	**-**
Foreign securities	11,693	11,693	-	-
Total Securities	**1,688,703**	**1,709,235**	**2,013,575**	**2,023,346**

	Consolidated			
	March 31, 2019		December 31, 2018	
	Adjusted cost	Fair value [1]	Adjusted cost	Fair value [1]
Free trading securities	**225,099**	**228,144**	**201,694**	**204,780**
Own portfolio	**30,866**	**31,469**	**1,826**	**1,859**
Debentures	30,866	31,469	1,826	1,859
Linked to repurchase commitments	**122,152**	**124,594**	**131,965**	**135,018**
Debentures	122,152	124,594	131,965	135,018
Assets-backed technical reserves (Note 19.c)	**72,081**	**72,081**	**67,903**	**67,903**
Investment fund units	72,081	72,081	67,903	67,903
Securities available for sale	**1,697,859**	**1,716,989**	**2,088,022**	**2,095,084**
Own portfolio	**1,525,150**	**1,544,335**	**1,865,798**	**1,872,898**
Treasury bills (LFT)	1,285,143	1,284,720	1,586,645	1,586,493
National Treasury Notes (NTN-B)	327	328	321	322
Foreign securities	93,954	95,678	83,363	82,687
Investment fund units	145,685	163,568	195,429	203,356
National Depositary Receipts (CDB)	41	41	40	40
Linked to repurchase commitments	**9,098**	**9,097**	**4,456**	**4,456**
Treasury bills (LFT)	9,098	9,097	4,456	4,456
Linked to guarantees (2)	**163,611**	**163,557**	**215,585**	**215,547**
Treasury bills (LFT)	163,611	163,557	215,585	215,547
Assets-backed technical reserves (Note 19.c)	**-**	**-**	**2,183**	**2,183**
Treasury bills (LFT)	-	-	2,183	2,183
Held to maturity securities	**11,693**	**11,693**	**-**	**-**
Own portfolio	**11,693**	**11,693**	**-**	**-**
Foreign securities	11,693	11,693	-	-
Total Securities	**1,934,651**	**1,956,826**	**2,289,716**	**2,299,864**

(1) The securities' fair value was calculated based on the prices and rates prevailing as at March 31, 2019 and December 31, 2018, as disclosed by the Brazilian Financial and Capital Markets Association (ANBIMA) - by the managers of the investment fund in which the Bank invests, the B3 S.A. - Brasil, Bolsa, Balcão, and other market makers in the case of securities acquired abroad.

(2) As at March 31, 2019, securities linked to guarantees refer to securities linked to transactions conducted at the B3 S.A.- Brasil, Bolsa, Balcão, and CETIP S.A. - Mercados Organizados, R$163,557 (R$215,547 as at December 31, 2018) (Note 6.m).

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b) Breakdown by maturity:

	Bank						
	March 31, 2019						
	Without maturity	Up to 3 months	3 to 12 months	1 to 3 Years	3 to 5 Years	Over 5 years	Total
Federal government securities	**-**	**328**	**6,550**	**542,959**	**686,366**	**188,499**	**1,424,702**
Treasury Bills (LFT)	-	-	6,550	542,959	686,366	188,499	1,424,374
National Treasury Notes (NTN-B)	-	328	-	-	-	-	328
Foreign securities	**-**	**248**	**353**	**18,437**	**17,410**	**22,092**	**58,540**
Eurobonds and similar instruments	-	243	353	18,437	17,410	10,404	46,847
Foreign securities	-	5	-	-	-	11,688	11,693
Private-sector securities	**-**	**-**	**156,063**	**-**	**-**	**-**	**156,063**
Debentures [1]	-	-	156,063	-	-	-	156,063
Investment fund units	**69,930**	**-**	**-**	**-**	**-**	**-**	**69,930**
Real estate investment fund	57,406	-	-	-	-	-	57,406
Fixed-income investment fund	11,025	-	-	-	-	-	11,025
Other investment funds	1,499	-	-	-	-	-	1,499
Total	**69,930**	**576**	**162,966**	**561,396**	**703,776**	**210,591**	**1,709,235**

	December 31, 2018						
	Without maturity	Up to 3 months	3 to 12 months	1 to 3 Years	3 to 5 Years	Over 5 years	Total
Federal government securities	**-**	**9,209**	**322**	**607,528**	**98,989**	**1,060,053**	**1,776,101**
Treasury Bills (LFT)	-	9,209	-	607,528	98,989	1,060,053	1,775,779
National Treasury Notes (NTN-B)	-	-	322	-	-	-	322
Foreign securities	**-**	**901**	**104**	**-**	**34,828**	**10,048**	**45,881**
Eurobonds and similar instruments	-	901	104	-	34,828	10,048	45,881
Private-sector securities	**-**	**-**	**136,877**	**-**	**-**	**-**	**136,877**
Debentures [1]	-	-	136,877	-	-	-	136,877
Investment fund units	**64,487**	**-**	**-**	**-**	**-**	**-**	**64,487**
Real estate investment fund	47,320	-	-	-	-	-	47,320
Fixed-income investment fund	15,722	-	-	-	-	-	15,722
Other investment funds	1,445	-	-	-	-	-	1,445
Total	**64,487**	**10,110**	**137,303**	**607,528**	**133,817**	**1,070,101**	**2,023,346**

	Consolidated						
	March 31, 2019						
	Without maturity	Up to 3 months	3 to 12 months	1 to 3 Years	3 to 5 Years	Over 5 years	Total
Federal government securities	**-**	**328**	**6,550**	**556,317**	**706,008**	**188,499**	**1,457,702**
Treasury Bills (LFT)	-	-	6,550	556,317	706,008	188,499	1,457,374
National Treasury Notes (NTN-B)	-	328	-	-	-	-	328
Foreign securities	**-**	**4,541**	**3,740**	**22,534**	**29,741**	**46,815**	**107,371**
Eurobonds and similar instruments	-	4,536	3,740	22,534	29,741	35,127	95,678
Foreign securities	-	5	-	-	-	11,688	11,693
Private-sector securities	**-**	**-**	**156,063**	**-**	**41**	**-**	**156,104**
Debentures [1]	-	-	156,063	-	-	-	156,063
National Depositary Receipts (CDB)	-	-	-	-	41	-	41
Investment fund units	**235,649**	**-**	**-**	**-**	**-**	**-**	**235,649**
Fixed-income investment fund	139,782	-	-	-	-	-	139,782
Real estate investment fund	57,406	-	-	-	-	-	57,406
Multimarket investment fund	23,078	-	-	-	-	-	23,078
Equity funds	13,884	-	-	-	-	-	13,884
Other investment funds	1,499	-	-	-	-	-	1,499
Total	**235,649**	**4,869**	**166,353**	**578,851**	**735,790**	**235,314**	**1,956,826**

	December 31, 2018						
	Without maturity	Up to 3 months	3 to 12 months	1 to 3 Years	3 to 5 Years	Over 5 years	Total
Federal government securities	**-**	**28,564**	**322**	**620,875**	**99,187**	**1,060,053**	**1,809,001**
Treasury Bills (LFT)	-	28,564	-	620,875	99,187	1,060,053	1,808,679
National Treasury Notes (NTN-B)	-	-	322	-	-	-	322
Foreign securities	**-**	**901**	**104**	**4,415**	**53,004**	**24,263**	**82,687**
Eurobonds and similar instruments	-	901	104	4,415	53,004	24,263	82,687
Private-sector securities	**-**	**-**	**136,877**	**-**	**40**	**-**	**136,917**
Debentures [1]	-	-	136,877	-	-	-	136,877
National Depositary Receipts (CDB)	-	-	-	-	40	-	40
Investment fund units	**271,259**	**-**	**-**	**-**	**-**	**-**	**271,259**
Fixed-income investment fund	187,571	-	-	-	-	-	187,571
Real estate investment fund	47,321	-	-	-	-	-	47,321
Multimarket investment fund	22,631	-	-	-	-	-	22,631
Equity funds	12,291	-	-	-	-	-	12,291
Other investment funds	1,445	-	-	-	-	-	1,445
Total	**271,259**	**29,465**	**137,303**	**625,290**	**152,231**	**1,084,316**	**2,299,864**

(1) As set forth in the sole paragraph of Article 7 of BACEN Circular Letter No. 3068/01, securities classified as "Trading securities" are recognized in current assets, regardless of their respective maturities.

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c) Derivatives:

The Bank conducts derivative transactions recorded in balance sheet, profit or loss and memorandum accounts to meet its own and the clients' needs.

Derivatives used are properly approved based on the product use policy. Pursuant to this policy, prior to the implementation of each product, all aspects should be analyzed, such as: objectives, methods of use, underlying risks and appropriate supporting operational infrastructure.

The credit and market risk components of derivatives are monitored on a daily basis, and specific limits are set for derivative transactions for clients and also for registration and settlement chambers. Such limits are managed through a system that consolidates exposures by counterparty. Any discrepancies are promptly identified and addressed for immediate solution.

The market risk of derivatives is managed based on a prevailing risk policy, pursuant to which potential risks of price fluctuations in the financial markets are centralized in the Treasury department, which provides hedge for the other areas.

The main derivative financial instruments used by the Bank include swaps, non-deliverable forwards (NDF), US dollar futures (DOL), interest rate (DI) and foreign exchange coupon (DDI). BACEN Circular Letter 3082/02 permitted a specific accounting in those cases derivatives are used to hedge against changes in the fair value or cash flow of the Bank.

No derivative transactions were conducted between the Group companies.

d) Hedge:

The hedging strategy is determined based on the Bank's operating risk exposure limits. Whenever its transactions have risk exposures above the preset limits, which might result in significant fluctuations in the Bank's profit or loss, the Bank uses derivatives, contracted in the organized or over-the-counter market, to hedge against such risks, according to the hedging rules set forth in BACEN Circular Letter 3082/02.

The hedge instruments seek to mitigate market, currency fluctuation and interest rate risks. According to the market liquidity, the maturity dates of hedge instruments are the closest possible to the dates of the financial flows of the hedged transactions so as to ensure an efficient hedge.

Hedge Accounting

Market Risk Hedge

The Bank has a market risk hedge structure designed to offset the risks arising from the exposure to changes in the fair value relating to the fluctuation of foreign currency (US dollar and euro fluctuation) and of the Libor interest rate on foreign borrowings - (hedged items) recorded in "Payables for securities issued abroad" (Note 16.2) and "Payables for foreign borrowings" (Note 17).

The table below summarizes the market risk hedge structure:

March 31, 2019				Changes in fair value		
Hedged item	Maturity	Principal Value	Hedge Instrument	Hedged item	Hedge Instrument	Effectiveness
IIC Funding - A/B Loan	7/15/2020	USD 20.000	*Swap*	(18,940)	18,805	99.29%
IFC Funding	3/15/2022	USD 110.000	*Swap*	(128,593)	123,328	95.91%
			Total	**(147,533)**	**142,133**	

December 31, 2018				Changes in fair value		
Hedged item	Maturity	Principal Value	Hedge Instrument	Hedged item	Hedge Instrument	Effectiveness
IFC Funding	3/15/2019	USD 105.000	*Swap*	(100,704)	100,938	100.23%
IFC Funding	3/15/2019	€ 55,500	*Swap*	(68,326)	67,161	98.29%
Foreign issuance	3/18/2019	USD 500.000	*Swap*	(446,322)	446,781	100.10%
IIC Funding - A/B Loan	7/15/2020	USD 20.000	*Swap*	(18,043)	18,055	100.07%
IFC Funding	3/15/2022	USD 110.000	*Swap*	(116,484)	115,033	98.75%
			Total	**(749,879)**	**747,968**	

The accounting hedge structure for these transactions was established by linking a cash flow swap contract to each borrowing maturity, either interest or principal plus interest, and the Bank´s long position is identical to the yield of borrowings agreements.

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e) Fair value:

The fair value of derivative instruments is determined using available market information, mainly prices and rates disclosed by the B3 S.A. - Brasil, Bolsa, Balcão. When applicable, the Bank adopts mathematical models of rate interpolation for intermediate terms, and rate extrapolation for longer terms.

The following pricing methodologies were adopted for calculating the fair value of derivatives:

• Futures transactions - quotations disclosed by B3 S.A. - Brasil, Bolsa, Balcão.

• Swap agreements and non-deliverable forwards (NDF) - use of the future cash flow, discounted to present value based on future interest curves, obtained from information disclosed by B3 S.A. - Brasil, Bolsa, Balcão.

f) Breakdown of the balances recorded in assets and liabilities, in line item "Derivatives" and "Trading account":

	March 31, 2019		December 31, 2018	
Assets	**Current**	**Noncurrent**	**Current**	**Noncurrent**
Derivatives	**20,864**	**98,209**	**304,862**	**95,719**
Swaps - differential payable	784	97,590	278,581	94,744
Currency forward payable	20,080	619	26,281	975
Trading account	**1,708**	**-**	**1,779**	**-**
Futures pending settlement	**1,708**	**-**	**1,779**	**-**
Dollar futures (DOL)	1,125	-	330	-
Foreign exchange coupon (DDI)	9	-	1,358	-
Interest rate (DI)	573	-	91	-
IPC-A Coupon Future (DAP)	1	-	-	-

	March 31, 2019		December 31, 2018	
Liabilities	**Current**	**Noncurrent**	**Current**	**Noncurrent**
Derivatives	**20,792**	**-**	**29,662**	**-**
Swaps - differential payable	834	-	9,631	-
Currency forward payable	19,958	-	20,031	-
Trading account	**2,235**	**-**	**3,035**	**-**
Futures pending settlement	**2,235**	**-**	**3,035**	**-**
Foreign exchange coupon (DDI)	683	-	1,153	-
Interest rate (DI)	117	-	459	-
Dollar futures (DOL)	1,431	-	1,423	-
IPC-A Coupon Future (DAP)	4	-	-	-

Differentials receivable and payable and daily adjustments paid or received for financial assets and financial liabilities are recorded in respective balance sheet accounts as "Derivatives" and "Trading account" which, as at March 31, 2019, and December 31, 2018, are adjusted to fair value, and the notional values of these transactions are recorded in memorandum accounts (Note 6.k).

g) Breakdown by type of contract and counterparty (Bank and consolidated):

		March 31, 2019		December 31, 2018	
		Amounts		Amounts	
Contracts	**Type of counterparty**	**receivable**	**(payable)**	**receivable**	**(payable)**
Futures	B3 S.A. - Brasil, Bolsa, Balcão	1,708	(2,235)	1,779	(3,035)
	Total futures transactions	**1,708**	**(2,235)**	**1,779**	**(3,035)**
Swap	Financial institutions	97,409	(834)	371,292	(8,879)
	Companies	965	-	2,033	(752)
	Total	**98,374**	**(834)**	**373,325**	**(9,631)**
Forward	Companies	20,699	(19,958)	27,256	(20,031)
	Total forward transactions	**20,699**	**(19,958)**	**27,256**	**(20,031)**

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h) Swap contracts (Bank and Consolidated):

