



## Haitong Banco de Investimento do Brasil S.A.

CNPJ/MF nº 34.111.187/0001-12

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### MANAGEMENT REPORT

(In thousands of Reais)

#### To our Shareholders,

We hereby submit to you the management report and financial statements of Haitong Banco de Investimento do Brasil S.A. for the six-month period and year ended December 31, 2017, including the notes to the financial statements, prepared in accordance with Brazilian Corporate Law and the standards of the Central Bank of Brazil.

#### Transfer of control

Haitong Banco de Investimento do Brasil S.A. (Bank) is a direct subsidiary of Haitong Bank S.A., headquartered in Lisbon (Portugal).

On August 12, 2015, the Central Bank of Brazil approved the transfer of the indirect shareholding control of Haitong Banco de Investimento do Brasil S.A. and its subsidiaries Haitong Securities do Brasil S.A. - CCVM and Haitong DTVM S.A. to Haitong International Holdings Limited, headquartered in Hong Kong, a wholly-owned subsidiary of Haitong Securities Co. Ltd, headquartered in Shanghai, China, in accordance with the terms and conditions set forth in the purchase and sale agreement entered into with the former controlling shareholder "New Bank" in December 2014. The corporate structure of the Bank and its subsidiaries has not changed in Brazil, and they continued to be directly controlled by Haitong Bank S.A..

#### Performance of activities

During the year ended December 31, 2017, Haitong Banco de Investimento do Brasil S.A. recorded a loss of R\$ 92,153 mainly due to the addition of a provision to cover possible losses on debt instruments receivables and delinquent loans (see notes 8 "b" and 8 "c") and the increase in personnel and administrative costs resulting from the organizational restructuring plan implemented during the year (see note 18).

The Equity totaled R\$ 528,246 at the end of the year, after considering the loss for the year. The capital adequacy ratio, as prescribed by the Basel Committee and regulated by the Central Bank of Brazil, reached 17.1% at the end of the year in the prudential consolidated financial statements, higher than the minimum of 10.5% required by the Central Bank of Brazil.

Total assets amounted to R\$ 4,872,301 at the end of the year. Interbank investments and the securities and derivatives portfolio reached R\$ 4,024,672 accounting for 82.6% of the total assets.

The securities portfolio reached R\$ 2,038,109, accounting for 41.8% of the total assets, represented by 79.7% of government bonds and 20.3% of private securities. Out of this portfolio, the Bank classified 69.3% of the securities as "trading securities", 23.5% as "available-for-sale securities" and 7.2% as "held-to-maturity securities", based on Management's intention and the Bank's financial capacity to hold them to maturity. The Bank's liquidity position, represented by the portfolio of unpledged securities, reached R\$ 632,476, accounting for 1.2 times the final equity.

The loan portfolio reached R\$ 436,829 at the end of the year. This portfolio, including collaterals provided in the amount of R\$ 245,284, reached the balance of R\$ 682,113 at the end of the year. Out of this loan portfolio, 62.5% of transactions was classified between risk levels "AA" and "C" in accordance with the prevailing regulations of the Central Bank of Brazil. The past-due installments totaled R\$ 68,711 corresponding to 15.7% of the portfolio. The allowance for loan losses totaled R\$ 87,769, corresponding to 20.1% of the loan portfolio.

The amount of funds raised totaled R\$ 4,077,160 at the end of the year, represented by R\$ 164,706 of interbank deposits, R\$ 962,195 of time deposits, R\$ 2,613,986 of money market funding, R\$ 223,890 of onlendings from BNDES and R\$ 112,383 of financial bills, agribusiness letters of credit and structured transaction certificates.

#### Acknowledgements

It is indispensable to translate the recognition to the work of our employees, the support of our shareholders and the trust of our clients and the financial institutions of the market.

