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

This supplement (the "Supplement") is a supplement to, and should be read in conjunction with, the offering memorandum dated July 2, 2019 (the "Offering Memorandum") relating to the U.S.$2,000,000,000 Euro Medium-Term Note Programme described therein (the "Programme"), pursuant to which 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"). Terms defined in the Offering Memorandum have the same meaning when used in this Supplement.

This Supplement has been approved by Euronext Dublin for the purposes of listing.

The Issuer accepts responsibility for the information contained in this Supplement. 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 Supplement is in accordance with the facts and does not omit anything likely to affect the import of such information. The Issuer accepts responsibility for the information contained in this Supplement.

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

The date of this Offering Memorandum Supplement is December 4, 2019.

The purpose of this Supplement is to:

- correct certain inaccuracies as to amounts in Brazilian *reais*, U.S. dollar translations and percentage calculations included in the Offering Memorandum dated July 2, 2019 by substituting pages 10, 11, 26-29, 53, 63-100, 107, 109, 114, 115, and 130-132 of the Offering Memorandum with the corresponding pages marked with the corresponding page numbers in Appendix A to this Supplement. Substituted *real*, dollar and percentage amounts are highlighted so as to show the changes from the Offering Memorandum dated July 2, 2019.

Save as disclosed in this Supplement, no inaccuracy relating to information included in the Offering Memorandum has arisen or been noted, as the case may be, since the publication of the Offering Memorandum.

To the extent that there is any inconsistency between (a) any statement in this Supplement and (b) any other statement in or incorporated by reference in the Offering Memorandum prior to the date of this Supplement, the statement in this Supplement will prevail.

Appendix A

Pages 10, 11, 26-29, 53, 63-100, 107, 109, 114, 115, and 130-132 of the Offering Memorandum are substituted with the corresponding pages marked with the corresponding page numbers in this Appendix A. Substituted *real*, dollar and percentage amounts are highlighted so as to show changes from the Offering Memorandum dated July 2, 2019.

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	10,774.9	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	8,051.3	6,250.9	5,758.6	2,077.9
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%	34.1%	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,

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	2,780.9	2,898.0	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)	96.4
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)	(1,638.4)	(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	11.0
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	42.6	148.7	151.0	11.0
Restricted deposits—Central Bank	42.5	148.6	150.7	11.0
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**	**9,019.2**	**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	562.61
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**

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	432.9
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**	**3,974.1**
Deposits	2,177.3	562.6
Funds from acceptance and issuance of securities	4,941.9	1,277.0
Borrowings	371.8	96.1
Domestic onlendings	173.1	44.7
Other payables	2,579.7	666.6
Total	**10,243.8**	**2,647.0**
Deferred income	118.2	30.5
Non-controlling interests	1.0	0.3
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.

- *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)	-%	(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%	(3.4)%
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$372.9 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$391.9 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)	1.7%	(31.6)	2.3%	(27.2)%
Time deposits	(239.8)	17.8%	(404.7)	29.8%	(40.7)%
Money-market funding	(139.4)	10.3%	(167.0)	12.3%	(16.5)%
Foreign securities[(1)]	(397.9)	29.5%	(103.4)	7.6%	284.8%
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$1,808.7 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 67.3%, 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	21.5%	(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)	2.3%	(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 12.4%, from R$191.0 million in the year ended December 31, 2016 to R$214.7 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, 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	7.3	0.5%	4.7	0.4%	7.6	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	28,979.7	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	775.0	2.7%	513.0	2.2%	386.1	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)
Regulatory capital - Tier 2 (subordinated)	147.3	-	-

	As of December 31,		
	2018	2017	2016
	(R$ millions, except percentages)		
Regulatory capital for comparison to RWAs	**3,383.0**	**3,005.3**	**2,653.6**
Risk weighted assets			
Exposure to credit risk - RWAcpad	18,725.5	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	1,780.1	1,809.0
Foreign securities	-	0.9	0.1	81.7	82.7
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	1,263.3
Foreign securities	2.7	0.5	0.1	58.9	62.2
Shares of listed companies	5.2	-	-	-	5.2
Investment fund units	176.5	-	-	-	176.5
Total	184.4	37.8	4.9	1,280.1	1,507.2
Total securities portfolio	245.3	37.8	4.9	1,280.1	1,568.1

	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	107.8	-	-	-	107.8
Total	115.1	0.5	48.1	2,265.8	2,429.5
Total securities portfolio	172.5	0.5	48.1	2,265.8	2,486.9

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	62.3	59.5
Investment fund units	203.3	176.5	107.8
Shares of listed companies	0.1	-	4.8
Total	1,872.9	1,225.2	2,255.8
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	2,486.9

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	(9.6)	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	369.6	13,272.8	85.1	13,033.4	59.0	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	9.6	11.5
Other credit and notes receivable	3,210.4	15.5	2,497.9	6.4	1,970.0	29.8
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	**18,059.4**	**14,861.6**	**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	**267.4**	**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	70.8%
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%	187.6
C	1,259.9	6.9	3.0%	53.2
D	374.6	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	105.2	0.7	30.0%	31.5
F	74.5	0.5	50.0%	37.3
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	267.4	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	-	44.1	44.1

Total	**1,898.0**	**8,876.9**	**10,774.9**

	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	-	186.1	186.1
Total	**1,688.4**	**6,762.5**	**8,450.9**

	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	363.6
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	0.7	-	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$3.7 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	10,774.9	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	8,051.3	6,250.9	5,758.6	2,077.9
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%	34.1%	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.

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

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%	1,207.4	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%	9,803.5	70.8%
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"):

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$366.6 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$472.0 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%

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**	**13,837.3**

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 1.0% of our total loan portfolio, compared to 1.3% and 0.9% 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

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$9.18 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 11, 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$997.0 million.

See note 29 to our consolidated financial statements included in this Offering Memorandum for further discussion of our related party transactions.