	March 31, 2019					
	Notional value	Cost Value		Fair Value		Differential receivable (payable)
		Bank	Counterparty	Bank	Counterparty	
Lending operations						
Accounting hedge objective (Note 6.d)	**381,681**	**473,896**	**383,208**	**476,208**	**378,799**	**97,409**
LIBOR x CDI	381,681	473,896	383,208	476,208	378,799	97,409
Trading objective	**44,181**	**45,598**	**44,708**	**45,968**	**45,003**	**965**
CDI x DOLLAR	42,155	43,385	42,669	43,424	42,733	691
PRE x DOLLAR	2,026	2,213	2,039	2,544	2,270	274
Total lending operations	**425,862**	**519,494**	**427,916**	**522,176**	**423,802**	**98,374**
Borrowing operations						
Trading objective	**29,384**	**29,672**	**30,524**	**29,510**	**30,344**	**(834)**
CDI x DOLLAR	29,384	29,672	30,524	29,510	30,344	(834)
Total de borrowing operations	**29,384**	**29,672**	**30,524**	**29,510**	**30,344**	**(834)**

	December 31, 2018					
	Notional value	Cost Value		Fair Value		Differential receivable (payable)
		Bank	Counterparty	Bank	Counterparty	
Lending operations						
Accounting hedge objective (Note 6.d)	**2,489,182**	**2,733,190**	**2,569,158**	**2,734,882**	**2,564,529**	**170,353**
PRE x CDI	1,776,750	1,853,976	1,853,972	1,853,976	1,853,972	4
LIBOR x CDI	712,432	879,214	715,186	880,906	710,557	170,349
Trading objective	**1,759,810**	**2,743,918**	**2,536,059**	**2,741,567**	**2,538,595**	**202,972**
CDI x DOLLAR	1,147,133	1,454,138	1,447,671	1,454,347	1,447,584	6,763
DOLLAR x CDI	610,175	1,287,158	1,085,957	1,284,217	1,088,316	195,901
PRÉ x DOLLAR	2,502	2,622	2,431	3,003	2,695	308
Total lending operations	**4,248,992**	**5,477,108**	**5,105,217**	**5,476,449**	**5,103,124**	**373,325**
Borrowing operations						
Accounting hedge objective (Note 6.d)	**1,961,199**	**2,220,404**	**2,229,282**	**2,220,404**	**2,229,282**	**(8,878)**
EMTA x PRE	1,776,750	1,973,119	1,980,944	1,973,119	1,980,944	(7,825)
LIBOR x CDI	184,449	247,285	248,338	247,285	248,338	(1,053)
Trading objective	**16,785**	**17,108**	**17,933**	**17,111**	**17,864**	**(753)**
CDI x DOLLAR	16,785	17,108	17,933	17,111	17,864	(753)
Total de borrowing operations	**1,977,984**	**2,237,512**	**2,247,215**	**2,237,515**	**2,247,146**	**(9,631)**

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i) Forward contracts (Bank and Consolidated):

	March 31, 2019					
		Cost Value		Fair Value		
Currency Forward	Notional value	Bank	Counterparty	Bank	Counterparty	Differential receivable (payable)
Trading objective						
Non-deliverable currency forward purchase	687,373	709,109	690,589	709,109	689,945	19,164
Non-deliverable currency forward sale	109,435	108,334	109,705	108,334	106,799	1,535
Total lending operations	**796,808**	**817,443**	**800,294**	**817,443**	**796,744**	**20,699**
Trading objective						
Non-deliverable currency forward sale	562,731	578,017	565,161	578,017	592,376	(14,359)
Non-deliverable currency forward purchase	158,617	155,258	160,607	155,258	160,857	(5,599)
Total de Borrowing operations	**721,348**	**733,275**	**725,768**	**733,275**	**753,233**	**(19,958)**

	December 31, 2018					
		Cost Value		Fair Value		
Currency Forward	Notional value	Bank	Counterparty	Bank	Counterparty	Differential receivable (payable)
Trading objective						
Non-deliverable currency forward purchase	361,861	377,452	364,562	377,451	365,163	12,288
Non-deliverable currency forward sale	1,331,779	1,330,055	1,338,688	1,330,055	1,315,087	14,968
Total lending operations	**1,693,640**	**1,707,507**	**1,703,250**	**1,707,506**	**1,680,250**	**27,256**
Trading objective						
Non-deliverable currency forward sale	175,647	180,465	140,291	180,465	184,772	(4,307)
Non-deliverable currency forward purchase	991,130	984,382	997,437	984,382	1,000,106	(15,724)
Total de Borrowing operations	**1,166,777**	**1,164,847**	**1,137,728**	**1,164,847**	**1,184,878**	**(20,031)**

j) Future contracts (Bank and Consolidated):

	March 31, 2019				
	Notional value				
Contracts	Long Position	Short Position	Total exposure	Daily adjustments receivable	(payable)
Trading objective					
Foreign exchange coupon (DDI)	313,982	364,650	678,632	9	(683)
Interest rate (DI)	192,933	2,507,145	2,700,078	573	(117)
Dollar futures (DOL)	196,305	167,336	363,641	1,125	(1,431)
IPC-A Coupon Future (DAP)	-	10,524	10,524	1	(4)
Total	**703,220**	**3,049,655**	**3,752,875**	**1,708**	**(2,235)**

	December 31, 2018				
	Notional value				
Contracts	Long Position	Short Position	Total exposure	Daily adjustments receivable	(payable)
Trading objective					
Foreign exchange coupon (DDI)	308,019	411,616	719,635	1,358	(1,153)
Interest rate (DI)	44,989	3,053,318	3,098,307	91	(459)
Dollar futures (DOL)	367,496	-	367,496	330	(1,423)
Total	**720,504**	**3,464,934**	**4,185,438**	**1,779**	**(3,035)**

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k) Operations by maturity (notional values) (Bank and Consolidated):

	March 31, 2019					
Contracts	Up to 3 months	From 3 to 12 months	From 1 to 3 years	From 3 to 5 years	Over 5 years	Total
Futures	1,712,930	864,300	940,321	213,716	21,608	**3,752,875**
Swap	55,426	16,987	382,833	-	-	**455,246**
Forward	1,170,386	320,441	27,329	-	-	**1,518,156**
Total	**2,938,742**	**1,201,728**	**1,350,483**	**213,716**	**21,608**	**5,726,277**

	December 31, 2018					
Contracts	Up to 3 months	From 3 to 12 months	From 1 to 3 years	From 3 to 5 years	Over 5 years	Total
Futures	989,748	1,574,474	1,436,933	139,295	44,988	**4,185,438**
Swap	5,791,589	52,128	33,519	349,740	-	**6,226,976**
Forward	2,467,099	363,015	30,303	-	-	**2,860,417**
Total	**9,248,436**	**1,989,617**	**1,500,755**	**489,035**	**44,988**	**13,272,831**

l) Trading location (Bank and Consolidated):

	Notional value	
	March 31, 2019	December 31, 2018
Futures / Swap / Forward		
B3 S.A. - Brasil, Bolsa, Balcão	5,726,277	13,272,831

m) Collateral margins (Bank and Consolidated):

	March 31, 2019		December 31, 2018	
Federal government securities	Cost Value	Market value	Cost Value	Market value
Treasury Bills (LFT)	163,611	163,557	215,585	215,547

Federal government bonds are pegged to guarantees for outstanding futures transactions at B3 S.A. - Brasil, Bolsa, Balcão as at March 31, 2019, and December 31, 2018.

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7. LENDING, OTHER LENDING AND LEASING OPERATIONS

a) Breakdown of the loan, other loan and leasing portfolio:

	Bank			
	March 31, 2019		December 31, 2018	
	Current	Noncurrent	Current	Noncurrent
Loans [1]	5,535,896	5,034,610	5,493,314	4,813,958
Discounted trade notes	698,584	904	708,116	979
Loans assigned with substantial retention of risks and benefits (Note 8)	31,389	28,062	37,033	35,145
Financing	1,702,371	752,717	1,693,762	712,945
Rural and agro-industrial financing	56,937	1,841	52,177	2,444
Total lending operations	**8,025,177**	**5,818,134**	**7,984,402**	**5,565,471**
Payables for purchase of assets (Note 10.b)	11,010	2,889	12,873	8,491
Other credit and notes receivable (Note 10.b)	2,932,566	9,893	3,210,382	15,489
Credits linked to transactions acquired under assignment (Note 10.b) [2]	48,612	50,937	51,219	59,028
Financed imports (Note 20.a)	1,394	-	509	-
Advances on foreign exchange contracts (Note 10.a and 20.a)	568,758	-	569,363	-
Total other credits	**3,562,340**	**63,719**	**3,844,346**	**83,008**
Total	**11,587,517**	**5,881,853**	**11,828,748**	**5,648,479**

	Consolidated			
	March 31, 2019		December 31, 2018	
	Current	Noncurrent	Current	Noncurrent
Loans [1]	5,535,896	5,034,610	5,493,314	4,813,958
Discounted trade notes	698,584	904	708,116	979
Loans assigned with substantial	31,389	28,062	37,033	35,145
Financing	1,736,651	779,388	1,727,967	740,973
Rural and agro-industrial financing	56,937	1,841	52,177	2,444
Total lending operations	**8,059,457**	**5,844,805**	**8,018,607**	**5,593,499**
Financial leasing	316,873	415,212	320,405	401,910
Operating leasing	37,999	27,231	36,848	28,222
Total leasing operations	**354,872**	**442,443**	**357,253**	**430,132**
Payables for purchase of assets (Note 10.b)	11,010	2,889	12,873	8,491
Other credit and notes receivable (Note 10.b)	2,932,566	9,893	3,210,382	15,489
Credits linked to transactions acquired under assignment (Note 10.b) [2]	48,612	50,937	51,219	59,028
Financed imports (Note 20.a)	1,394	-	509	-
Advances on foreign exchange contracts (Note 10.a and 20.a)	568,758	-	569,363	-
Total other credits	**3,562,340**	**63,719**	**3,844,346**	**83,008**
Total	**11,976,669**	**6,350,967**	**12,220,206**	**6,106,639**

(1) Includes linked credit operations as provided in CVM Resolution. No. 2921 / 02 (Note 7.h).

(2) Credit transactions acquired from a financial institution comprising the National Financial System subject to risk and benefit retention by the assignor.

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b) Breakdown of the loan, other loan and leasing portfolio by risk level:

	Bank							
	March 31, 2019				December 31, 2018			
		Allowance				Allowance		
Risk Level	Total portfolio	Required by BACEN Res. 2682/99 [1]	Additional [2]	Total allowance	Total portfolio	Required by BACEN Res. 2682/99 [1]	Additional [2]	Total allowance
AA	1,316,328	-	-	-	1,316,083	-	-	-
A	7,661,212	38,306	22,985	61,291	7,390,511	36,954	29,562	66,516
B	6,179,200	61,792	117,405	179,197	6,334,105	63,341	120,348	183,689
C	1,116,569	33,497	48,013	81,510	1,186,409	35,593	15,423	51,016
D	333,760	33,376	-	33,376	366,672	36,667	-	36,667
E	68,094	20,428	-	20,428	77,982	23,394	-	23,394
F	63,193	31,596	-	31,596	135,349	67,674	-	67,674
G	22,602	15,821	-	15,821	43,660	30,562	-	30,562
H	708,412	708,412	-	708,412	626,456	626,456	-	626,456
Total	**17,469,370**	**943,228**	**188,403**	**1,131,631**	**17,477,227**	**920,641**	**165,333**	**1,085,974**

	Consolidated							
	March 31, 2019				December 31, 2018			
		Allowance				Allowance		
Risk Level	Total portfolio	Required by BACEN Res. 2682/99 [1]	Additional [2]	Total allowance	Total portfolio	Required by BACEN Res. 2682/99 [1]	Additional [2]	Total allowance
AA	1,316,328	-	-	-	1,316,083	-	-	-
A	8,033,002	40,166	22,984	63,150	7,758,115	38,791	29,562	68,353
B	6,578,045	65,780	117,405	183,185	6,723,487	67,235	120,348	187,583
C	1,184,632	35,539	48,013	83,552	1,259,874	37,797	15,423	53,220
D	340,892	34,089	-	34,089	374,560	37,456	-	37,456
E	72,395	21,718	-	21,718	84,672	25,402	-	25,402
F	63,989	31,994	-	31,994	138,128	69,064	-	69,064
G	22,613	15,829	-	15,829	43,685	30,579	-	30,579
H	715,740	715,740	-	715,740	628,241	628,241	-	628,241
Total	**18,327,636**	**960,855**	**188,402**	**1,149,257**	**18,326,845**	**934,565**	**165,333**	**1,099,898**

(1) Refers to the allowance for loan losses considering the minimum percentage rates required by CMN Resolution No. 2682/99, as mentioned in Note 3.g.

(2) Beginning June 30, 2018, an allowance for loan losses in addition to the minimum allowance required by the prevailing regulation started to be recognized, based on a specific risk assessment methodology, supported by receivables collection study.

c) Breakdown of the loan, other loan and leasing portfolio by business sector:

	Bank		Consolidated	
	March 31, 2019	December 31, 2018	March 31, 2019	December 31, 2018
Private sector	**17,367,361**	**17,367,050**	**18,225,627**	**18,216,668**
Industrial	4,629,861	4,825,155	4,823,028	5,018,420
Commercial	3,150,282	3,335,420	3,290,472	3,476,737
Financial	108,564	120,443	112,839	124,439
Other services	2,741,815	2,815,274	3,261,960	3,325,775
Individuals	6,736,839	6,270,758	6,736,839	6,270,758
Rural	-	-	489	539
Public sector	**102,009**	**110,177**	**102,009**	**110,177**
Total	**17,469,370**	**17,477,227**	**18,327,636**	**18,326,845**

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d) Breakdown of the loan, other loan and leasing portfolio by maturity:

	Bank		Consolidated	
	March 31, 2019	December 31, 2018	March 31, 2019	December 31, 2018
Current				
Up to 3 months	6,533,356	6,288,191	6,650,061	6,421,368
3 to 12 months	4,785,970	5,274,066	5,057,131	5,531,406
1 to 3 years	3,993,575	3,892,038	4,390,436	4,281,865
3 to 5 years	1,342,511	1,271,022	1,414,249	1,339,095
Over 5 years	545,767	485,419	546,282	485,679
Total - current	**17,201,179**	**17,210,736**	**18,058,159**	**18,059,413**
Past-due				
Up to 60 days	104,189	87,247	105,212	87,940
61 to 90 days	24,324	31,125	24,406	31,229
91 to 180 days	44,742	44,226	44,827	44,344
181 to 360 days	94,936	103,893	95,032	103,919
Total - past-due	**268,191**	**266,491**	**269,477**	**267,432**
Total	**17,469,370**	**17,477,227**	**18,327,636**	**18,326,845**

e) Concentration of credit risk:

	Bank			
	March 31, 2019		December 31, 2018	
Largest debtors	Amount	% on portfolio	Amount	% on portfolio
10 largest debtors	1,112,801	6.37	1,113,947	6.37
50 next largest debtors	2,005,146	11.48	2,076,303	11.88
100 next largest debtors	1,672,531	9.57	1,780,317	10.19
Other debtors	12,678,892	72.58	12,506,660	71.56
Total	**17,469,370**	**100.00**	**17,477,227**	**100.00**

	Consolidated			
	March 31, 2019		December 31, 2018	
Largest debtors	Amount	% on portfolio	Amount	% on portfolio
10 largest debtors	1,318,892	7.20	1,326,821	7.24
50 next largest debtors	2,243,925	12.24	2,305,889	12.58
100 next largest debtors	1,843,428	10.06	1,952,110	10.65
Other debtors	12,921,391	70.50	12,742,025	69.53
Total	**18,327,636**	**100.00**	**18,326,845**	**100.00**

f) Renegotiated lending and leasing operations:

During the quarter period ended March 31, 2019, the Bank renegotiated delinquent customers' loans in the amount of R$143,102 (R$563,170 as at December 31, 2018) and Daycoval Leasing renegotiated leasing operations in the amount of R$1,546 (R$4,215 as at December 31, 2018).

g) Recovery of loans written off as loss:

During the quarter period ended March 31, 2019, the Bank recovered credits previously written off as loss, in the amounts of R$70,315 (R$68,178 as at March 31, 2018) (Note 25.a) and Daycoval Leasing recovered the amounts of R$107 (R$322 as at March 31, 2018) (Note 25.b), recognized in the income statements.

h) Linked lending transactions:

The table below shows the information on linked lending transactions carried out as set forth in CMN Resolution 2921/02:

	March 31, 2019	December 31, 2018
	Up to 12 months	Up to 12 months
Linked lending transactions		
Lending transactions	25,072	24,355
Payables for linked lending transactions		
Bank Certificates of Deposit (CDBs)	25,692	25,291

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8. ASSIGNMENT OF LOANS (Bank and Consolidated):

Loan assignments carried out by the Bank meet the accounting criteria described in CMN Resolution 3533/08 (Note 3.h), regarding the classification of these assignments in the category "Operations with substantial retention of risks and benefits.