São Paulo, March 27, 2018

Board of Directors

**BALANCE SHEETS DECEMBER 31, 2017 AND 2016 (In Thousands Of Reais)**

<b>Assets</b>	<b>Note</b>	<b>Dec 31, 2017</b>	<b>Dec 31, 2016</b>	<b>Liabilities</b>	<b>Note</b>	<b>Dec 31, 2017</b>	<b>Dec 31, 2016</b>
<b>Current assets</b> .....		<b>3,588,848</b>	<b>7,139,826</b>	<b>Current liabilities</b> .....		<b>3,565,394</b>	<b>6,771,207</b>
<b>Cash and banks</b> .....	4	<b>6,086</b>	<b>4,254</b>	<b>Deposits</b> .....		<b>920,721</b>	<b>1,040,897</b>
<b>Interbank investments</b> .....		<b>1,857,291</b>	<b>2,800,720</b>	Interbank deposits.....	11 a	164,706	131,341
Money market.....	5	1,585,597	2,564,647	Time deposits.....	11 a	756,015	909,556
Interbank deposits.....	5	271,694	236,073	<b>Money market funding</b> .....		<b>2,527,007</b>	<b>5,581,367</b>
<b>Securities and derivative instruments</b> .....		<b>1,587,234</b>	<b>4,141,406</b>	Own portfolio .....	11 a	954,226	2,999,208
Own portfolio .....	6 a	384,494	842,312	Third-party portfolio .....	11 a	1,572,781	2,582,159
Subject to repurchase commitments .....	6 a	1,057,135	2,804,733	<b>Proceeds from securities issuance</b> .....		<b>65,214</b>	<b>28,006</b>
Subject to guarantees.....	6 a	105,225	465,602	Proceeds from securities issuance .....	11 a	64,374	16,653
Derivative instruments .....	7 a	40,380	28,759	Structured Transaction Certificates.....	11 a	840	11,353
<b>Loans</b> .....		<b>74,359</b>	<b>113,674</b>	<b>Onlendings from public sector</b> .....		<b>24,195</b>	<b>23,793</b>
Loans - Private sector.....	8 a	109,711	121,578	BNDES.....	11 a	17,786	15,338
(Allowance for loan losses) .....	8 b	(35,352)	(7,904)	FINAME.....	11 a	6,409	8,455
<b>Other receivable</b> .....		<b>59,581</b>	<b>73,597</b>	<b>Derivative instruments</b> .....		<b>11,782</b>	<b>43,642</b>
Receivables on sureties and guarantees honored		33,795	-	Derivative instruments .....	7 a	11,782	43,642
Foreign exchange portfolio.....	9 a	-	37,342	<b>Other payables</b> .....		<b>16,475</b>	<b>53,502</b>
Income receivable.....		973	7,110	Collection of taxes.....		2	2
Securities trading.....	9 b	14,563	18,579	Foreign exchange portfolio.....	9 a	-	37,216
Other .....	9 c	44,045	10,904	Social and statutory.....		3,825	3,825
(Allowance for loan losses) .....	8 b	(33,795)	(338)	Taxes payable .....	9 d	1,784	3,988
<b>Other assets</b> .....		<b>4,297</b>	<b>6,175</b>	Trading securities.....	9 e	874	1,801
Prepaid expenses.....		4,297	6,175	Other .....	9 f	9,990	6,670
<b>Long-term assets</b> .....		<b>1,107,447</b>	<b>1,441,531</b>	<b>Long-term liabilities</b> .....		<b>777,877</b>	<b>1,364,569</b>
<b>Interbank investments</b> .....		<b>79,304</b>	<b>58,459</b>	<b>Deposits</b> .....		<b>206,180</b>	<b>789,503</b>
Interbank deposits.....	5	79,304	58,459	Interbank deposits.....	11 a	-	286,462
<b>Securities and derivative instruments</b> .....		<b>500,843</b>	<b>815,329</b>	Time deposits.....	11 a	206,180	503,041
Own portfolio .....	6 a	247,982	116,669	<b>Money market funding</b> .....		<b>86,979</b>	<b>85,500</b>
Subject to repurchase commitments .....	6 a	18,852	337,807	Own portfolio .....	11 a	86,979	85,500
Subject to guarantees.....	6 a	224,421	-	<b>Proceeds from securities issuance</b> .....		<b>47,169</b>	<b>58,012</b>
Derivative instruments .....	7 a	9,588	360,853	Proceeds from securities issuance .....	11 a	47,169	58,012
<b>Loans</b> .....		<b>254,634</b>	<b>327,387</b>	<b>Onlendings from public sector</b> .....		<b>199,695</b>	<b>220,850</b>
Loans - Private sector.....	8 a	273,054	337,669	BNDES.....	11 a	199,314	214,064
(Allowance for loan losses) .....	8 b	(18,420)	(10,282)	FINAME.....	11 a	381	6,786
<b>Other receivable</b> .....		<b>271,701</b>	<b>235,068</b>	<b>Derivative instruments</b> .....		<b>99,085</b>	<b>54,153</b>
Income receivable.....		1,883	825	Derivative instruments .....	7 a	99,085	54,153
Other .....	9 c	270,020	234,442	<b>Other liabilities</b> .....		<b>138,769</b>	<b>156,551</b>
(Allowance for loan losses) .....	8 b	(202)	(199)	Taxes payable .....	9 d	25,246	41,450
<b>Other assets</b> .....		<b>965</b>	<b>5,288</b>	Other .....	9 f	113,523	115,101
Prepaid expenses.....		965	5,288	<b>Deferred income</b> .....		<b>784</b>	<b>698</b>
<b>Permanent assets</b> .....		<b>176,006</b>	<b>176,426</b>	Deferred income.....		784	698
<b>Investments</b> .....		<b>156,813</b>	<b>155,134</b>	<b>Equity</b> .....		<b>528,246</b>	<b>621,309</b>
Subsidiaries and affiliates - Domestic .....	10	146,834	145,155	Capital - Domestic.....	12 a	420,000	420,000
Other investments.....	10	9,979	9,979	Earnings Reserves.....		203,503	203,503
<b>Property and equipment</b> .....		<b>10,274</b>	<b>11,003</b>	Valuation adjustments to equity .....		(626)	(2,194)
Other fixed assets for own use .....		17,446	18,746	Retained earnings .....		(94,631)	-
(Accumulated depreciation).....		(7,172)	(7,743)				
<b>Intangible assets</b> .....		<b>8,919</b>	<b>10,289</b>				
Intangible assets.....		10,773	11,029				
(Accumulated amortization) .....		(1,854)	(740)				
<b>Total</b> .....		<b>4,872,301</b>	<b>8,757,783</b>	<b>Total</b> .....		<b>4,872,301</b>	<b>8,757,783</b>

**STATEMENTS OF PROFIT AND LOSS**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016 AND SIX-MONTH PERIOD**  
**ENDED DECEMBER 31, 2017 (In thousands of Reais, except for**  
**the net income period/year per share)**

**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016 AND SIX-MONTH PERIOD**  
**ENDED DECEMBER 31, 2017**  
**(In thousands of Reais)**

	2 <sup>nd</sup>		Years ended December 31, 2016	
	Note	six-month period 2017		2017
<b>Financial operations income</b> .....		<b>198,485</b>	<b>699,512</b>	<b>1,482,174</b>
Loans .....		20,221	46,828	74,734
Securities income .....		133,206	506,314	974,587
Profit from derivative instruments .....		44,387	143,557	432,261
Trade finance and foreign exchange income .....		671	2,813	592
<b>Financial operations expenses</b> .....		<b>(252,357)</b>	<b>(792,102)</b>	<b>(1,239,386)</b>
Deposits, money market and interbank investments .....		(223,091)	(702,291)	(1,201,341)
Borrowings assignment and onlending		(9,216)	(18,825)	(20,612)
Allowance for loan losses .....	8 c	(20,050)	(70,986)	(17,433)
<b>Profit (Loss) from financial operations</b> .....		<b>(53,872)</b>	<b>(92,590)</b>	<b>242,788</b>
<b>Other operating income (expenses)</b> ..		<b>(41,221)</b>	<b>(79,836)</b>	<b>(162,060)</b>
Service fee income .....	17 b	5,374	13,204	12,652
Personnel expenses .....		(23,680)	(57,744)	(57,329)
Other administrative expenses .....	17 c	(16,165)	(31,718)	(33,904)
Tax expenses .....	17 d	(2,634)	(5,735)	(8,219)
Equity in earnings (Losses) of subsidiaries	10	796	1,608	(8,063)
Other operating income .....	17 e	356	6,354	1,585
Other operating expenses .....	17 f	(5,268)	(5,805)	(68,782)
<b>Operating result</b> .....		<b>(95,093)</b>	<b>(172,426)</b>	<b>80,728</b>
<b>Non-operating income (loss)</b> .....		<b>–</b>	<b>10</b>	<b>(101)</b>
<b>Profit (loss) before income taxes and profit sharing</b> .....		<b>(95,093)</b>	<b>(172,416)</b>	<b>80,627</b>
<b>Income tax and social contribution</b> ...		<b>43,033</b>	<b>81,842</b>	<b>(59,710)</b>
Income tax .....	13 a	6,225	7,615	(27,946)
Social contribution .....	13 a	4,189	7,059	(20,406)
Deferred tax assets .....	13 b	32,619	67,168	(11,358)
<b>Profit sharing</b> .....		<b>–</b>	<b>(1,579)</b>	<b>(2,192)</b>
<b>Profit (loss) for the semester/ year</b> ...		<b>(52,060)</b>	<b>(92,153)</b>	<b>18,725</b>
<b>Number of shares</b> .....	12 a	<b>127,338,665</b>	<b>127,338,665</b>	<b>127,338,665</b>
<b>Earnings (Losses) per share for the semester/year - in R\$</b> .....		<b>(0,41)</b>	<b>(0,72)</b>	<b>0,15</b>