During the quarter period ended March 31, 2019 and in the year ended December 31, 2018, there were no assignment of loans.

Since 2016 the Bank does not carry out any credit assignment transactions. As at March 31, 2019, the carrying amount of credit assignments recorded in “Lending operations” (Note 7.a) amounts to R$59,451 (R$72,178 as at December 31, 2018) with the respective obligation assumed by the assignment recognized in “Other obligations – Sundry – Payables for sales operations and transfer of financial assets” (Note 20.d) in the amount of R$71,016 (R$86,864 as at December 31, 2018).

Such loan assignments did not generate advanced profit or loss for the Bank.

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9. ALLOWANCE FOR LOAN, OTHER CREDIT AND LEASE LOSSES

The allowance for loan, other credit and lease losses was recognized based on the criteria described in note 3.g) and is considered sufficient to cover probable losses.

During the quarter period ended March 31, 2019, and in the year ended December 31, 2018, the changes in the expenses on the allowance for loan, other credit and lease losses, recognized in the income statements, under “Allowance for loan losses”, were as follows:

		Recognition of allowance				
March 31, 2019	Opening allowance balance	Required by BACEN Res. 2682/99 [1]	Additional [2]	Total allowance expenses	Write-off of transactions against loss	Closing allowance balance
Bank	**1,085,974**	99,739	23,069	**122,808**	(77,151)	**1,131,631**
Daycoval Leasing	**13,924**	3,733	-	**3,733**	(31)	**17,626**
Total - Consolidated	**1,099,898**	**103,472**	**23,069**	**126,541**	**(77,182)**	**1,149,257**

	Bank	Consolidated
Current assets - lending operations	563,645	564,293
Noncurrent long-term assets - lending operations	427,604	427,870
Current assets - other sundry credits	139,780	139,780
Noncurrent assets - other sundry credits	602	602
Current assets - leasing	-	8,156
Noncurrent long-term assets - leasing	-	8,556
Total	**1,131,631**	**1,149,257**

		Recognition of allowance				
December 31, 2018	Opening allowance balance	Required by BACEN Res. 2682/99 [1]	Additional [2]	Total allowance expenses	Write-off of transactions against loss	Closing allowance balance
Bank	**916,075**	533,008	165,333	**698,341**	(528,442)	**1,085,974**
Daycoval Leasing	**14,399**	570	-	**570**	(1,045)	**13,924**
Total - Consolidated	**930,474**	**533,578**	**165,333**	**698,911**	**(529,487)**	**1,099,898**

	Bank	Consolidated
Current assets - lending operations	542,790	543,847
Noncurrent long-term assets - lending operations	403,522	404,001
Current assets - other sundry credits	139,136	139,136
Noncurrent assets - other sundry credits	526	526
Current assets - leasing	-	6,253
Noncurrent long-term assets - leasing	-	6,135
Total	**1,085,974**	**1,099,898**

(1) Refers to the allowance for loan losses considering the minimum percentage rates required by CMN Resolution No. 2682/99, as mentioned in Note 3.g.

(2) Beginning June 30, 2018, an allowance for loan losses in addition to the minimum allowance required by the prevailing regulation started to be recognized, based on a specific risk assessment methodology, supported by a receivables collection study.

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10. OTHER CREDITS

Other credits are broken down as follows:

a) Foreign exchange portfolio (Bank and Consolidated):

	March 31, 2019	December 31, 2018
	Current	Noncurrent
Foreign exchange purchased pending settlement	873,027	678,972
Right on foreign exchange sold	579,257	372,360
(-) Advances received in local currency	(6,838)	(1,774)
Income receivable from advances granted (Note 7.a)	14,502	15,000
Total	**1,459,948**	**1,064,558**

b) Sundry:

	Bank			
	March 31, 2019		December 31, 2018	
	Current	Noncurrent	Current	Noncurrent
Salary advances	1,013	-	854	-
Advances for payment of our account	13,126	-	13,692	-
Advances for constructions in progress	135	-	85	-
Tax credits (Note 22.c)	486,198	558,003	473,452	552,405
Debtors for purchase of assets (Note 7.a)	11,010	2,889	12,873	8,491
Debtors for escrow deposits [1]	-	1,779,551	3,158	1,695,149
Recoverable taxes [2]	27,924	-	137,460	-
Reimbursable payments	889	-	891	-
Prepaid profit sharing	-	-	27,169	-
Credits linked to transactions acquired under assignment (Note 7.a)	48,612	50,937	51,219	59,028
Discount on the acquisition of lending operations [3]	(1,899)	(4,553)	(7,908)	(1,496)
Other credits and notes receivables (Note 7.a)	2,932,566	9,893	3,210,382	15,489
Sundry debtors	35,033	-	28,649	-
Total	**3,554,607**	**2,396,720**	**3,951,976**	**2,329,066**

	Consolidated			
	March 31, 2019		December 31, 2018	
	Current	Noncurrent	Current	Noncurrent
Salary advances	1,081	-	929	-
Advances for payment of our account	13,331	-	13,850	-
Advances for constructions in progress	135	-	85	-
Tax credits (Note 22.c)	491,659	565,372	476,545	558,279
Debtors for purchase of assets (Note 7.a)	11,010	2,889	12,873	8,491
Debtors for escrow deposits [1]	-	1,788,120	3,158	1,703,643
Recoverable taxes [2]	33,893	-	152,609	-
Reimbursable payments	889	-	891	-
Prepaid profit sharing	-	-	27,169	-
Credits linked to transactions acquired under assignment (Note 7.a)	48,612	50,937	51,219	59,028
Discount on the acquisition of lending operations [3]	(1,899)	(4,553)	(7,908)	(1,496)
Other credits and notes receivables (Note 7.a)	2,932,566	9,893	3,210,382	15,489
Sundry debtors	41,556	-	35,417	-
Total	**3,572,833**	**2,412,658**	**3,977,219**	**2,343,434**

(1) As at March 31, 2019, refers to the accounting for deposits linked to legal requirements (Note 23.b), made for the filing of appeals relating to: (i) taxes and contributions in the amount of R$1,743,202 for the Bank and R$1,749,345 for the Consolidated (R$1,662,901 for the Bank and R$1,669,014 for the Consolidated as at December 31, 2018); (ii) labor, amounting to R$10,922 for the Bank and R$13,246 for the Consolidated (R$10,616 for the Bank and R$12,897 for the Consolidated as at December 31, 2018); (iii) civil, amounting to R$25,427 for the Bank and for the Consolidated (R$24,789 for the Bank and for the Consolidated as at December 31, 2018); and (iv) Daycoval Leasing rental guarantee in the amount of R$102 (R$100 as at December 31, 2018).

(2) As at March 31, 2019, the caption "Recoverable taxes" is composed mainly of prepaid income tax and social contribution in the amount of R$25,844 (R$135,441 as at December 31, 2018) for the Bank, and R$28,425 (R$147,275 as at December 31, 2018) for the Consolidated.

(3) As at March 31, 2019, and December 31, 2018, refers to discounts obtained on the acquisition of lending operations from other institutions comprising the National Financial System, to be recognized in the income statements of Banco Daycoval, in caption "Lending operations", due to the term of transactions.

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11. OTHER ASSETS

Other assets	March 31, 2019		December 31, 2018	
	Current	Noncurrent	Current	Noncurrent
Repossessed assets [1]	134,416	-	92,832	-
(-) Allowance for depreciation of repossessed assets	(8,875)	-	(8,422)	-
Total repossessed assets [2]	**125,541**	**-**	**84,410**	**-**
Prepaid expenses [3]				
Bank	17,642	-	21,110	2,249
Consolidated	16,880	-	20,035	2,249

(1) Refer to assets received as payment for loans.

(2) As at March 31, 2019, the total of repossessed assets amounts to R$125,600 (R$84,426 as at December 31, 2018) for the Consolidated.

(3) Refer mainly to expenses on commissions paid in advance upon origination of loans (Note 3.j).

As mentioned in Note 3.j), the Bank elected to adopt the provision set forth in paragraph 1 of Circular Letter 3693/13, as amended by Circular Letter 3738/14, both from BACEN, and recognized in “Prepaid expenses” the commissions paid to correspondents upon origination of loans in years prior to 2017. Beginning January 1, 2017, expenses on commissions were directly recognized in profit or loss for the period, upon origination of loans. During the quarter ended March 31, 2019, the total commissions paid to third parties for the origination of loans, according to the criteria established in the aforementioned regulations, recognized in the income statements (Note 25.i) amounted to R$48,866 (R$40,170 as at December 31, 2018).

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12. INVESTMENTS

Investments are represented by investments in subsidiaries; the main information on these investments are as follows:

a) Direct subsidiaries:

	Daycoval Leasing		Dayprev	
	March 31, 2019	December 31, 2018	March 31, 2019	December 31, 2018
Total Assets	994,570	975,947	105,609	101,306
Total Liabilities	573,574	570,043	72,461	68,402
Equity	420,996	405,904	33,148	32,904
Negative goodwill on acquisition (Note 3.u)	(46,015)	(47,740)	-	-
Negative goodwill on acquisition (Note 3.u)	206,805	206,805	25,000	25,000
Number of shares	5,780,078,463	5,780,078,463	19,591,614	19,591,614
Net income for the quarter	15,092	13,645	246	302
Net income for the year	-	55,515	-	1,574
Ownership interest - %	100.00%	100.00%	97.00%	97.00%
Adjusted investment	**374,981**	**358,164**	**32,153**	**31,916**
Equity in earnings of the quarter	**15,092**	**13,645**	**239**	**303**
Share of profit (loss) of subsidiaries of the period	**-**	**55,515**	**-**	**1,527**

	ACS [1]		Daycoval Asset	
	March 31, 2019	December 31, 2018	March 31, 2019	December 31, 2018
Total Assets	804,705	814,269	43,390	42,696
Total Liabilities	22,577	38,125	1,953	2,016
Equity	782,128	776,144	41,437	40,680
Capital	623,448	623,448	1,554	1,554
Number of shares	536,730,077	536,730,077	36,875	36,875
Net income for the quarter	4,774	8,724	757	958
Net income for the year	-	37,528	-	4,582
Ownership interest - %	99.99%	99.99%	99.99%	99.99%
Adjusted investment	**770,449**	**760,513**	**41,437**	**40,680**
Equity in earnings of the quarter	**8,726**	**8,944**	**757**	**957**
Share of profit (loss) of subsidiaries of the period [3]	**-**	**60,516**	**-**	**4,582**

b) Indirect subsidiaries

	Treetop [2]		IFP		SCC	
	March 31, 2019	December 31, 2018	March 31, 2019	December 31, 2018	March 31, 2019	December 31, 2018
Total Assets	72,271	72,943	58,879	62,382	13,199	13,154
Total Liabilities	2,344	6,353	15,693	15,143	67	125
Equity	69,927	66,590	43,186	47,239	13,132	13,029
Capital	10,399	10,340	60,020	60,020	10,020	10,020
Number of shares	2,668,585	2,668,585	60,020,000	60,020,000	10,020,000	10,020,000
Net income for the quarter	1,753	1,082	(4,053)	(1,515)	104	97
Net income for the year	-	6,096	-	(3,258)	-	261
Ownership interest - %	100.00%	100.00%	99.99%	99.99%	99.99%	99.99%
Adjusted investment	**69,927**	**66,590**	**43,182**	**47,234**	**13,131**	**13,028**
Share of profit (loss) of subsidiaries of the QUARTER period ended Mar	**1,753**	**1,082**	**(4,053)**	**(1,515)**	**104**	**97**
Share of profit (loss) of subsidiaries of the period [1]	**-**	**6,096**	**-**	**(3,258)**	**-**	**261**

(1) As at March 31, 2019, revenues from share of profit of investees amounts to R$2,196 (R$366 as at December 31, 2018), which were recognized in profit or loss of ACS Participações (direct parent company), as mentioned in table 12.a.

(2) As at March 31, 2019, income from exchange variation in the amount of R$374 was recognized in the result of ACS Participações (direct parent company), as mentioned in table 12.a) above (expense of R$8,785 as at December 31, 2018) on the investment in Treetop.

(3) As at the quarter period ended March 31, 2019, and as at year ended December 31, 2018, a substantial portion of the profit from commissions paid on the origination of credit to IFP (indirect subsidiary) was realized, which company was consolidated in the financial statements of ACS Participações (direct parent company), as mentioned in table 12.a) which, in years prior to 2017, were recognized directly in profit or loss by the indirect subsidiary and deferred in the Bank's financial statements as a result of the term of the transactions or according to deferral criteria established by BACEN Circular 3693/13, as amended by BACEN Circular 3738/14. Beginning 2017, these commissions paid by the Bank to IFP were directly recognized in the Bank's income statements on their payment date.

(4) The increase of Dayprev's capital in the amount of R$10 million was decided and approved at the Extraordinary General Meeting held on October 30, 2018, upon the payment of earnings reserves and issuance of 4,591,614 million registered common shares granted to shareholders as bonus. This increase was approved by SUSEP on January 2, 2019.

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13. FOREIGN BRANCH

The balances of the transactions of Banco Daycoval S.A. - Cayman Branch (foreign branch) conducted with third parties and included in the Bank's financial statement information as at March 31, 2019 and as at December 31, 2018, are as follows:

	March 31, 2019		December 31, 2018	
	US$ thousand	R$ thousand[1]	US$ thousand	R$ thousand [1]
Assets				
Cash and cash equivalents	286	1,113	234	907
Interbank investments	32,850	128,007	26,100	101,132
Securities	12,022	46,847	11,840	45,880
Lending operations	137,303	535,030	99,465	385,407
Other assets	573	2,231	673	2,609
Total assets	**183,034**	**713,228**	**138,312**	**535,935**
Liabilities				
Demand deposit	14,575	56,794	10,022	38,833
Time deposits	52,452	204,390	35,486	137,501
Funds from acceptance and issuance of securities	5,348	20,841	5,317	20,602
Borrowings and onlendings	83,232	324,329	81,736	316,710
Other miscellaneous borrowing	42	164	-	
Deferred income	229	892	183	709
Total liabilities	**155,878**	**607,410**	**132,744**	**514,355**

(1) The amounts in US dollars were translated into Brazilian reais (R$) based on the R$/US$ 3.8967 and R$/US$3.8748 exchange rates disclosed by BACEN, as at March 31, 2019, and as at December 31, 2018, respectively.

During the year ended March 31, 2019, income from exchange variation in the amount of R$521 (income of R$13,208 as at December 31, 2018) on the investment in Banco Daycoval S.A. - Cayman Branch was recognized in the Bank's income statement.

14. PROPERTY AND EQUIPMENT

	Bank				
	March 31, 2019				December 31, 2018
Description	Annual depreciation %	Cost	Accumulated depreciation	Net amount	Net amount
Facilities	10	917	(891)	26	28
Furniture and equipment	10	6,988	(4,680)	2,308	2,248
Communications equipment	10	836	(483)	353	372
Computers and peripherals	20	15,224	(11,059)	4,165	4,327
Security equipment	10	1,459	(817)	642	671
Vehicles and airplane	10	78,395	(12,555)	65,840	67,669
Total assets		**103,819**	**(30,485)**	**73,334**	**75,315**

	Consolidated				
	March 31, 2019				December 31, 2018
Description	Annual depreciation %	Cost	Accumulated depreciation	Net amount	Net amount
Properties	4	2,140	-	2,140	2,140
Facilities	10	1,018	(891)	127	131
Furniture and equipment	10	8,035	(5,513)	2,522	2,454
Communications equipment	10	889	(537)	352	372
Computers and peripherals	20	16,311	(12,145)	4,166	4,327
Security equipment	10	1,459	(817)	642	671
Vehicles and airplane	10	79,636	(13,213)	66,423	68,223
Total assets		**109,488**	**(33,116)**	**76,372**	**78,318**

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15. DEPOSITS AND MONEY MARKET FUNDING

Demand deposits, interbank deposits, time deposits and foreign-currency deposits and money market funding are negotiated at usual market rates. Their aging list is as follows:

	Bank						
	March 31, 2019						
	Without Maturity	Up to 3 months	3 to 12 Months	1 to 3 years	3 to 5 years	Over 5 years	Total
Demand deposits	761,979	-	-	-	-	-	761,979
Interbank deposits	-	-	399,950	1,600	-	-	401,550
Time deposits	-	580,409	1,572,196	2,182,075	170,850	29,228	4,534,758
Foreign-currency deposits	12,503	-	-	-	-	-	12,503
Total deposits	**774,482**	**580,409**	**1,972,146**	**2,183,675**	**170,850**	**29,228**	**5,710,790**
Money market funding	-	1,886,688	-	-	-	-	1,886,688
Total money market funding	**-**	**1,886,688**	**-**	**-**	**-**	**-**	**1,886,688**
Total deposits and money market funding	**774,482**	**2,467,097**	**1,972,146**	**2,183,675**	**170,850**	**29,228**	**7,597,478**

	December 31, 2018						
	Without Maturity	Up to 3 months	3 to 12 Months	1 to 3 years	3 to 5 years	Over 5 years	Total
Demand deposits	864,844	-	-	-	-	-	864,844
Interbank deposits	-	37,452	336,215	21,813	-	-	395,480
Time deposits	-	870,898	1,102,741	2,073,048	141,595	10,671	4,198,953
Foreign-currency deposits	7,321	-	-	-	-	-	7,321
Total deposits	**872,165**	**908,350**	**1,438,956**	**2,094,861**	**141,595**	**10,671**	**5,466,598**
Money market funding	-	2,992,328	-	-	-	-	2,992,328
Total money market funding	**-**	**2,992,328**	**-**	**-**	**-**	**-**	**2,992,328**
Total deposits and money market funding	**872,165**	**3,900,678**	**1,438,956**	**2,094,861**	**141,595**	**10,671**	**8,458,926**

	Consolidated						
	March 31, 2019						
	Without Maturity	Up to 3 months	3 to 12 Months	1 to 3 years	3 to 5 years	Over 5 years	Total
Demand deposits	760,125	-	-	-	-	-	760,125
Interbank deposits	-	-	399,950	1,600	-	-	401,550
Time deposits	-	580,409	1,572,176	2,115,638	170,600	14,206	4,453,029
Foreign-currency deposits	12,503	-	-	-	-	-	12,503
Total deposits	**772,628**	**580,409**	**1,972,126**	**2,117,238**	**170,600**	**14,206**	**5,627,207**
Money market funding	-	1,886,688	-	-	-	-	1,886,688
Total money market funding	**-**	**1,886,688**	**-**	**-**	**-**	**-**	**1,886,688**
Total deposits and money market funding	**772,628**	**2,467,097**	**1,972,126**	**2,117,238**	**170,600**	**14,206**	**7,513,895**

	December 31, 2018						
	Without Maturity	Up to 3 months	3 to 12 Months	1 to 3 years	3 to 5 years	Over 5 years	Total
Demand deposits	863,807	-	-	-	-	-	863,807
Interbank deposits	-	37,452	336,215	21,813	-	-	395,480
Time deposits	-	870,898	1,102,741	2,003,181	141,595	10,671	4,129,086
Foreign-currency deposits	7,321	-	-	-	-	-	7,321
Total deposits	**871,128**	**908,350**	**1,438,956**	**2,024,994**	**141,595**	**10,671**	**5,395,694**
Money market funding	-	2,992,328	-	-	-	-	2,992,328
Total money market funding	**-**	**2,992,328**	**-**	**-**	**-**	**-**	**2,992,328**
Total deposits and money market funding	**871,128**	**3,900,678**	**1,438,956**	**2,024,994**	**141,595**	**10,671**	**8,388,022**

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16. FUNDS FROM ACCEPTANCE AND ISSUANCE OF SECURITIES

16. 1) Financial bills and credit notes:

Program for Public Issuance of Financial Bills Non-Convertible into Banco Daycoval's shares

Pursuant to the Notice to the Market, published on March 12, 2019, the Bank has completed the seventh issuance of Financial Bills in the amount of R$2 billion, 4 series in the amount of R$500 million maturing as at March 15, 2021, as at March 15, 2022, as at March 15, 2023 and as at March 15, 2024, respectively.

	Bank					
	March 31, 2019					
	Up to 3 months	3 to 12 Months	1 to 3 years	3 to 5 years	Over 5 years	Total
Mortgage loan notes	295,306	445,359	143,959	-	-	884,624
Agribusiness letter of credit	210,194	515,865	49,556	2,302	-	777,917
Financial bills	663,599	3,035,646	5,374,066	756,041	633,680	10,463,032
Total	**1,169,099**	**3,996,870**	**5,567,581**	**758,343**	**633,680**	**12,125,573**

	Bank					
	December 31, 2018					
	Up to 3 months	3 to 12 Months	1 to 3 years	3 to 5 years	Over 5 years	Total
Mortgage loan notes	196,562	452,105	125,232	5	-	773,904
Agribusiness letter of credit	279,733	337,932	43,924	2,244	-	663,833
Financial bills	322,729	2,910,007	4,483,871	244,836	44,100	8,005,543
Total	**799,024**	**3,700,044**	**4,653,027**	**247,085**	**44,100**	**9,443,280**

	Consolidated					
	March 31, 2019					
	Up to 3 months	3 to 12 Months	1 to 3 years	3 to 5 years	Over 5 years	Total
Mortgage loan notes	295,306	445,359	143,959	-	-	884,624
Agribusiness letter of credit	210,194	515,865	49,556	2,302	-	777,917
Financial bills	624,943	2,526,335	5,360,647	756,041	583,536	9,851,502
Total	**1,130,443**	**3,487,559**	**5,554,162**	**758,343**	**583,536**	**11,514,043**

	Consolidated					
	December 31, 2018					
	Up to 3 months	3 to 12 Months	1 to 3 years	3 to 5 years	Over 5 years	Total
Mortgage loan notes	196,562	452,105	125,232	5	-	773,904
Agribusiness letter of credit	279,733	337,932	43,924	2,244	-	663,833
Financial bills	322,729	2,366,560	4,460,960	244,836	44,100	7,439,185
Total	**799,024**	**3,156,597**	**4,630,116**	**247,085**	**44,100**	**8,876,922**

16.2) Payables for securities issued abroad:

Program for the issuance of securities abroad

The table below shows the features of these programs and the related balances, in local currency:

	Amount issued	Interest rate	Issuance date	Maturity date	March 31, 2019		December 31, 2018	
					Bank	Consolidated	Bank	Consolidated
	(US$ thousand)	*(p.a.)*			*(R$ thousand)*	*(R$ thousand)*	*(R$ thousand)*	*(R$ thousand)*
Foreign issuance program [1]	500,000	5.75%	3/19/2014	3/18/2019	-	-	1,906,818	1,877,426
Other issuances	5,000	2.50%	7/1/2016	1/3/2020	20,841	20,841	20,602	20,602
			Total issuances		**20,841**	**20,841**	**1,927,420**	**1,898,028**
			Total current		20,841	20,841	1,906,818	1,877,426
			Total noncurrent		-	-	20,602	20,602

(1) the security issued abroad in the amount of US$500 million is subject to accounting hedge of market risk (Note 6.d), whose settlement occurred on March 2019.

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17. BORROWINGS (Bank and Consolidated)

March 31, 2019	Up to 3 months	3 to 12 Months	1 to 3 years	3 to 5 years	Total
Borrowings					
Foreign-currency payables [1]	230,339	305,473	56,340	-	592,152
Foreign borrowings [2]	170,602	249,951	316,175	-	736,728
Total	**400,941**	**555,424**	**372,515**	**-**	**1,328,880**

December 31, 2018	Up to 3 months	3 to 12 Months	1 to 3 years	3 to 5 years	Total
Borrowings					
Foreign-currency payables [1]	424,022	246,496	-	-	670,518
Foreign borrowings [2]	725,062	279,629	224,833	147,006	1,376,530
Total	**1,149,084**	**526,125**	**224,833**	**147,006**	**2,047,048**

(1) The balance of "Foreign-currency payables" refers to funding for foreign exchange operations related to export and import financing.

(2) As at March 31, 2019, includes the foreign borrowings, in the amount of US$130 million (US$235 million as at December 31, 2018), and €55 million (€55 million as at December 31, 2018), subject to market risk hedge accounting (Note 6.d), whose carrying amount and fair value are R$473,896 and R$481,574 (R$1,126,693 and R$1,129,218 as at December 31, 2018).

Financial covenants

The Bank is subject to financial covenants related to the maintenance of certain performance, liquidity and debt ratios, linked to loan agreements entered into with the International Finance Corporation (IFC) and the Inter-American Investment Corporation (IIC), which, if not fulfilled, may cause the accelerated settlement of the agreements entered into between the Company and these institutions.

18. ONLENDINGS (Bank and Consolidated)

March 31, 2019	Up to 3 months	3 to 12 Months	1 to 3 years	3 to 5 years	Over 5 years	Total
Domestic onlendings - official institutions						
BNDES Onlendings	47,274	99,014	94,053	2,192	-	242,533
FINAME Onlendings	11,826	29,407	48,309	11,406	746	101,694
Total	**59,100**	**128,421**	**142,362**	**13,598**	**746**	**344,227**

December 31, 2018	Up to 3 months	3 to 12 Months	1 to 3 years	3 to 5 years	Over 5 years	Total
Domestic onlendings - official institutions						
Repasses do BNDES	37,954	113,429	103,175	5,059	-	259,617
Repasses do FINAME	11,736	30,362	49,627	14,483	745	106,953
Total	**49,690**	**143,791**	**152,802**	**19,542**	**745**	**366,570**

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19. INSURANCE OPERATIONS (Consolidated)

a) Insurance premiums receivable:

Represented by DPVAT (mandatory insurance against personal injury caused by vehicles) insurance operations which, as at March 31, 2019, amount to R$2,354 (R$2,029 as at December 31, 2018), recorded in accordance with the statements received by Seguradora Líder dos Consórcios dos Seguros DPVAT, in caption "Other credits – insurance premiums receivable" in current assets.

b) Breakdown of technical reserves:

	March 31, 2019	December 31, 2018
Unsettled claims	7,637	7,347
Provision for incurred but not reported losses	63,408	60,226
Other provisions (1)	930	281
Total	**71,975**	**67,854**

(1) Refers to provisions for administrative expenses, recorded in accordance with the statements received from Seguradora Líder dos Consórcios dos Seguros DPVAT.

c) Assets-backed technical reserves:

	March 31, 2019	December 31, 2018
Treasury Bills	-	2,183
Investment fund units	72,081	67,903
Total (Note 6.a.) - Consolidated	**72,081**	**70,086**

d) Profit (loss) on insurance operations:

	March 31, 2019	December 31, 2018
Revenue from premiums and contributions	4,659	18,310
Claims expenses	(2,631)	(14,197)
Other operating income and expenses	(1,245)	(119)
Total	**783**	**3,994**

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20. OTHER PAYABLES

a) Foreign exchange portfolio (Bank and Consolidated):

	March 31, 2019	December 31, 2018
Foreign exchange sold pending settlement	597,643	391,194
(-) Financed imports (Note 7.a)	(1,394)	(509)
Payable for foreign exchange purchased	851,242	665,086
(-) Advances on foreign exchange contracts (Note 7.a)	(554,906)	(555,179)
Foreign currencies payable	44	47
Unearned income on advances granted (Note 7.a)	650	816
Total	**893,279**	**501,455**

b) Social and statutory:

	Bank		Consolidated	
	March 31, 2019	December 31, 2018	March 31, 2019	December 31, 2018
Dividends and bonuses payable (Note 24.d.2)	46,575	41,982	46,580	41,987
Profit sharing program	21,653	76,452	22,219	77,728
Total	**68,228**	**118,434**	**68,799**	**119,715**

c) Tax and social security

	Bank			
	March 31, 2019		December 31, 2018	
	Current	Noncurrent	Current	Noncurrent
Provision for income tax	65,007	-	209,133	-
Provision for social contribution	23,585	-	79,084	-
Taxes and contributions payable	40,629	-	31,214	-
Provision for deferred income tax and social contribution (Note 22.c)	12,693	251,354	10,675	245,597
Total	**141,914**	**251,354**	**330,106**	**245,597**

	Consolidated			
	March 31, 2019		December 31, 2018	
	Current	Noncurrent	Current	Noncurrent
Provision for income tax	70,645	-	232,791	-
Provision for social contribution	28,973	-	101,570	-
Taxes and contributions payable	45,154	-	35,353	-
Provision for deferred income tax and social contribution (Note 22.c)	12,693	273,323	10,675	262,817
Total	**157,465**	**273,323**	**380,389**	**262,817**

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d) Sundry

	Bank			
	March 31, 2019		December 31, 2018	
	Current	Noncurrent	Current	Noncurrent
Cashier´s checks	10,591	-	11,973	-
Creditors for unreleased resources	847	-	1,380	-
Payables for sales operations and transfer of financial assets (Note 8)	10,161	60,855	42,165	44,699
Accrued payments [1]	49,964	-	47,109	-
Provision for risks (Note 23.b)	4,044	2,165,293	20,689	2,104,898
Provision for financial collaterals provided (Note 28)	19,047	2,900	18,236	1,087
Sundry creditors [2]	62,625	-	66,913	-
Total	**157,279**	**2,229,048**	**208,465**	**2,150,684**

	Consolidated			
	March 31, 2019		December 31, 2018	
	Current	Noncurrent	Current	Noncurrent
Cashier´s checks	10,591	-	11,973	-
Creditors for unreleased resources	847	-	1,380	-
Payables for sales operations and transfer of financial assets (Note 8)	10,161	60,855	42,165	44,699
Accrued payments [1]	58,654	-	59,721	-
Provision for risks (Note 23.b)	4,044	2,186,471	20,689	2,123,807
Provision for financial collaterals provided (Note 28)	19,047	2,900	18,236	1,087
Sundry creditors [2]	66,413	-	93,631	-
Total	**169,757**	**2,250,226**	**247,795**	**2,169,593**

(1) As at March 31, 2019, caption "Accrued payments" (Bank and Consolidated) mainly comprises the following: (i) personnel expenses in the amount of R$23,247 (Bank) and R$26,284 (Consolidated) (R$20,382 and R$23,195 for the Bank and Consolidated, respectively as at December 31, 2018); (ii) expenses on suppliers in the amount of R$11,313 (Bank) and R$ 14,349 (Consolidated) (R$10,694 and R$17,801 for the Bank and Consolidated, respectively as at December 31, 2018); and (iii) commissions payable in the amount of R$13,181, Bank and Consolidated (R$13,157 as Bank and Consolidated as at December 31, 2018).