	2 <sup>nd</sup>		Years ended December 31, 2016	
	Note	six-month period 2017		2017
<b>Operating activities</b> .....		<b>(52,060)</b>	<b>(92,153)</b>	<b>18,725</b>
<b>Profit (loss) for the semester/ year</b> .....		<b>(52,060)</b>	<b>(92,153)</b>	<b>18,725</b>
<b>Adjusted profit</b> .....		<b>45,634</b>	<b>83,178</b>	<b>116,661</b>
Allowance for loan losses .....		20,050	70,986	17,433
Depreciation and amortization .....		3,100	5,056	2,862
Equity in Earnings (Losses) of subsidiaries .....		(796)	(1,608)	8,063
Current and deferred tax liabilities .....		(10,414)	(14,674)	48,352
Tax credits .....		(32,619)	(67,168)	11,358
Other provision .....		65,855	90,128	24,166
Exchange rate changes on cash and cash equivalents .....		458	458	4,427
<b>(Increase) decrease in operating assets</b> .....		<b>1,459,836</b>	<b>3,217,472</b>	<b>187,210</b>
Interbank investments .....		261,479	338,168	(833,273)
Securities and Derivative Instruments .....		1,142,028	2,787,471	624,734
Loans operations .....		31,728	74,541	172,241
Other receivables .....		21,216	11,091	225,658
Other assets .....		3,385	6,201	(2,150)
<b>Increase (decrease) in operating liabilities</b> .....		<b>(1,196,527)</b>	<b>(3,787,667)</b>	<b>692,718</b>
Deposits .....		(462,184)	(703,499)	297,524
Money market funding and interbank investments		(752,743)	(3,052,881)	893,991
Proceeds from securities issuance .....		12,792	26,365	(261,166)
Borrowings and onlendings .....		(12,212)	(20,753)	(22,125)
Derivative instruments .....		34,031	13,072	(142,799)
Other payables .....		(14,934)	(48,019)	(64,148)
Deferred income .....		252	86	(445)
Income Tax and Social Contribution paid .....		(1,529)	(2,038)	(8,114)
<b>Net cash provided by/(used in) operating activities</b> .....		<b>256,883</b>	<b>(579,170)</b>	<b>1,015,314</b>
<b>Investing activities</b> .....		<b>(1,106)</b>	<b>(3,161)</b>	<b>(4,642)</b>
Acquisition of property and equipment .....		(1,106)	(3,161)	(4,642)
Sale of property and equipment .....		–	205	875
<b>Net cash provided by/(used in) investing activities</b> .....		<b>(1,106)</b>	<b>(2,956)</b>	<b>(3,767)</b>
<b>Financing activities</b> .....		<b>–</b>	<b>–</b>	<b>(30,850)</b>
Interest on capital paid .....		–	–	(30,850)
<b>Net cash used in financing activities</b> .....		<b>–</b>	<b>–</b>	<b>(30,850)</b>
<b>Exchange rate changes on cash and cash equivalents</b> .....		<b>(458)</b>	<b>(458)</b>	<b>(4,427)</b>
<b>Increase (decrease) in cash and cash equivalents</b> .....		<b>255,319</b>	<b>(582,584)</b>	<b>976,270</b>
Beginning of period .....		720,108	1,558,011	581,741
End of period .....		975,427	975,427	1,558,011
<b>Increase (decrease) in cash and cash equivalents</b> .....		<b>255,319</b>	<b>(582,584)</b>	<b>976,270</b>

**STATEMENTS OF CHANGES IN EQUITY**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016 AND SIX-MONTH PERIOD ENDED DECEMBER 31, 2017 (In thousands of Reais)**

	Note	Earnings reserves		Valuation adjustments to equity	Retained earnings	Total
		Capital reserve	Reserves for expansion			
<b>Equity as at January 1, 2016</b> .....		<b>420,000</b>	<b>30,106</b>	<b>171,172</b>	<b>(2,384)</b>	<b>618,894</b>
Other Events: .....		–	–	–	–	–
• Mark-to-market of securities - available for sale .....	6 b	–	–	190	–	190
Profit for the year .....		–	–	–	18,725	18,725
Allocations: .....		–	–	–	–	–
Reserves .....	12 c	–	936	1,289	(2,225)	–
Interest on capital .....	12 b	–	–	–	(16,500)	(16,500)
<b>Equity as at December 31, 2016</b> .....		<b>420,000</b>	<b>31,042</b>	<b>172,461</b>	<b>(2,194)</b>	<b>621,309</b>
Adjustments from prior years to equity (see Note 9 "g") .....		–	–	–	(2,478)	(2,478)
Other Events: .....		–	–	–	–	–
• Mark-to-market of securities - available for sale .....	6 b	–	–	1,568	–	1,568
Loss for the year .....		–	–	–	(92,153)	(92,153)
<b>Equity as at December 31, 2017</b> .....		<b>420,000</b>	<b>31,042</b>	<b>172,461</b>	<b>(626)</b>	<b>528,246</b>
<b>Equity as at July 01, 2017</b> .....		<b>420,000</b>	<b>31,042</b>	<b>172,461</b>	<b>(5,403)</b>	<b>575,529</b>
Other Events: .....		–	–	–	–	–
• Mark-to-market of securities - available for sale .....		–	–	4,777	–	4,777
Loss for the semester .....		–	–	–	(52,060)	(52,060)
<b>Equity as at December 31, 2017</b> .....		<b>420,000</b>	<b>31,042</b>	<b>172,461</b>	<b>(626)</b>	<b>528,246</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In thousands of Brazilian reais - R\$)**

## 1 General information

Haitong Banco de Investimento do Brasil S.A. (Bank) is a direct subsidiary of Haitong Bank S.A., headquartered in Lisbon (Portugal), whose transactions are conducted within the context of a group of companies that operate together in the financial market, and certain transactions of which are carried out or intermediated by related institutions, comprising the financial system, whose activities include the securities distribution and foreign exchange and securities brokerage.