(2) As at March 31, 2019, caption "Sundry creditors" (Bank and Consolidated) mainly comprises: (i) the unreleased collections, in the amount of R$4,464 (R$5,249 as at December 31, 2018); (ii) discounted notes partially received, in the amount of R$14,724 (R$19,198 as at December 31, 2018); and (iii) commitments arising from credit card operations, in the amount of R$24,472 (R$22,803 as at December 31, 2018); and (iv) cash payment to suppliers from Daycoval Leasing in the amount of R$3,200 for the Consolidated (R$ 24,561 as at December 31, 2018 for the Consolidated).

21. SUBORDINATED DEBTS (Bank and Consolidated)

a) Information on the issuances of subordinated debts

	Funding instruments	Dates of issuance	Dates of maturity	Amount	Interest rate	Date of BACEN'S authorization to comprise Tier II of Capital [1]
1st issuance	Financial bills	2/28/2018	3/5/2025	R$10 millions	CDI	4/4/2018
2nd issuance	Financial bills	10/30/2018	10/30/2028	R$135 millions	CDI	11/30/2018

(1) Funding's were authorized by BACEN to comprise Tier Level II of the Bank's Regulatory Capital, in accordance with CMN Resolution 4192/13 pursuant to the order from the Financial System Organization Director.

	March 31, 2019		December 31, 2018	
	Over 5 years	Total	Over 5 years	Total
Financial Bills	150,064	150,064	147,314	147,314
Total	**150,064**	**150,064**	**147,314**	**147,314**

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22. INCOME TAX AND SOCIAL CONTRIBUTION

a) Income tax and social contribution were calculated as follows:

	Bank	
	2019	2018
Profit before taxes on income and profit sharing	**325,171**	**261,874**
(-) Interest on capital (Note 24.d.2)	(54,794)	(48,867)
(-) Profit sharing	(19,663)	(14,546)
Profit before taxes on income	**250,714**	**198,461**
Additions	**283,025**	**231,955**
Temporary	265,847	225,938
Permanent / other	17,178	6,017
Deductions	**(271,681)**	**(199,166)**
Temporary	(229,732)	(166,431)
Permanent / other	(41,949)	(32,735)
Income tax and social contribution base	**262,058**	**231,250**
Income tax and social contribution at statutory rates tax incentives	(104,316)	(103,572)
Recognition / reversal of tax credits and/or deferred tax liabilities	14,446	21,594
Income Tax and social contribution expenses	**(89,870)**	**(81,978)**

In the Consolidated quarter period ended as at March 31, 2019, the amount of R$101,904 (R$98,328 as at March 31, 2018).

b) Deferred income tax and social contribution on temporary additions and deductions (asset and liability):

As established by Resolution 3059/02, amended by Resolution 3355/06, both from the CMN, and CVM Instruction 371/02, the recognition of deferred tax assets and liabilities ("tax credits" and "deferred tax liabilities") arising from temporary differences must cumulatively meet the following conditions: (i) history of taxable income or profit for income tax and social contribution purposes, for at least three of the last five fiscal years, which period must include the current year; and (ii) expected future taxable income or profit generation for income tax and social contribution purposes, in subsequent period, based on an internal technical study showing the probability of occurrence of future tax obligations that enable the realization of the tax credit within no more than ten years.

Law 13169/15, which amends Law 7689/88, raises the social contribution rate to 20% of profit for the period from September 1, 2015 to December 31, 2018. Beginning January 1, 2019, such rate will return to 15%. As a result of such change, social contribution credits were recognized as follows: (i) applying the 15% rate on temporary additions and deductions through August 31, 2015 and on those that are expected to be realized in the period subsequent to December 31, 2018; and (ii) 20% tax rate on temporary additions and deductions that are expected to be realized in the period from September 1, 2015 to December 31, 2018.

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c) Origin of tax credits and deferred tax liabilities:

	2019			
	December 31, 2018	Recognition	Realization	March 31, 2019
Tax credits:				
Deferred income tax and social contribution on:				
Provision for tax risks	162,042	-	-	162,042
Allowance for loan losses	463,466	73,362	(62,582)	474,246
Adjustment to fair value of securities and derivatives	24,235	19,540	(24,236)	19,539
Inflation adjustment of contingencies	278,972	6,833	-	285,805
Other temporary additions	97,142	5,965	(538)	102,569
Total tax credits on temporary differences	**1,025,857**	**105,700**	**(87,356)**	**1,044,201**
Deferred tax liabilities:				
Deferred income tax and social contribution on:				
Adjustment to fair value of securities and derivatives	12,257	12,220	(12,256)	12,221
Unrealized profit (loss) on derivatives	6,660	7,093	(6,660)	7,093
Amortization of negative goodwill on the acquisition of Daycoval Leasing	8,569	690	-	9,259
Inflation adjustment of escrow deposits	228,786	6,688	-	235,474
Total deferred tax liabilities on temporary differences	**256,272**	**26,691**	**(18,916)**	**264,047**

	2018			
	December 31, 2017	Recognition	Realization	December 31, 2018
Tax credits:				
Deferred income tax and social contribution on:				
Provision for tax risks	162,042	-	-	162,042
Allowance for loan losses	437,586	289,413	(263,533)	463,466
Adjustment to fair value of securities and derivatives	21,327	103,028	(100,120)	24,235
Inflation adjustment of contingencies	247,308	31,664	-	278,972
Other temporary additions	70,098	33,429	(6,385)	97,142
Total tax credits on temporary differences	**938,361**	**457,534**	**(370,038)**	**1,025,857**
Deferred tax liabilities:				
Deferred income tax and social contribution on:				
Adjustment to fair value of securities and derivatives	6,050	39,093	(32,886)	12,257
Unrealized profit (loss) on derivatives	4,094	37,633	(35,067)	6,660
Amortization of negative goodwill on the acquisition of Daycoval Leasing	5,808	2,761	-	8,569
Inflation adjustment of escrow deposits	201,858	26,928	-	228,786
Total deferred tax liabilities on temporary differences	**217,810**	**106,415**	**(67,953)**	**256,272**

For the Consolidated, as at March 31, 2019, total tax credits on temporary differences amount to R$1,057,031 (R$1,034,824 as at December 31, 2018), of which R$491,659 (R$476,545 as at December 31, 2018) recorded in current assets and R$565,372 (R$558,279 as at December 31, 2018) recorded in noncurrent long-term assets (Note 10.b). The deferred tax liabilities on temporary differences amount to R$286,016 (R$273,492 as at December 31,2018), of which R$12,693 (R$10,675 as at December 31, 2018) recorded in current liabilities and R$273,323 (R$262,817 as at December 31, 2018) recorded in noncurrent long-term liabilities (Note 20.c).

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d) Estimated realization of tax credits

	Bank			Consolidated		
	March 31, 2019			March 31, 2019		
	Temporary differences		Total	Temporary differences		Total
Realization term	Income tax	Social contribution	Deferred taxes	Income tax	Social contribution	Deferred taxes
Up to 1 year	300,216	185,982	486,198	303,630	188,029	491,659
Up to 2 years	1,770	1,062	2,832	5,469	3,282	8,751
Up to 3 years	2,843	1,706	4,549	3,505	2,103	5,608
Up to 4 years	52	31	83	243	146	389
Up to 5 years	345,570	204,963	550,533	345,623	204,995	550,618
Over 5 years	4	2	6	4	2	6
Total	**650,455**	**393,746**	**1,044,201**	**658,474**	**398,557**	**1,057,031**

	Bank			Consolidated		
	December 31, 2018			December 31, 2018		
	Temporary differences		Total	Temporary differences		Total
Realization term	Income tax	Social contribution	Deferred taxes	Income tax	Social contribution	Deferred taxes
Up to 1 year	292,250	181,202	473,452	294,182	182,363	476,545
Up to 2 years	3,950	2,370	6,320	6,975	4,185	11,160
Up to 3 years	3,321	1,993	5,314	3,764	2,259	6,023
Up to 4 years	1,374	971	2,345	1,525	1,062	2,587
Up to 5 years	337,944	200,389	538,333	337,996	200,420	538,416
Over 5 years	58	35	93	58	35	93
Total	**638,897**	**386,960**	**1,025,857**	**644,500**	**390,324**	**1,034,824**

As at March 31, 2019, the present value of total tax credits is R$975,904 for the Bank (R$876,959 as at December 31, 2018) and R$987,779 for the Consolidated (R$885,215 as at December 31, 2018), and was calculated based on the expected realization of temporary differences, discounted at the average funding rate of the Bank and Daycoval Leasing, projected for the related period.

Taxable income projections consider macroeconomic assumptions, exchange and interest rates, estimates of new financial operations, among others, which may vary in relation to actual results.

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23. CONTINGENT ASSETS AND LIABILITIES AND LEGAL OBLIGATIONS - TAX AND SOCIAL SECURITY

a) Contingent assets - as at March 31, 2019 and December 31, 2018 the Bank did not recognize contingent assets.

b) Contingent liabilities assessed as probable losses and legal obligations (tax and social security).

The Bank is a party to lawsuits involving labor, civil and tax matters. Provisions are recorded based on the criteria described in note 3.t). The Bank's management understands that the provisions recorded are sufficient to cover probable losses on these lawsuits.

The balances of provisions for tax, civil and labor risks recognized and the respective variations for the quarter and the nine-month period ended March 31, 2019, and for the year ended December 31, 2018, are broken down below:

	Bank		Consolidated	
	March 31, 2019	December 31, 2018	March 31, 2019	December 31, 2018
Legal obligation tax risks (Note 20.d and 23.b.1 and b.2)	1,940,294	1,907,489	1,940,294	1,907,489
Civil lawsuits (Note 20.d)	169,718	164,459	169,878	164,602
Labor lawsuits (Note 20.d)	59,325	53,639	80,343	72,405
Total	**2,169,337**	**2,125,587**	**2,190,515**	**2,144,496**

	March 31, 2019					
	Bank			Consolidated		
	Tax	Civil	Labor	Tax	Civil	Labor
Balance at the beginning of the year	**1,907,489**	**164,459**	**53,639**	**1,907,489**	**164,602**	**72,405**
Inflation adjustment	17,081	-	-	17,081	-	-
Recognition	15,724	5,259	5,686	15,724	5,276	7,938
Balance at the end of the year	**1,940,294**	**169,718**	**59,325**	**1,940,294**	**169,878**	**80,343**

	December 31, 2018					
	Bank			Consolidated		
	Tax	Civil	Labor	Tax	Civil	Labor
Balance at the beginning of the year	**1,713,089**	**118,427**	**43,206**	**1,713,089**	**118,903**	**71,060**
Inflation adjustment	79,112	-	-	79,112	-	-
Recognition	115,288	46,032	10,433	115,288	45,699	1,345
Balance at the end of the year	**1,907,489**	**164,459**	**53,639**	**1,907,489**	**164,602**	**72,405**

b.1.) The Bank is challenging in court the legality of certain taxes and contributions and the related amounts are fully accrued.

The main challenges are:

Income tax: challenges the effect of the discontinuation of the inflation adjustment of the balance sheet and the amount accrued in 2018 amounted to R$434,624 (R$407,125 as at December 31, 2018). Total escrow deposits for this lawsuit amounts to R$411,028 (R$407,124 as at December 31, 2018).

Social contribution tax: (i) challenges the effect of the discontinuation of the inflation adjustment of the balance sheet, the existence of different tax rates and seeks the recognition of interest on capital as deductible expense for 1996; and (ii) challenges the increase of the social contribution rate from 9% to 15%, as established by Provisional Act 413/08, converted into Law 11727/2008 and from 15% to 20%, converted into Law 13169/2015, which amends Law 7689/88, the latter change relating to the period from September 1, 2015 to December 31, 2018. The amount accrued for this lawsuit is R$742,170 (R$719,813 as at December 31, 2018) and total escrow deposits for this lawsuit amounts to R$745,972 (R$674,964 as at December 31, 2018).

COFINS (tax on revenue): challenges the constitutionality of Law 9718/98. The amount accrued for this lawsuit amounts to R$657,975 (R$652,469 as at December 31, 2018) and total escrow deposits for this lawsuit amounts to R$478,286 (R$473,827 as at December 31, 2018).

PIS (tax on revenue): challenges the application of Law 9718/98 and the requirement of determination of the PIS tax base by the tax authorities in noncompliance with Constitutional Amendments 01/94, 10/96 and 17/97. The amount accrued for this lawsuit amounts to R$102,043 (R$101,217 as at December 31, 2018) and total escrow deposits for this lawsuit amounts to R$104,434 (R$103,555 as at December 31, 2018).

Other tax challenges are accrued and amount to R$3,482 (R$3,431 as at December 31, 2018) and total escrow deposits for these lawsuits amount to R$3,482 (R$3,431 as at December 31, 2018).

b.2.) Daycoval Leasing has been challenging in courts the Tax Assessment Notices and Fine Interpretation issued by the State of São Paulo, as described below:

AIIM No. 4012543-9 in the amount of R$54,148, of which R$47,826 are assessed as remote loss, which likelihood of favorable outcome is corroborated upon the execution of ICMS Agreement 36 and ratified by the São Paulo State Decrees 56045/2010 and 56952/2013. In turn, the amount of R$6,322 was assessed as possible loss and subject to payment eligible to the Special Installment Payment Program (PEP) enacted by the São Paulo State government through Decree 60444/2014, in the amount of R$3,857 paid on August 29, 2014.

AIIM No. 4.021.955-0 in the amount of R$4,480 assessed as remote loss based on the reasons described in the preceding item pursuant to ICMS Agreement 36.

AIIM No. 3.125.010-5 in the amount of R$2,310 assessed as remote loss, which discusses the difference in the rate upon the application of the benefit from the CONFAZ Agreement 52/91. Such lawsuit ensures the escrow deposit adjusted as at December 31, 2018 in the amount of R$6,143.

Case No. 0030121-4.2011.8.16.0021 relating to the tax execution of the ISS in the municipality of Cascavel-PR, in the amount of R$20, assessed as remote loss, which claims the collection of ISS relating to lease transactions entered into with customers headquartered in that municipality.

c) Contingent liabilities assessed as possible losses:

Contingent liabilities classified as possible losses are not recognized in the accounts and are represented by civil and labor market.

Contingent liabilities, represented by civil and labor lawsuits, are not recorded. Civil lawsuits amount to approximately R$9,920 for the Bank and the Consolidated (R$9,525 for the Bank and the Consolidated as at December 31, 2018).

As at March 31, 2019, the risk estimate for labor lawsuits is approximately R$677 for the Bank and for the Consolidated (R$639 as at December 31, 2018).

There are no ongoing administrative proceedings for noncompliance with the rules of the National Financial System or payment of fines, which may have significant impacts on the financial position of the Bank or its subsidiaries.

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24. EQUITY (Controlling Company)

a) Capital:

As at March 31, 2019, the Bank's fully subscribed and paid-in capital is R$2,253,595, divided into 230,820,429 registered and book-entry common shares, without par value.

b) Capital increase:

The Extraordinary General Meeting held on October 30, 2018 decided on and approved the Bank's capital increase in the amount of R$361,452, upon the issuance of 26,696,649 subscribed and fully paid-up common shares on the same date. This capital increase was ratified by the Central Bank of Brazil on December 13, 2018.

c) Breakdown of common and preferred shares:

	Number of shares	
	March 31, 2019	December 31, 2018
Common shares	230,820,429	230,820,429
Total shares	**230,820,429**	**230,820,429**

(1) The Extraordinary General Meeting held on October 30, 2018, decided on and approved the conversion of all 43,253,988 preferred shares issued by the Bank into common shares, at the ratio of one common share for one preferred share.

During the quarter period ended March 31, 2019, and year period ended December 31, 2018 there was no variation in the capital.

d) Interest on capital and/or dividends:

According to the bylaws, the shareholders are entitled to dividends and/or interest on capital corresponding to no less than 25% of profit for the year, adjusted in accordance with the Brazilian corporate law.

Interest on capital is calculated on equity, limited to the variation of the TJLP (long-term interest rate), contingent upon the existence of profit determined before its deduction or retained earnings and earnings reserves.

d.1) Statement of calculation of interest on capital:

The calculation of interest on capital for the quarter period ended March 31, 2019 and the year period ended December 31, 2018 as it follows:

	March 31, 2019	% (a)	December 31, 2018	% (a)
Profit for the period / year (controlling shareholder)	215,638		645,835	
Recognition of legal reserve	-		(32,292)	
Adjusted calculation basis	**215,638**		**613,543**	
Gross interest on capital	54,794		197,773	
(-) Withholding income tax relating to interest on capital	(8,219)		(29,666)	
Net interest on capital	**46,575**	**21.60**	**168,107**	**27.40**

(a) Refers to the percentage corresponding to the sum of the net interest on capital on adjusted profit.

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d.2) Interest on capital declared and/or paid for the years ended March 31, 2019 and year period ended December 31, 2018:

Interest on capital declared and/or paid is as follows

		March 31, 2019			
		Price per share	Gross		Net
Board of Director's Meeting Date	Availability date	ON	amount	IRRF	amount
03/29/2019	04/15/2019	0.2374	54,794	(8,219)	46,575
		Total	**54,794**	**(8,219)**	**46,575**

		December 31, 2018				
		Price per share		Gross		Net
Board of Director's Meeting Date	Availability date	ON	PN	amount	IRRF	amount
12/28/2018	1/15/2019	0.2140	-	49,391	(7,409)	41,982
9/28/2018	10/15/2018	0.2425	0.2425	49,500	(7,425)	42,075
6/29/2018	7/16/2018	0.2450	0.2450	50,014	(7,502)	42,512
3/29/2018	4/16/2018	0.2394	0.2394	48,868	(7,330)	41,538
			Total	**197,773**	**(29,666)**	**168,107**

d.3) Prior-year dividends:

The meeting of the Board of Directors held on October 30, 2018 decided on and approved the distribution of dividends on prior-year profit, in the amount of R$580,400, at the price of R$2.8434 per share, which payment was made on the same date.

e) Earnings reserves:

	March 31, 2019	December 31, 2018
Earnings reserves	**979,426**	**979,426**
Legal reserve [1]	203,739	203,739
Statutory reserves [2]	775,687	775,687

(1) 5% of profit for the year must be allocated to this reserve until it reaches 20% of capital, according to the prevailing legislation.

(2) Reserve recorded according to the bylaws.

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25. INCOME STATEMENTS

INCOME FROM FINANCIAL INTERMEDIATION -

(a) Lending operations:

	Bank		Consolidated	
	March 31, 2019	March 31, 2018	March 31, 2019	March 31, 2018
Advance on deposits	830	765	830	765
Secured account / overdraft account	97,419	86,371	97,419	86,371
Discounted notes	37,163	45,652	37,163	45,652
Onlending - Resolution 3844/10	1,748	1,373	1,748	1,373
Working capital	129,483	112,844	129,483	112,844
Export Credit Notes - CCE	28,530	20,411	28,530	20,411
Onlending – BNDES	8,072	10,050	8,072	10,050
Onlending – FINAME	2,616	2,700	2,616	2,700
Rural credit	1,175	1,224	1,175	1,224
Financing with intervenience	2,917	2,101	2,917	2,101
Foreign currency financing	2,617	5,448	2,617	5,448
Consumer credit - Store owners	(10)	75	(10)	75
Payroll-deductible loans	301,571	280,931	301,571	280,931
Vehicle financing	52,734	43,184	52,734	43,946
Daypag - discount of forwarding agents' checks	178	238	178	238
Other lending operations	44,711	37,627	46,962	37,602
Recovery of credits previously written off as loss (Note 7.g)	70,315	68,178	70,315	68,178
Loan origination income	3,290	3,072	3,290	3,072
Total profit (loss) from lending operations	**785,359**	**722,244**	**787,610**	**722,981**

b) Leasing operations (Consolidated):

	March 31, 2019	March 31, 2018
Revenue from leasing		
Finance leasing - internal resources	88,109	70,189
Operating leasing - internal resources	13,505	11,949
Finance leasing - external resources	6	792
Operating leasing - external resources	20	106
Gain on disposal of leased assets	6,115	2,831
Recovery of credits previously written off as loss (Note 7.g)	107	322
Total revenue from leasing operations	**107,862**	**86,189**
Expenses on leasing		
Finance leasing - internal resources	(61,941)	(49,511)
Operating leasing - internal resources	(8,271)	(8,492)
Loss on disposal of leased assets	-	(125)
Total expenses on leasing operations	**(70,212)**	**(58,128)**

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c) Securities transactions:

	Bank		Consolidated	
	March 31, 2019	March 31, 2018	March 31, 2019	March 31, 2018
Repurchase agreements	77,160	76,414	77,160	76,414
Interbank deposits	11,002	8,916	4,755	5,893
Fixed-income securities	27,940	27,041	30,074	28,129
Variable-income securities	2	2	2	2
Investments in investment fund units	1,187	658	4,935	4,696
Gain (loss) on sale of securities	201	812	201	812
Fair value adjustments	(40)	18	(261)	18
Foreign investments	235	1,654	235	1,486
Loss on investments in investment fund units	(4)	(35)	(4)	(35)
Total profit (loss) on securities operations	**117,683**	**115,480**	**117,097**	**117,415**

d) Derivatives:

	March 31, 2019			March 31, 2018		
Derivatives	Gain	Loss	Net gain (loss)	Gain	Loss	Net gain (loss)
Swap	1,445,026	(1,484,259)	(39,234)	831,864	(865,002)	(33,138)
Currency forward	186,274	(175,315)	10,959	7,212	(8,262)	(1,050)
Futures	41,379	(54,621)	(13,242)	8,208	(27,401)	(19,193)
Total	**1,672,679**	**(1,714,195)**	**(41,517)**	**847,284**	**(900,665)**	**(53,381)**

The gain (loss) on derivatives net losses on mark-to-market in the amount of R$2,091, respectively, for the quarter period ended March 31, 2019 (losses on mark-to market in the amount of R$22,226 as at March 31, 2018), both for the Bank and Consolidated.

e) Foreign exchange operations (Bank and Consolidated):

	Bank		Consolidated	
	March 31, 2019	March 31, 2018	March 31, 2019	March 31, 2018
Income from foreign exchange operations	19,272	12,349	19,272	12,349
Expenses on foreign exchange operations	(6,803)	(967)	(5,813)	(967)
Exchange rate changes	30,495	24,906	30,495	24,906
Total profit (loss) on foreign exchange operations	**42,964**	**36,288**	**43,954**	**36,288**

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EXPENSES ON FINANCIAL INTERMEDIATION

f) Funding operations:

	Bank		Consolidated	
	March 31, 2019	March 31, 2018	March 31, 2019	March 31, 2018
Interbank deposits	(5,991)	(5,478)	(5,991)	(5,478)
Time deposits	(61,943)	(62,334)	(60,779)	(60,883)
Repurchase agreements	(31,174)	(37,015)	(31,174)	(37,015)
Foreign securities	(10,482)	(11,043)	(10,115)	(10,841)
Mortgage loan notes	(12,653)	(7,303)	(12,653)	(7,303)
Agribusiness letter of credit	(10,336)	(7,817)	(10,336)	(7,817)
Financial bills	(148,868)	(117,765)	(139,186)	(108,388)
Contributions to the Loan Guarantee Fund - FGC	(1,879)	(1,995)	(1,879)	(1,994)
Total	**(283,326)**	**(250,750)**	**(272,113)**	**(239,719)**

g) Borrowings and onlendings (Bank and Consolidated):

	March 31, 2019	March 31, 2018
Foreign borrowings	(9,952)	(14,261)
Onlending - BNDES	(4,932)	(6,750)
Onlendings - FINAME	(1,713)	(1,724)
Obligations to foreign banks	(8,059)	(6,187)
Total gains (losses) on borrowings and onlendings	**(24,656)**	**(28,922)**

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OTHER OPERATING INCOME (EXPENSES)

h) Personnel expenses:

	Bank		Consolidated	
	March 31, 2019	March 31, 2018	March 31, 2019	March 31, 2018
Executive Committee's and Board of Directors´ compensation	(14,450)	(15,732)	(14,963)	(16,144)
Benefits	(12,496)	(10,087)	(14,579)	(11,525)
Social security charges	(15,895)	(14,190)	(17,926)	(15,985)
Proceeds	(39,331)	(32,177)	(45,619)	(37,576)
Training	(4)	(13)	(4)	(13)
Interns´ compensation	(282)	(116)	(293)	(120)
Total personnel expenses	**(82,458)**	**(72,315)**	**(93,384)**	**(81,363)**

i) Other administrative expenses:

	Bank		Consolidated	
	March 31, 2019	March 31, 2018	March 31, 2019	March 31, 2018
Public utilities (water, power and gas)	(588)	(454)	(792)	(575)
Rent and insurance	(4,642)	(4,155)	(6,107)	(4,810)
Communication	(2,426)	(2,315)	(2,706)	(2,534)
Charitable contributions	(822)	(1,251)	(822)	(1,251)
Maintenance and upkeep of asset	(1,157)	(858)	(1,405)	(916)
Consumables	(708)	(932)	(739)	(948)
Data processing	(15,522)	(14,023)	(16,098)	(14,357)
Promotions, advertising and publications	(6,931)	(6,116)	(7,329)	(6,260)
Outside, technical and specialized services (1) (2)	(82,838)	(77,118)	(73,690)	(70,735)
Depreciation and amortization	(2,526)	(2,501)	(2,586)	(2,556)
Other administrative expenses	(8,965)	(7,132)	(10,424)	(7,853)
Total	**(127,125)**	**(116,855)**	**(122,698)**	**(112,795)**

(1) In the Bank´s financial statements information, includes expenses on commission paid upon origination of lending operations during the March 31, 2019, in the amount of R$7,423 (R$50,734 as at December 31, 2018). The amount of R$7,423 in the quarter period ended March 31, 2019 (R$8,172 as at March 31, 2018) paid by the Bank to IFP (associate – Note 12.b), was eliminated in the consolidated financial statements information (Note 2).

(2) Includes the recognition of expenses on commissions paid in advance to third parties, upon origination of lending operations, as determined by Circular Letter 3693/13, as amended by Circular Letter 3738/14, both issued by BACEN, mentioned in Note 3,j) and Note 11.

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j) Tax expenses:

	Bank		Consolidated	
	March 31, 2019	March 31, 2018	March 31, 2019	March 31, 2018
Tax expenses	(1,601)	(1,862)	(1,710)	(2,019)
Services tax (ISS) expenses	(2,506)	(1,761)	(4,572)	(3,936)
Expenses on contributions to COFINS	(25,619)	(22,463)	(28,315)	(25,014)
Expenses on contributions to PIS/PASEP	(4,163)	(3,651)	(4,638)	(4,101)
Total	**(33,889)**	**(29,737)**	**(39,235)**	**(35,070)**

k) Other operating income:

	Bank		Consolidated	
	March 31, 2019	March 31, 2018	March 31, 2019	March 31, 2018
Exchange rate changes [1]	522	3,759	4,701	6,261
Inflation adjustment of escrow deposits	18,143	16,880	18,199	17,370
Other operating income [2]	79,802	64,461	80,467	71,735
Recovery of charges and expenses	-	7	204	7
Total	**98,467**	**85,107**	**103,571**	**95,373**

(1) As of March 31, 2018, refers to the reclassification of foreign exchange variation on investments abroad, not eliminated in the consolidation process of the financial statements.

(2) As of March 31, 2019, other operating revenues are substantially comprised of Securities and receivables - non-recurring revenues in the amount of R$75,641 (R$60,796 as of March 31, 2018).

l) Other operating expenses:

	Bank		Consolidated	
	March 31, 2019	March 31, 2018	March 31, 2019	March 31, 2018
Expenses on provisions (1)	(15,187)	(6,697)	(17,451)	(7,917)
Inflation adjustment of taxes	(17,081)	(22,110)	(17,081)	(22,110)
Exchange rate changes	(1,792)	(3,474)	(5,597)	(5,731)
Other operating expenses	(36,433)	(8,182)	(37,894)	(9,400)
Interest expenses	(2,023)	(844)	(2,024)	(845)
Total	**(72,516)**	**(41,307)**	**(80,047)**	**(46,003)**

(1) For the quarter period ended March 31, 2019, expenses on provisions are substantially comprised of: (i) civil risk - R$5,259 for the Bank and for the Consolidated (R$903 for the Bank and for the Consolidated as at March 31, 2018); (ii) labor risk - R$6,341 for the Bank and R$8,605 for the Consolidated (R$3,137 for the Bank and R$4,357 for the Consolidated as at March 31, 2018); and (iii) sureties and sureties - R$3,588 for the Bank and Consolidated (R$2,657 for the Bank and Consolidated as at March 31, 2018).

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26. CAPITAL MANAGEMENT AND BASEL ACCORD

Capital management

Daycoval carefully manages its capital base to cover the risks inherent to its business, Daycoval's capital adequacy is monitored upon compliance with the rules and proportions established by the Basel Committee on Banking Supervision and adopted by the Central Bank of Brazil, among others.