On August 12, 2015, the Central Bank of Brazil approved the transfer of the indirect shareholding control of Haitong Banco de Investimento do Brasil S.A. and its subsidiaries Haitong Securities do Brasil S.A. - CCVM and Haitong DTVM S.A. to Haitong International Holdings Limited, headquartered in Hong Kong, a wholly-owned subsidiary of Haitong Securities Co. Ltd, headquartered in Shanghai, China, in accordance with the terms and conditions set forth in the purchase and sale agreement entered into with the "New Bank" in December 2014. The corporate structure of the Bank and its subsidiaries has not changed in Brazil, and they continued to be directly controlled by Haitong Bank S.A. Finally, the Central Bank of Brazil approved the change in the corporate names of the Bank and its subsidiaries on October 8, 2015.

As part of its business strategy, the Bank maintained the operations of Haitong Banco de Investimento do Brasil S.A. - Cayman Branch, whose total assets and equity totaled US\$125,099,000 (2016 - US\$128,316,000) and US\$98,806,000 (2016 - US\$97,865,000), respectively.

## 2 Presentation of the financial statements

The Bank's financial statements, including its foreign branch, have been prepared in accordance with the accounting practices adopted in Brazil, based on the accounting guidelines set forth in Law 6404/76 and amendments introduced by Law 11638/07 and by Law 11941/2009, for the accounting for transactions, together with the rules and instructions of the National Monetary Council (CMN) and the Central Bank of Brazil (BACEN). These financial statements were approved by Management on March 27, 2018.

The financial statements of the foreign branch were adjusted to the accounting practices adopted in Brazil, applicable to institutions authorized to operate by the BACEN, and were translated into Brazilian reais based on the exchange rate of the local currency. These financial statements were consolidated in the financial statements of Haitong Banco de Investimento do Brasil S.A.. The balances of assets and liabilities and profit or loss arising from transactions between the Bank and its foreign branch have been eliminated, when applicable.

As part of the process of convergence with international financial reporting standards, certain accounting pronouncements and related interpretations were issued by the Accounting Pronouncements Committee (CPC), which will be applicable to financial institutions only after approved by the CMN. The accounting pronouncements already approved by the CMN include the following:

- a) Resolution 3566/08 - Impairment of Assets (CPC 01),
- b) Resolution 3604/08 - Statement of Cash Flows (CPC 03),
- c) Resolution 3750/09 - Related-Party Disclosures (CPC 05),
- d) Resolution 3823/09 - Provisions, Contingent Liabilities and Contingent Assets (CPC 25),
- e) Resolution 3973/11 - Events After the Reporting Period (CPC 24),
- f) Resolution 3989/11 - Share-Based Payment (CPC 10),
- g) Resolution 4007/11 - Accounting Policies, Changes in Accounting Estimates and Errors (CPC 23),
- h) Resolution 4144/12 - Conceptual Framework (R1),
- i) Resolution 4424/15 - Employee Benefits (CPC 33),
- j) Resolution 4524/16 - Effects of changes in exchange rates and translation of financial statements (CPC 02),
- k) Resolution 4534/16 - Intangible asset (CPC 04) and
- l) Resolution 4535/16 - Property, plant and equipment (CPC 27).

Currently, it is not possible to estimate when CMN will approve the other CPC accounting pronouncements or whether they will be prospectively or retroactively applied.

## 3 Summary of significant accounting practices

- a. Income and expenses are recognized on the accrual basis.
- b. The securities purchased to comprise the Bank 's portfolio are recorded at the amount effectively paid, including brokerage and fees, and are classified according to the Bank Management's intention into three distinct categories, pursuant to BACEN Circular 3068 (see Note 6 "b"):
  - b.1) Trading securities - securities acquired for the purpose of being actively and frequently traded. They are recorded at cost, plus income earned and adjusted to market value as a contra entry to profit or loss for the period;
  - b.2) Available-for-sale securities - securities that are not specifically intended for trading purposes or to be held to maturity. They are recorded at cost, plus income earned, which is recorded as a contra entry to profit or loss for the period and adjusted to market value as a contra entry to equity, net of tax, which will only be recognized in profit or loss when effectively realized; and
  - b.3) Held-to-maturity securities - securities that the Bank has the intent and financial capacity to hold in portfolio to maturity. They are recorded at cost, plus income earned and deducted from provision, if applicable, as a contra entry to profit or loss for the period.
- c. The Bank uses derivative instruments aiming at mitigating its exposure to market, currency and interest rate risks, by using the instruments available on the B3 and over-the-counter market. These derivative instruments are stated at fair value, in accordance with BACEN Circular 3082 (see Note 7 "a"). The derivative instruments (hedge instruments) used to mitigate risks arising from exposure to changes in the fair value of financial assets and financial liabilities (hedged items) are considered as hedge instruments (hedge transaction) and, when the transaction is contracted, they are classified as "market risk hedge" (see Note 7 "c"). In addition, since the beginning of the transaction and continuously, the Bank documents whether the hedge instrument is highly effective in offsetting changes in the fair value of the hedged item, attributable to the hedged risk. The hedge transaction is discontinued when the Bank cancels or no longer qualifies as a hedge or the hedge instrument expires or is sold, terminated or executed. The gains and losses arising from changes in the fair value of hedge instruments and hedged items are accounted for in income or expense accounts in profit or loss.
- d. Loan transactions are classified in accordance with the Management's assessment in nine risk levels, considering the analysis of clients and collaterals, past experience, as well as specific risks underlying the transaction, in compliance with the parameters established by CMN Resolution 2682. After 60 days, the income from past-due transactions is only recognized as revenue when effectively received. H-rated (maximum risk) transactions remain at this level for six months, after which period they are written down against the existing allowance and controlled in memorandum accounts for at least five years, no longer being recognized in the balance sheets. Renegotiated transactions are maintained, at least, at the same classification level as their prior rating. The allowance for loan losses was recorded taking into account the current economic scenario and expectations regarding the realization of the portfolio, so that an adequate allowance in an amount sufficient to cover specific and overall risks is recorded, associated to the allowance calculated in accordance with the risk levels and the respective minimum percentages established by the CMN Resolution 2682 (see Note 8 "b").
- e. Impairment of assets: An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable value. Impairment losses are recognized in profit or loss for the period. The carrying amount of non-financial assets, except other assets and tax credits, are reviewed at least every six months to determine whether there is any indication of impairment loss.
- f. Permanent assets are stated at cost, taking the following aspects into consideration:
  - Interests in subsidiaries are measured under the equity method of accounting (see Note 10).
  - Depreciation of property and equipment is calculated using the straight-line method at the following annual rates: 20% for data processing systems and vehicles and 10% for furniture and equipment.
  - Intangible assets are basically represented by software licenses. Their amortization is calculated using the straight-line method over the contractual term.
- g. Current and noncurrent liabilities are measured at their known or estimated amounts, plus, when applicable, the charges and inflation adjustments (on a pro rata basis) and foreign exchange changes incurred.
- h. Provisions, contingent liabilities and legal obligations are recognized, measured and disclosed in accordance with the criteria defined by CPC 25 (see Note 14), approved by CMN Resolution 3823:
  - **Provisions:** recognized taking into consideration the opinion of legal advisors, the nature of the lawsuits, similarity with previous cases, complexity and position of the courts, whenever the loss is assessed as probable, which would cause a probable outflow of funds for the settlement of liabilities and when the relevant amounts are reliably measured;
  - **Contingent liabilities:** according to CPC 25, "contingent" refers to liabilities whose recognition will depend on whether one or more future and uncertain events that are beyond Management's control take place or not. Contingent liabilities do not meet the recognition criteria since they are assessed as possible losses, and they must only be disclosed in the notes to the financial statements when relevant. Contingent liabilities assessed as remote losses are neither accrued nor disclosed; and
  - **Legal obligations:** provision for tax risks: result from lawsuits, which are being challenged on the grounds of legality or constitutionality, which, regardless of the assessment of the likelihood of a favorable outcome, are fully recognized in the financial statements.

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- i. Provisions for Income Tax (IRPJ), Social Contribution (CSLL), PIS (tax on revenue) and COFINS (tax on revenue) are calculated at the rate of 15% plus a 10% surtax above a certain limit, 15% through August 31, 2015, 0.65% and 4%, respectively, considering for tax base purposes, the legislation applicable to each tax (see Note 13 "a" for Income Tax and Social Contribution). Law 13169/15, which amended Law 7689/88, raises the social contribution rate to 20% of profit from September 1, 2015 to December 31, 2018. Beginning January 1, 2019, the rate will be 15% again. The Bank also complies with the accounting practice of recognizing income tax and social contribution tax credits, calculated on tax losses and temporary additions, at the same effective tax rates applied in the recognition of the provision (see Note 13 "b"). Such tax credits are recognized for accounting purposes based on current expectations for realization, considering the technical studies and analyses conducted by Management.
- j. Financial guarantees provided: losses associated with the probability of future disbursements pledged to financial guarantees provided were evaluated according to the nature of the obligation provided, past experience, future expectations and the risk assessment policy of the Management. This review is reviewed at least every six months. The provision for financial guarantees provided was recorded in an amount sufficient to cover probable losses throughout the term of the guarantee provided and is recorded in an appropriate liability account, with a corresponding entry to the income statement for the period. The adoption of these procedures had their effect as of January 1, 2017, and the recording of the provision initial was recorded as a contra entry to retained earnings in equity, by the net amount of the tax effects, in accordance with CMN Resolution no. 4512 (see Note 9 "g").
- k. The financial statements, in accordance with accounting practices adopted in Brazil, include some line items whose amounts are determined using estimates based on past experience, legal and business environment, likelihood of occurrence of events subject or not to Management's control, etc. These estimates are reviewed at least semiannually, so as to determine amounts that approximate the future settlement amounts of the assets or liabilities considered.

**4 Cash and cash equivalents**

Cash and cash equivalents, in accordance with CMN Resolution 3604, include cash on hand, bank deposits, and highly liquid short-term investments with insignificant risk of change in value and limits and maturity equal to or below 90 days. Cash and cash equivalents comprise:

	Dec 31, 2017	Dec 31, 2016
Cash and banks .....	6,086	4,254
- Money market - Short position .....	697,647	1,317,685
- Funds applied abroad .....	271,694	235,574
- Interbank deposits .....	-	498
Total - Interbank investments .....	969,341	1,553,757
<b>Total .....</b>	<b>975,427</b>	<b>1,558,011</b>

**5 Interbank investments**

				Dec 31, 2017		Dec 31, 2016	
	Up to 3 months	3 months to 1 year	3 a 5 years	Carrying Amount	Cost Value	Carrying Amount	Cost Value
- Public securities - L.T.N. ....	-	-	-	-	-	251,542	251,365
- Public securities - N.T.N.-B .....	-	30,312	-	30,312	30,287	217,578	217,425
- Public securities - N.T.N.-F .....	697,647	857,638	-	1,555,285	1,553,925	2,095,527	2,094,053
Money market - short position .....	697,647	887,950	-	1,585,597	1,584,212	2,564,647	2,562,843
Interbank deposits .....	-	-	79,304	79,304	79,304	58,958	58,958
Funds applied abroad .....	271,694	-	-	271,694	271,694	235,574	235,574
<b>Total as of Dec 31, 2017 - R\$ .....</b>	<b>969,341</b>	<b>887,950</b>	<b>79,304</b>	<b>1,936,595</b>	<b>1,935,210</b>	<b>-</b>	<b>-</b>
- % .....	<b>50.0%</b>	<b>45.9%</b>	<b>4.1%</b>	<b>100.0%</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total as of Dec 31, 2016 - R\$ .....</b>	<b>1,553,933</b>	<b>1,246,787</b>	<b>58,459</b>	<b>-</b>	<b>-</b>	<b>2,859,179</b>	<b>2,857,375</b>
- % .....	<b>54.4%</b>	<b>43.6%</b>	<b>2.0%</b>	<b>-</b>	<b>-</b>	<b>100.0%</b>	<b>-</b>