The main purpose of Daycoval's capital management is to ensure the compliance with foreign capital requirements to maintain a solid credit rating and proper capital structure to support its business and maximize the share value to its shareholders.

Basel Accord

BACEN has issued, beginning March 1, 2013, which have become effective beginning October 1, 2013, a set of standards that govern the Basel Committee's recommendations relating to the capital structure of the financial institutions. Known as Basel III, these new standards improve the capacity of these institutions to absorb the impacts from possible crisis, by strengthening the financial stability and increasing the quantity and quality of the regulatory capital.

These standards address the following issues:

• New regulatory capital calculation methodology (Regulatory Capital (PR)), which remains divided in tiers I and II;

• New required capital calculation methodology, by adopting the minimum requirements of PR, Tier I and Principal Capital, and introduction of the Principal Capital Additional; and

• New optional methodology to determine the minimum capital requirements for the credit cooperatives that joined the Prudential Simplified Regime (RPS), and introduction of the Principal Capital Additional specifically for these cooperatives.

In addition to the issues above, the CMN established a new method to prepare and submit information using a new document called Analytic Trial Balance - Prudential Financial, which started to be used as the basis to calculate the Regulatory Capital (PR) beginning January 2015.

The Basel III rules seek to improve the capital quality of the financial institutions, by restricting the use of financial instruments that are not able to absorb losses and deducting assets that could impact the capital value due to their low liquidity, their dependency on future earnings for realization purposes or whose value cannot be easily accurately. These instruments comprise tax credits, intangible assets and investments in non-controlled companies, specifically those operating in the insurance market.

The new minimum capital requirements establish the percentage amount of the risk-weighted assets and represent the capital requirements to be complied with by the financial institutions, based on the schedule below:

	2018	2019
Principal capital [a] (minimum + additional	6.375 a 8.28%	7.0 a 9.5%
Tier I [b] (minimum + additional)	7.875 a 9.75%	8.5 a 11.0%
PR [c] (minimum + additional)	10.5 a 12.375%	10.5 a 13.0%

a) Principal Capital - comprised of shares, reserves and retained earnings;

b) Tier I - comprised of Principal Capital and other instruments to absorb losses while the institution continue as a going concern; and

c) PR (Regulatory Capital) - comprised of Tier I and other underlying instruments to absorb losses upon the institution's liquidation.

The Principal Capital Additional, which represents the supplementary maintenance (fixed) and cyclic (variable) capital, was also created, and at the end of the transition period, it must represent no less than 2.5% and no more than 5% of the risk-weighted assets, whose percentage is established by BACEN according to current macroeconomic conditions.

These new Basel III standards are effective beginning October 1, 2013, based on the international schedule until their effective implementation on January 1, 2022.

The table below shows the calculation of regulatory capital requirements and the Basel ratio:

	March 31, 2019	December 31, 2018
Regulatory capital for comparison with risk-weighted assets (RWAs)	**3,556,461**	**3,382,951**
Regulatory Capital – Tier I	**3,407,166**	**3,237,038**
Equity	3,407,166	3,237,038
Valuation adjustments to equity –derivatives for cash flow hedge	**(769)**	**(1,401)**
Prudential adjustment - Bacen Resolution 4277/13	(769)	(1,401)
Regulatory Capital - Tier II	**150,064**	**147,314**
Subordinated debts (Note 21)	150,064	147,314
Risk-Weighted Assets (RWA)	**22,197,548**	**23,016,753**
Exposure to credit risk - RWAcpad	18,658,557	18,725,498
Foreign exchange asset - RWAcam	1,441,202	1,564,403
Assets indexed to fixed interest - RWAjur1	565,606	444,052
Assets indexed to foreign exchange coupon - RWAjur2	257,036	185,619
Assets indexed to inflation - RWAjur3	67	100
Shares - RWApacs	114,812	87,783
Operational risk - RWAopad	1,160,268	2,009,298
Minimum Required Regulatory Capital (RWA x 8.00%) (8.625% in 2018) [(1)]	**1,775,804**	**1,985,195**
Basel ratio - Total	**16.02%**	**14.70%**
Basel ratio - Tier I	**15.35%**	**14.06%**
Basel ratio - Tier II	**0.68%**	**0.64%**
Portion of the interest rate in the Banking Book (Pbanking)	208,480	192,123

(1) The minimum requirement for Reference Equity (PR), determined by CMN Resolution No. 4193/13, which corresponds to the application of the "F" factor on the amount of risk-weighted assets (RWA), will be phased out as follows: (i) 8.625% until December 31, 2018; (ii) 8% as of January 1, 2019.

On March 31, 2019, and December 31, 2018 the Bank's Reference Equity exceeded by 100.27% and 70.41%, respectively, the Minimum Reference Equity Required by BACEN.

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27. EMPLOYEE BENEFITS

Education incentive and profit sharing programs

As part of its strategy of being ranked among the best companies to work in Brazil, the Bank invests in the training and welfare of its employees, through programs involving college and MBA and postgraduate students, participates in the federal government's Minor Apprentice program, and implements its own internship programs.

The Bank offers a profit sharing program to all employees. This program is designed in partnership with the Union of Bank Employees and is tied to performance goals annually evaluated, using the criteria according to the Performance Evaluation program.

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28. GUARANTEES AND COLLATERALS PROVIDED ON BEHALF OF THIRD PARTIES (BANK AND CONSOLIDATED)

a) Breakdown by type and maturity date of guarantees and collaterals provided and responsibilities to third parties:

	March 31, 2019		December 31, 2018	
	Outstanding credits for import	Beneficiaries of guarantees provided	Outstanding credits for import	Beneficiaries of guarantees provided
Up to 3 months	2,969	843,741	-	719,764
3 to 12 months	5,091	532,599	114,594	344,071
1 to 3 years	-	103,678	63	141,897
3 to 5 years	-	64,203	-	63,359
over 5 years	-	2,093	-	-
Total	**8,060**	**1,546,314**	**114,657**	**1,269,091**

The Bank does not guarantee any transaction of direct and indirect subsidiaries, their officers and directors and their family members.

b) Provision for guarantees and collaterals provided and responsibilities to third parties:

As prescribed by CMN Resolution No. 4512/16 on accounting policies applicable to the assessment and recognition of the provision for financial guarantees provided, the Bank has recorded the provision for bank guarantees based on the parameters established by CMN Resolution No. 2682/99, which requires the periodical analysis of the portfolio and its classification into nine levels ("AA" (minimum risk) and "H" (maximum risk - loss).

	March 31, 2019			
		Provision		
	Total guarantees and collaterals	Required by BACEN Res. 4512/16	Additional [1]	Total provision
AA	517,014	-	-	-
A	525,262	2,626	1,576	4,202
B	470,936	4,709	8,948	13,657
C	14,640	439	630	1,069
D	26,114	2,611	-	2,611
H	408	408	-	408
Total provision for transactions with characteristics of loans (Note 20.d)	**1,554,374**	**10,793**	**11,154**	**21,947**

	December 31, 2018			
		Recognition (reversal) of provision		
	Opening provision balance	Required by BACEN Res. 4512/16 [1]	Additional	Total provision expenses
AA	557,170	-	-	-
A	345,770	1,729	1,383	3,112
B	448,903	4,489	8,529	13,018
C	11,116	333	145	478
D	19,549	1,955	-	1,955
E	318	95	-	95
F	514	257	-	257
H	408	408	-	408
Total provision for transactions with characteristics of loans (Note 20.d)	**1,383,748**	**9,266**	**10,057**	**19,323**

(1) Beginning June 30, 2018, it started to be recognized, based on a specific risk assessment methodology, supported by a credit collection study, allowance for loan losses in addition to the minimum required by the prevailing regulation.

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c) Variations in the provision for guarantees and collaterals provided and responsibilities to third parties:

March 31, 2019	Opening provision balance	Recognition (reversal) of provision			Closing provision balance
		Required by BACEN Res. 4512/16 [1]	Additional	Total provision expenses	
Bank	19,323	1,527	1,097	2,624	21,947
Total	**19,323**	**1,527**	**1,097**	**2,624**	**21,947**
Current liabilities – sundry payables - provision for financial guarantees provided					19,047
Noncurrent long-term liabilities - sundry payables - provision for financial guarantees provided					2,900
Total					**21,947**

December 31, 2018	Opening provision balance	Recognition of provision			Closing provision balance
		Required by BACEN Res. 4512/16 [1]	Additional	Total provision expenses	
Bank	8,401	865	10,057	10,922	19,323
Total	**8,401**	**865**	**10,057**	**10,922**	**19,323**
Current liabilities – sundry payables - provision for financial guarantees provided					18,236
Noncurrent long-term liabilities - sundry payables - provision for financial guarantees provided					1,087
Total					**19,323**

(1) As prescribed by CMN Resolution No. 4512/16 on accounting policies applicable to the assessment and recognition of the provision for financial guarantees provided, the Bank has recorded the provision for bank guarantees based on the parameters established by CMN Resolution No. 2682/99, which requires the periodical analysis of the portfolio and its classification into nine levels ("AA" (minimum risk) and "H" (maximum risk - loss).

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29. RELATED-PARTY TRANSACTIONS

a) The direct and indirect subsidiaries and the Bank's shareholders enter into transactions with the Bank under usual market conditions. These transactions are contracted at rates consistent with those prevailing in the market on the transaction and settlement dates.

The table below shows the transactions between the Bank and its related parties as at March 31, 2019, and December 31, 2018:

	Bank			
	March 31, 2019		December 31, 2018	
Transactions	Assets (liabilities)	Income (expenses)	Assets (liabilities)	Income (expenses)
Demand deposits	**(3,828)**	**-**	**(2,670)**	**-**
Direct subsidiaries	**(223)**	**-**	**(182)**	**-**
ACS Participações Ltda.	(145)	-	(83)	-
Daycoval Asset Management Ltda.	(29)	-	(16)	-
Daycoval Leasing - Banco Múltiplo S.A.	(36)	-	(64)	-
Dayprev Vida e Previdência S.A.	(13)	-	(19)	-
Indirect subsidiaries	**(1,631)**	**-**	**(855)**	**-**
IFP Promotora de Serviços de Consultoria e Cadastro Ltda.	(224)	-	(134)	-
SCC Agência de Turismo Ltda.	(9)	-	(15)	-
Treetop Investments Ltd.	(1,398)	-	(706)	-
Other associates	**(9)**	**-**	**(4)**	**-**
Shtar Empreendimentos e Participações S.A.	(1)	-	(2)	-
Parateí Agropecuária e Imobiliária Ltda.	(1)	-	(1)	-
Valco Adm. Part. e Representações Ltda.	(7)	-	(1)	-
Other related parties – individuals	**(1,965)**	**-**	**(1,629)**	**-**
Interbank deposits	**399,192**	**6,247**	**370,536**	**16,751**
Direct subsidiaries	**399,192**	**6,247**	**370,536**	**16,751**
Daycoval Leasing - Banco Múltiplo S.A.	399,192	6,247	370,536	16,751
Time Deposits	**(265,834)**	**(4,170)**	**(258,758)**	**(17,259)**
Direct subsidiaries	**(121)**	**(1)**	**-**	**(308)**
ACS Participações Ltda.	(121)	(1)	-	(290)
Daycoval Asset Management Ltda.	-	-	-	(18)
Indirect subsidiaries	**(81,608)**	**(1,163)**	**(69,867)**	**(5,039)**
IFP Promotora de Serviços de Consultoria e Cadastro Ltda.	(53,712)	(929)	(57,116)	(4,180)
SCC Agência de Turismo Ltda.	(12,854)	(214)	(12,751)	(859)
Treetop Investments Ltd.	(15,042)	(20)	-	-
Other related parties – individuals	**(184,105)**	**(3,006)**	**(188,891)**	**(11,912)**
Financial bills	**(768,072)**	**(15,794)**	**(701,831)**	**(51,395)**
Direct subsidiaries	**(611,529)**	**(9,683)**	**(566,358)**	**(37,982)**
ACS Participações Ltda.	(611,529)	(9,683)	(566,358)	(37,982)
Other related parties – individuals	**(156,543)**	**(6,111)**	**(135,473)**	**(13,413)**
Agribusiness letter of credit	**(8,875)**	**(26)**	**(1,367)**	**(452)**
Other related parties – individuals	(8,875)	(26)	(1,367)	(452)
Mortgage Loan Notes	**(16,831)**	**(409)**	**(2,997)**	**(403)**
Other related parties – individuals	(16,831)	(409)	(2,997)	(403)
Securities issued abroad	**-**	**(367)**	**(29,392)**	**(3,053)**
Indirect subsidiaries	**-**	**(367)**	**(29,392)**	**(3,053)**
Treetop Investments Ltd.	-	(367)	(29,392)	(3,053)
Prepaid expenses	**762**	**(10,387)**	**(1,075)**	**(24,369)**
Indirect subsidiaries	**762**	**(10,387)**	**(1,075)**	**(24,369)**
IFP Promotora de Serviços de Consultoria e Cadastro Ltda.	762	(10,387)	(1,075)	(24,369)

	Daycoval Leasing			
	March 31, 2019		December 31, 2018	
Transactions	Assets (liabilities)	Income (expenses)	Assets (liabilities)	Income (expenses)
Interbank deposits	**(399,192)**	**(6,247)**	**(370,536)**	**(16,751)**
Controlling shareholder	**(399,192)**	**(6,247)**	**(370,536)**	**(16,751)**
Banco Daycoval S.A.	(399,192)	(6,247)	(370,536)	(16,751)

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b) The table below shows the yield rates and respective terms of the transactions between the Bank and its related parties as at March 31, 2019:

Description	Interest rate	Assets (liabilities) Up to 3 months	3 to 12 months	1 to 3 years	3 to 5 years	Total
Interbank deposits		**48,136**	**351,056**	**-**	**-**	**399,192**
Direct subsidiaries		**48,136**	**351,056**	**-**	**-**	**399,192**
Daycoval Leasing - Banco Múltiplo S.A.	Floating	48,136	351,056	-	-	399,192
Time deposits		**(2,499)**	**(31,852)**	**(202,183)**	**(29,300)**	**(265,834)**
Direct subsidiaries		**-**	**-**	**(71)**	**(50)**	**(121)**
ACS Participações Ltda.	Floating	-	-	(71)	(50)	(121)
Indirect subsidiaries		**-**	**(20)**	**(66,365)**	**(15,223)**	**(81,608)**
IFP Promotora de Serviços de Consultoria e Cadastro Ltda.	Floating	-	-	(53,511)	(201)	(53,712)
SCC Agência de Turismo Ltda.	Floating	-	-	(12,854)	-	(12,854)
Treetop Investments Ltd.	Fixed	-	(20)	-	(15,022)	(15,042)
Other related parties - individuals	Fixed /Floating	**(2,499)**	**(31,832)**	**(135,747)**	**(14,027)**	**(184,105)**
Financial bills		**(49,377)**	**(630,024)**	**(36,134)**	**(52,537)**	**(768,072)**
Direct subsidiaries		**(38,656)**	**(509,310)**	**(13,418)**	**(50,145)**	**(611,529)**
ACS Participações Ltda.	Fixed /Floating	(38,656)	(509,310)	(13,418)	(50,145)	(611,529)
Other related parties - individuals	Fixed /Floating	**(10,721)**	**(120,714)**	**(22,716)**	**(2,392)**	**(156,543)**
Agribusiness letter of credit		**(506)**	**(7,193)**	**(1,176)**	**-**	**(8,875)**
Other related parties - individuals	Fixed /Floating	**(506)**	**(7,193)**	(1,176)	-	(8,875)
Mortgage Loan Notes		**(369)**	**(3,014)**	**(13,448)**	**-**	**(16,831)**
Other related parties - individuals	Fixed /Floating	(369)	(3,014)	(13,448)	-	(16,831)
Prepaid expenses						
Indirect subsidiaries		**(81)**	**(681)**	**-**	**-**	**(762)**
IFP Promotora de Serviços de Consultoria e Cadastro Ltda.	n/a	(81)	(681)	-	-	(762)

(1) Interest rates range between: (i) fixed from 10.01% to 14.70% p.a.; and (ii) floating from 93% to 115% of the CDI rate.

Pursuant to the Brazilian legislation, the financial institutions cannot grant loans or advances or secure the operations of their controlling shareholders, associates, officers or directors or their second-degree relatives. Accordingly, the Bank does not grant loans or advances and does not secure any operation of its direct and indirect subsidiaries, their officers or directors or family members.

c) Compensation of key management personnel:

The Annual Shareholders' Meeting sets the overall compensation of Management, as established by the Bank's bylaws.

For the year ended December 31, 2019, the overall compensation of up to R$70 million (R$70 million for the year ended December 31, 2018) was set at the Annual and Extraordinary General Meeting held on April 30, 2018.

	March 31, 2019	December 31, 2018
Total compensation	14,450	45,471
Direct and fringe benefits (healthcare plan)	278	953

The Bank does not offer other short or long-term post-employment or severance benefits to its key management personnel

d) Ownership interest:

As at March 31, 2019, and December 31, 2018, the members of the Board of Directors and the Executive Committee held jointly the following interest in the Bank's capital:

	Ownership interest in relation to share class	
	March 31, 2019	December 31, 2018
Common shares (ON)	100.00%	100.00%

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30. OTHER INFORMATION

a) Asset management:

Daycoval Asset Management is responsible for administering and managing third-party assets through investment funds, whose net assets as at March 31, 2019, are R$3.7 billion (R$3.7 billion as at December 31, 2018).

b) Insurance coverage against losses:

Despite the low risk exposure as a result of their assets not being physically concentrated, the Bank and its subsidiaries insure their assets at amounts considered sufficient to cover probable losses.

c) Relationship with Auditors:

In accordance with CVM Instruction 381, of January 14, 2003, we inform that the firm engaged to review the Bank's financial statement information and audit the financial statements for the quarter ended March 31, 2019, has not provided any other services to the Bank and the Group companies, other than the independent audit services.

Our policy, including our subsidiaries, to engage non-audit services from our independent auditors, is based on applicable regulation and internationally accepted principles that preserve the independence of the auditor. These principles consist of: (a) the auditor must not audit its own work; (b) the auditor must not exercise managerial functions in its client; and (c) the auditor must not promote the interests of its client.

d) Audit Committee:

As required by CMN Resolution 3198/04, and with a view to adopting the industry best practices when conducting its businesses, Extraordinary General Meeting held on March 26, 2009 has decided on and approved the establishment of an Audit Committee, which will be comprised of 3 independent members, pursuant to the prevailing legislation. The establishment of this committee was ratified by the Central Bank of Brazil on May 26, 2009.

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31. INTEGRATED RISK AND CAPITAL MANAGEMENT

On February 23, 2017, BACEN has disclosed CMN Resolution No. 4557, which was effective for the banks from S2 to S5 segments, defined pursuant to CMN Resolution No. 4.553/17, beginning February 22, 2018, and revoked CMN Resolutions No. 3380, 3464, 3721, 3988, and 4090, which provided for the implementation of individual operating, market, credit, capital and liquidity risk management frameworks, respectively.

Daycoval, in addition to being aligned with the requirements set out in CMN Resolution No. 4557, understands the integrated risk management as an important tool for the generation of value to the Bank, shareholders, employees and clients. Accordingly, it establishes strategies and goals to reach the ideal balance between the growth and investment return targets and the related risks, being allowed to explore its resources with efficiency and effectiveness in the attainment of the Bank's objectives.

The Corporate Risk Management structuring, in addition to complying with the regulatory body requirements, contributes to a better Corporate Governance, which is one of Daycoval's strategic goals, and which was designed based on the purposes, demands and institutional culture.

The identification of risks allows mapping the internal and external risk events that could affect the business unit purposes. In this regard, the Risk Committees and the risk managers play an important role in the Bank's several areas to ensure its continuous expansion.

The Risk Managers identify, measure, control, assess and manage the risks, ensuring the consistency between the risks assumed and the acceptable risk level defined by the Institution, as well as report the exposure to the senior management, business areas and regulatory bodies.

In addition to the requirement to implement an integrated risk and capital management framework, CMN Resolution No. 4557/17 also required financial institutions to prepare the Risk Appetite Statement (RAS) and to establish a Risk Management Committee and appoint, to BACEN, the Chief Risk Officer (CRO), with designation of roles, responsibilities and independence requirements.

Main risk categories and respective management frameworks:

a) Market risk

Market risk is the risk of incurring losses due to fluctuations in the fair values of the positions held by a financial institution, including the risks to which the transactions subject to exchange rate changes, interest rates, stock prices, and commodity prices are exposed.

a.1) Main market risks to which Daycoval is exposed:

Interest rate risk

Possible interest rate fluctuations that could adversely affect the value of the financial instruments. This risk is classified as follows:

• Parallel change risk: exposure of profit and loss to parallel changes in the interest curve, resulting in equal differentials for all terms.

• Risk of changes in curve slop: exposure of profit or loss to the changes in the timeframe structure of the interest curve, resulting in changes in pending or curve form.

Currency price risk

The exposure of foreign currency positions to the changes in the exchange type.

Price risk

The exposure of outstanding securities to adverse market price fluctuations. This risk is classified as follows:

• Generic or systematic risk: exposure of the position value to the changes in prices in general;

• Specific risk: exposure not related to the changes in prices in general but related to the issuer's own characteristics

Commodity price risk

The risk related to the effects from the potential changes in the portfolio commodity prices.

a.2) Market Risk management methodologies

Value-at-Risk (VaR)

The Value-at-Risk or VaR is the benchmark used in the market and a measure that properly summarizes the market risk exposure from the trading activities (trading portfolio). It represents the potential maximum loss in the market value that, under normal market conditions, can result in a specific position or portfolio, considering a defined certainty level (confidence level) and time horizon.

Among the different methodologies available to calculate the VaR (parametric, historical simulation and Montecarlo simulation), Daycoval understands that the parametric methodology is the most adequate to the characteristics of the positions of its trading portfolio.

Parametric methodology

It is based on the normality statistics in the distribution of probabilities related to the risk factor changes, based on the volatilities and correlations to determine the potential change of a position. Accordingly, the risk factors must be identified and the positions must be allocated to the defined vertices. Subsequently, the volatilities of each risk factor and the correlations to the positions are applied.

a.3) Stress test

It is a supplementary tool to the VaR measures and scenario analysis used to measure and assess the risk to which the Bank is exposed. It is based on the definition of a set of movements for certain market variables and the determination of the effects from the movements on the portfolio value. The stress test results are periodically analyzed by the Market Risk Committee.

a.4) Scenario analysis

The purpose of the scenario analysis is to assist the senior management in understanding the impact caused by certain events on the Bank, using a risk analysis tool that defines the long-term scenarios that affect the parameters or variables defined for risk measurement.

Differently from the stress tests, which consider the impact from the changes in the market risk factors on the short-term portfolio, the scenario analysis determines the impact from more complex events on the Bank as a whole.

In the definition of the scenarios, the following factors are considered:

• The experience and expertise of the persons responsible for the areas involved;

• The proper number of relevant variables and their explanation power in order to avoid unnecessary problems in the analysis and interpretation of the results.

As a risk management governance practice, Daycoval and its subsidiaries adopt a continuous risk management process that involves controlling all the positions exposed to the market risk. The market risk limits are determined according to the characteristics of the operations, which are segregated in the following portfolios:

• Trading portfolio: refers to transactions with financial instruments and commodities, including derivatives, that are held for the purpose of being actively traded or to hedge other financial instruments comprising the trading portfolio. These held-for-trading transactions are those intended for the resale, obtain gains from actual or expected price fluctuations, or arbitrage.

• Banking portfolio: refers to all transactions that are not classified in the trading portfolio and are represented by transactions arising from the Bank’s business lines.

The segregation above is related to the way Management manages Daycoval's business and its exposure to the market risks, in conformity with the best market practices, the transaction classification criteria set forth in prevailing regulations issued by BACEN and the –Basel Accord. Therefore, according to the nature of the activities, the sensitivity analysis, as prescribed by CVM Instruction 475/08, was conducted for the trading and banking portfolio operations, as they represent significant exposures for Daycoval's profit or loss.

The sensitivity analysis of the trading and banking portfolios as at March 31, 2019 and December 31, 2018 is as follows:

Financial exposures	March 31, 2019			December 31, 2018		
	Scenarios			Scenarios		
Risk factors	1	2	3	1	2	3
Fixed rate	(34,460)	(63,693)	(91,252)	(12,952)	(24,328)	(35,450)
Foreign currencies	20,048	58,368	96,655	10,447	29,503	48,796
Price indices	(3)	(4)	(5)	(4)	(6)	(8)
Variable income	(8,611)	(20,810)	(33,008)	(7,098)	(17,154)	(27,209)
Borrowings	(4,227)	(7,728)	(11,364)	(6,340)	(11,853)	(17,198)
Other	(39)	(97)	(153)	(16)	(60)	(103)
Total *Trading*	**(27,292)**	**(33,964)**	**(39,127)**	**(15,963)**	**(23,898)**	**(31,172)**
Total *Banking*	**(256,243)**	**(474,851)**	**(682,109)**	**(234,581)**	**(437,350)**	**(631,955)**
Total	**(283,535)**	**(508,815)**	**(721,236)**	**(250,544)**	**(461,248)**	**(663,127)**

The sensitivity analysis was carried out considering the following scenarios:

• Scenario 1: refers to the probable stress scenario for risk factors, and available market information (B3 S.A., ANBIMA, etc.) was used as basis for the preparation of this scenario. Accordingly, the risk factors considered were as follows: (i) R$/US$4.44 (R$/US$4.41 as at December 31, 2018); (ii) fixed interest rate – 9.10% p.a. (9.05% p.a. as at December 31, 2018); (iii) Ibovespa – 81,102 points (74,704 points as at December 31, 2018); and (iv) 6.22% p.a. exchange coupon (6.22% p.a. as at December 31, 2018).

• Scenario 2: As established by CVM Instruction 475/08, this scenario considered a deterioration of the risk factors of approximately 25%. Accordingly, the risk factors considered were as follows: (i) US$5.55 (R$/US$5.51 as at December 31, 2018); (ii) fixed interest rate – 11.38% p.a. (11.31% p.a. as at December 31, 2018); and (iii) Ibovespa – 60,827 points (56,028 points as at December 31, 2018); and (iv) 7.78% p.a. exchange coupon (7.78% p.a. as at December 31, 2018).

• Scenario 3: As established by CVM Instruction 475/08, this scenario considered a deterioration of the risk factors of approximately 50%. Accordingly, the risk factors considered were as follows: (i) R$/US$6.66 (R$/US$6.61 as December 31, 2018); (ii) fixed interest rate 13.65% p.a. (13.58% p.a. as December 31, 2018); and (iii) Ibovespa – 40,551 points (37,352 points as at December 31, 2018); and (iv) 9.33% p.a. exchange coupon (9.33% p.a. as at December 31, 2018).

It is important to mention that the results shown in the tables above reflect the impacts for each scenario projected on a static position of the portfolio as at March 31, 2019, and as at December 31, 2018. The market dynamics changes this position continually and does not necessary reflect the actual position on the reporting date. Additionally, as mentioned above, the Trading and banking portfolio positions are continuously managed to mitigate the related risks, according to the strategy defined by Management and, when there are any indication of deterioration of a certain position, proactive actions are taken to minimize possible adverse impacts to maximize the risk/return ratio for the Bank.

a.5) Backtesting

Backtesting is the comparison between the former estimated gain/loss and the effective gain/loss. The purpose is to analyze the model adequacy. For purposes of backtesting, effective gains/losses are used for each business unit.

b) Liquidity risk

Liquidity risk is the risk of mismatches between tradable assets and payable liabilities — payables and receivables mismatches — that might affect the payment ability of the Bank, taking into consideration the different currencies and settlement terms of its assets and liabilities.

The model risk is not included among them, which is defined as the potential loss for incorrect estimates and calculation of the parameters and assumptions included in the liquidity risk management methodologies. This risk is more related to the operations rather than liquidity.

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c) Credit risk

The credit risk is the risk of incurring losses due to borrower or counterparty default under agreed financial obligations, the depreciation of a credit agreement due to the downgrading of the borrowers' risk ratings, the decrease in gains or returns, the advantages granted in restructurings, and the recovery costs.

Classification of operations

For the classification of the lending operations, Daycoval adopts consistent, verifiable criteria that combine the borrower's economic, financial, personal and market information with the accessory collaterals provided for the operation. Based on this information, the minimum provision will be recognized to cover the risks assumed, as prescribed by BACEN Resolution 2682/99.

Daycoval credit scoring models

These are statistical models designed and used for risk rating in the credit granting process following the adoption of the credit policies previously analyzed and approved.

Treasury - financing of government bonds, over-the-counter derivatives and brokers

Low-risk strategies are adopted in the structuring of operations based on the exposure limit analysis against the counterparties' equity, trading agreements previously agreed and according to the objective technical assessment conditions of the counterparties' credit risk and strict selection of brokers related to prime banks to deal with the positions allocated.

d) Operational risk

Operational risk is the possibility of an entity incurring losses due to failure, deficiency or ineffectiveness of internal processes, people and systems, or external events. It includes the legal risk associated to inadequacy or deficiency in contracts entered into by the Bank, as well as penalties due to noncompliance with legal provisions, and compensation paid for damages caused to third parties as a result of the activities conducted by the Bank.

In managing operational risks, the Bank relies on a qualified risk management framework to identify, control and identify operational risks, as well as to disseminate the risk mitigation culture.

e) Social and environmental risk

Refers to the possibility of incurring losses arising from social and environmental damages, related to each entity individually, comprising Daycoval Group, in accordance with the following principles:

- Significance: Establishes as significance criterion the most representative segment in its product portfolio; and

- Proportionality: Establishes as proportionality criterion the credit operations of the most significant segment, whose economic activity may pose a higher risk of causing social and environmental damages associated with the customer's total debt amount in an institution.

Commentary on the Behavior of Business Projections

Not applicable.

Other Information that the Company understands Relevant

Not applicable.

Opinions and Declarations / Opinion of the Fiscal Council or Equivalent Body

Up to the date of presentation of the financial statements, there is no Fiscal Council installed.

Summarized Audit Committee Opinions and Statements / Report (statutory, set forth in specific CVM regulation)

Not applicable for the quarter ended March 31, 2019.

Summarized Audit Committee Opinions and Statements / Opinion or Report, if any (either statutory or not)

Not applicable for the quarter ended March 31, 2019.

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