**6 Securities**

a. Breakdown of securities

				Dec 31, 2017			Dec 31, 2016		
	Unpledged	Pledged	Total	Unpledged	Pledged	Total	Unpledged	Pledged	Total
Public securities - L.F.T. ....	94,533	429,732	524,265	60,572	2,137,889	2,198,461	999,220	2,194,734	2,194,734
Public securities - L.T.N. ....	220,514	666,540	887,054	620,973	378,247	205,853	205,853	205,853	205,853
Public securities - N.T.N.B. ....	27,663	164,551	192,214	227	205,626	723,061	723,061	723,061	723,061
Public securities - N.T.N.F. ....	21,459	-	21,459	11,364	711,697	202,342	202,342	202,342	202,342
Debentures .....	161,127	28,784	189,911	141,754	60,588	80,796	80,796	80,796	80,796
Investment fund quotas .....	19,416	-	19,416	80,796	-	134,508	134,508	134,508	134,508
Eurobonds .....	16,810	116,026	132,836	20,413	114,095	-	-	-	-
Promissory notes .....	70,047	-	70,047	-	-	9,782	9,782	9,782	9,782
Agribusiness credit bills .....	907	-	907	9,782	-	13,100	13,100	13,100	13,100
Certificate of real estate .....	-	-	-	13,100	-	-	-	-	-
<b>Total .....</b>	<b>632,476</b>	<b>1,405,633</b>	<b>2,038,109</b>	<b>958,981</b>	<b>3,608,142</b>	<b>4,567,123</b>	<b>4,558,769</b>	<b>4,558,769</b>	<b>4,558,769</b>

b. Securities portfolio per category

							Dec 31, 2017		Dec 31, 2016	
	Unpaid	Up to 3 months	3 a 12 months	1 a 3 years	3 a 5 years	Over 5 years	Carrying Amount	Cost Value	Carrying Amount	Cost Value
Public securities - L.F.T. ....	-	32,075	-	-	492,190	-	524,265	523,390	2,198,461	2,194,734
Public securities - L.T.N. ....	-	527	168,479	657,012	-	-	826,018	821,563	227,113	222,425
Public securities - N.T.N.B. ....	-	-	-	127	1,167	27,536	28,830	28,691	205,853	205,338
Public securities - N.T.N.F. ....	-	5,903	-	-	1	15,555	21,459	21,526	723,061	719,225
Investment fund quotas .....	11,984	-	-	-	-	-	11,984	11,984	76,427	76,427
Certificate of real estate .....	-	-	-	-	-	-	-	13,100	-	13,522
<b>Total Trading Securities (b.1) .....</b>	<b>11,984</b>	<b>38,505</b>	<b>168,479</b>	<b>657,139</b>	<b>493,358</b>	<b>43,091</b>	<b>1,412,556</b>	<b>1,407,154</b>	<b>3,444,015</b>	<b>3,431,671</b>
Public securities - L.T.N. ....	-	-	-	61,036	-	-	61,036	60,979	172,272	168,848
Public securities - N.T.N.B. ....	-	-	-	163,384	-	-	163,384	164,002	-	-
Debentures .....	-	-	9,933	97,371	53,103	14,469	174,876	175,561	133,706	140,851
Investment fund quotas .....	7,432	-	-	-	-	-	7,432	7,432	4,369	4,369
Agribusiness credit bills .....	-	907	-	-	-	-	907	911	9,782	10,051
Eurobond .....	-	-	-	-	1,258	-	1,258	1,258	-	-
Promissory notes .....	-	-	-	70,047	-	-	70,047	70,066	-	-
<b>Total Available for Sale (b.2) .....</b>	<b>7,432</b>	<b>907</b>	<b>9,933</b>	<b>228,454</b>	<b>217,745</b>	<b>14,469</b>	<b>478,940</b>	<b>480,209</b>	<b>320,129</b>	<b>324,119</b>
Public securities - L.T.N. ....	-	-	-	-	-	-	-	-	599,835	599,835
Debentures .....	15,035	-	-	-	-	-	15,035	15,035	68,636	68,636
Eurobond .....	-	-	116,026	3,192	9,706	2,654	131,578	131,578	134,508	134,508
<b>Total Held to maturity (b.3) .....</b>	<b>15,035</b>	<b>-</b>	<b>116,026</b>	<b>3,192</b>	<b>9,706</b>	<b>2,654</b>	<b>146,613</b>	<b>146,613</b>	<b>802,979</b>	<b>802,979</b>
<b>Total as of Dec 31, 2017 - R\$ .....</b>	<b>34,451</b>	<b>39,412</b>	<b>294,438</b>	<b>888,785</b>	<b>720,809</b>	<b>60,214</b>	<b>2,038,109</b>	<b>2,033,976</b>	<b>-</b>	<b>-</b>
- % .....	<b>1.7%</b>	<b>1.9%</b>	<b>14.4%</b>	<b>43.6%</b>	<b>35.4%</b>	<b>3.0%</b>	<b>100.0%</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total as of Dec 31, 2016 - R\$ .....</b>	<b>80,796</b>	<b>601,822</b>	<b>97,113</b>	<b>180,558</b>	<b>1,253,496</b>	<b>2,353,338</b>	<b>-</b>	<b>-</b>	<b>4,567,123</b>	<b>4,558,769</b>
- % .....	<b>1.8%</b>	<b>13.2%</b>	<b>2.1%</b>	<b>4.0%</b>	<b>27.4%</b>	<b>51.5%</b>	<b>-</b>	<b>-</b>	<b>100.0%</b>	<b>-</b>

The fair value of securities was obtained based on price quotations in the market on the balance sheet date. In case there is no liquidity or price quotation to calculate the fair value of a given security, the amounts are estimated based on dealer quotations, pricing models or price quotations for securities with similar features.



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- b.1. "Trading securities":** The positive adjustment to the fair value of securities in the amount of R\$ 5,402 (2016 R\$ 12,344), obtained between the cost amount of R\$ 1,407,154 (2016 R\$ 3,431,671) and the fair value of R\$ 1,412,556 (2016 R\$ 3,444,015), was recorded in a specific line item in profit or loss.
- b.2. "Available-for-sale securities":** The negative adjustment to the fair value of securities in the amount of R\$ 1,269 (2016 R\$ 3,990), obtained between the cost amount of R\$ 480,209 (2016 R\$ 324,119) and the fair value of R\$ 478,940 (2016 R\$ 320,129), was recorded in a specific line item in equity, net of taxes.
- b.3. "Held-to-maturity securities":** recorded at acquisition cost, plus income earned and deducted from provision of impairment loss of R\$ 80,014 (2016 R\$ 19,407), as a contra entry to profit or loss for the year. The fair value of these securities amounted to R\$ 163,115 (2016 R\$ 831,130) on the balance sheet date.

**7 Derivative instruments**

*a. Derivatives*

The derivative instruments are represented by futures, forward, options and swap contracts, registered with the Futures and Commodities Exchange (B3) or the Clearing House for the Custody and Financial Settlement of Securities (CETIP) or the Brazilian Company for Custody and Settlement (CBLIC), involving fixed rates, interbank rate (DI), exchange rate change or price indices, as shown below:

	Dec 31, 2017			Dec 31, 2016		
	Fair Value		Cost Value	Fair Value		Cost Value
	Reference Value	Net Exposure Asset (Liability)	Net Exposure Asset (Liability)	Reference Value	Net Exposure Asset (Liability)	Net Exposure Asset (Liability)
PRÉ.....	9,600	(1,125)	(1,337)	26,290	(1,333)	(701)
CDI.....	1,821,223	(57,600)	(52,244)	2,218,146	324,684	349,285
DOLLAR.....	1,231,181	7,025	14,561	607,097	5,001	7,167
LIBOR.....	-	-	-	63,360	(1,118)	(127)
<b>Swaps.....</b>	<b>3,062,004</b>	<b>(51,700)</b>	<b>(39,020)</b>	<b>2,914,893</b>	<b>327,234</b>	<b>355,624</b>
DOLLAR.....	147,365	(8,213)	(7,932)	896,797	(35,128)	(29,491)
EURO.....	-	-	-	16,059	(136)	(145)
<b>Forward.....</b>	<b>147,365</b>	<b>(8,213)</b>	<b>(7,932)</b>	<b>912,856</b>	<b>(35,264)</b>	<b>(29,636)</b>
DOLLAR.....	-	-	-	7,780	-	305
Shares.....	1,743	34	36	8,827	227	364
DOLLAR - COE.....	-	-	-	-	3	5
<b>Purchase with call option.....</b>	<b>1,743</b>	<b>34</b>	<b>36</b>	<b>16,607</b>	<b>230</b>	<b>674</b>
Shares.....	-	-	-	5,457	45	42
DI.....	-	-	-	7,864,500	-	5,170
DOLLAR - COE.....	-	-	-	-	2	4
<b>Purchase with put option.....</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,869,957</b>	<b>47</b>	<b>5,216</b>
DOLLAR.....	18,987	(1,001)	(1,714)	9,750	-	(438)
Shares - COE.....	859	(19)	(63)	-	(308)	(986)
DOLLAR - COE.....	-	-	-	-	(11)	(23)
<b>Sales with call option.....</b>	<b>19,846</b>	<b>(1,020)</b>	<b>(1,777)</b>	<b>9,750</b>	<b>(319)</b>	<b>(1,447)</b>
DI.....	-	-	-	7,861,000	-	(4,020)
Shares - COE.....	-	-	-	-	(45)	(220)
DOLLAR - COE.....	-	-	-	-	(66)	(63)
<b>Sales with put option.....</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,861,000</b>	<b>(111)</b>	<b>(4,303)</b>
<b>Total Derivative instruments (Asset - Liabilities).....</b>	<b>3,230,958</b>	<b>(60,899)</b>	<b>(48,693)</b>	<b>19,585,063</b>	<b>291,817</b>	<b>326,128</b>
DI.....	6,188,071	5,641	5,641	7,405,504	477	477
DDI.....	3,191,056	(694)	(694)	3,986,357	(1,938)	(1,938)
DOLLAR.....	841,036	1,534	1,534	145,049	(356)	(356)
OC.....	-	-	-	484,557	16	16
<b>Future - Purchase and sale.....</b>	<b>10,220,163</b>	<b>6,481</b>	<b>6,481</b>	<b>12,021,467</b>	<b>(1,801)</b>	<b>(1,801)</b>

The premiums/differentials receivable and payable from options, futures and swaps transactions and the daily adjustments receivable and payable from futures transactions are adjusted to their fair value and recorded in asset and liability accounts as "Derivative instruments" and "Trading account", respectively, and the reference values of these transactions are recorded in memorandum accounts.

For the measurement of fair values, the Bank adopted the following criteria: for futures transactions, it uses stock exchange quotations, for options transactions, it uses own pricing models based on market benchmarks and for swap and Forward transactions, it estimates the future cash flows of each of its parties discounted to present value, in accordance with the respective interest curves, which reflect appropriate risk factors, primarily based on the B3 prices.

The exposure to credit risk in futures contracts is mitigated due to the daily financial settlement. The swap contracts are subject to credit risk in case the counterparty does not have the capacity or willingness to perform its contractual obligations. As at December 31, 2017, the total exposure of credit risk in swaps set forth in Art. 1, Item III of BACEN Circular 2770, totaled R\$ 421,896 (2016 R\$ 730,248).

*b. Aging list of derivative instruments*

	Up to 3 months	3 to 12 months	1 to 3 years	3 to 5 years	Over 5 years	Total Dec 31, 2017	Total Dec 31, 2016
Swaps (a).....	(754)	37,509	(88,455)	-	-	(51,700)	327,234
Forward (a).....	(8,081)	44	(176)	-	-	(8,213)	(35,264)
Options (a).....	(24)	(97)	(865)	-	-	(986)	(153)
<b>Total as of Dec 31, 2017.....</b>	<b>(8,859)</b>	<b>37,456</b>	<b>(89,496)</b>	<b>-</b>	<b>-</b>	<b>(60,899)</b>	<b>-</b>
<b>Total as of Dec 31, 2016.....</b>	<b>10,525</b>	<b>(25,410)</b>	<b>27,161</b>	<b>279,970</b>	<b>(429)</b>	<b>-</b>	<b>291,817</b>
<b>Future as of Dec 31, 2017 (b).....</b>	<b>1,458,393</b>	<b>2,908,549</b>	<b>4,089,052</b>	<b>818,169</b>	<b>946,000</b>	<b>10,220,163</b>	<b>-</b>
<b>Future as of Dec 31, 2016 (b).....</b>	<b>2,489,301</b>	<b>3,530,710</b>	<b>3,179,860</b>	<b>1,422,489</b>	<b>1,399,107</b>	<b>-</b>	<b>12,021,467</b>

(a) Net exposure values and (b) reference values

*c. Derivatives used as hedge instruments for market risk*

The Bank had the following market risk accounting hedge framework in order to offset risks arising from the exposure to changes in fair value arising from the accumulated fluctuation of the DI interest rate and the fixed interest rate applicable to repurchase transactions and time deposits:

Hedge object	Risk	Hedge	Fair value		Variation fo fair value		% Effectiveness
			Derivative instruments	Total	Derivative instruments	Total	
			Portfolio Hedged	Portfolio Hedged	Portfolio Hedged	Portfolio Hedged	
Money market (a).....	PRE	Future	1,581,727	1,585,597	8,912	8,934	99.8%
							<b>Dec 31, 2016</b>
Money market (a).....	PRE	Future	2,545,188	2,564,647	29,881	30,108	99.2%
Time deposits (b).....	PRE	Future	174,213	167,544	2,589	2,485	104.2%

(a) The positive adjustment to fair value of the hedged repurchase transactions totaled R\$ 1,385 (2016 R\$ 1,804) and is recorded as "Money market short position" (see Note 5) and

(b) The positive adjustment to fair value of hedged time deposits totaled R\$ zero (2016 R\$ 3,786) and is recorded as "Deposits" (see Note 11 "a").

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**8 Loans**

The loan portfolio totaled R\$ 436,829 (2016 R\$ 479,892) on the balance sheet date. If the balance of R\$ 245,284 (2016 R\$ 319,389) of sureties and guarantees provided recorded in memorandum accounts is included, the portfolio would total R\$ 682,113 (2016 R\$ 799,281).

**a. Breakdown of the loan portfolio per economic activity and per maturity**

	Up to 3		3 to 12		1 to 3		3 to 5		Current	Past-due	Total	Total
	months	months	years	years	years	years	years	months				
Loans - Industry .....	7,090	13,636	1,676	1,676	904	-	-	-	-	24,982	42,289	
Loans - Commerce .....	45	83	-	-	-	-	-	-	-	128	17,568	
Loans - Other services .....	-	1,634	57,183	-	-	-	-	34,917	-	93,734	114,158	
Financing - Industry .....	3,295	8,109	21,624	17,289	99,495	-	-	-	-	149,812	154,863	
Financing - Other services .....	4,371	10,422	19,296	17,818	36,093	-	-	-	-	88,000	103,018	
Financing (export) - Industry .....	142	25,967	-	-	-	-	-	-	-	26,109	27,351	
<b>Loans .....</b>	<b>14,943</b>	<b>59,851</b>	<b>99,779</b>	<b>36,783</b>	<b>136,492</b>	<b>34,917</b>	<b>382,765</b>	<b>459,247</b>				
Receivables on sureties and guarantees honored .....	-	-	-	-	-	-	33,795	-	-	33,795	-	
Receivables arising from export contracts:												
- Industry .....	21	-	-	-	20,248	-	-	-	-	20,269	20,645	
<b>Other receivables - Sundry (note 9 "c") .....</b>	<b>21</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>20,248</b>	<b>33,795</b>	<b>54,064</b>	<b>20,645</b>				
<b>Total as of Dec 31, 2017 - R\$ .....</b>	<b>14,964</b>	<b>59,851</b>	<b>99,779</b>	<b>36,783</b>	<b>156,740</b>	<b>68,712</b>	<b>436,829</b>	<b>-</b>				
- % .....	<b>3.4%</b>	<b>13.7%</b>	<b>22.9%</b>	<b>8.4%</b>	<b>35.9%</b>	<b>15.7%</b>	<b>100.0%</b>	<b>-</b>				
<b>Total as of Dec 31, 2016 - R\$ .....</b>	<b>52,507</b>	<b>50,697</b>	<b>146,692</b>	<b>38,847</b>	<b>172,079</b>	<b>19,070</b>	<b>479,892</b>	<b>-</b>				
- % .....	<b>10.9%</b>	<b>10.6%</b>	<b>30.6%</b>	<b>8.1%</b>	<b>35.9%</b>	<b>3.9%</b>	<b>100.0%</b>	<b>-</b>				

**b. Classification of the loan portfolio by risk level**

CMN Resolution 2682 introduced the criteria for the classification of loans and the recognition of the allowance for loan losses. These allowances are based on client risk assessment systems and operations. Below is the breakdown of the loan portfolio and the minimum allowance for loan losses required at their corresponding risk levels as established in the aforementioned Resolution.

Risk Level	%	Dec 31, 2017						Dec 31, 2016				
		Loan portfolio			Provision			Loan portfolio			Provision	
		Current	Past-due	Total	Minimum	Accounting	Current	Past-due	Total	Minimum	Accounting	
AA .....	-	80,497	-	80,497	-	-	106,086	-	106,086	-	-	
A .....	0.5	172,225	-	172,225	861	861	207,434	-	207,434	1,037	1,138	
B .....	1.0	20,270	-	20,270	203	203	47,818	-	47,818	478	478	
C .....	3.0	-	-	-	-	-	27,589	-	27,589	827	1,379	
D .....	10.0	40,776	-	40,776	4,078	4,078	62,245	18,395	80,640	8,064	8,064	
E .....	30.0	54,350	-	54,350	16,305	16,305	-	-	-	-	-	
F .....	50.0	-	-	-	-	-	-	675	675	338	338	
G .....	70.0	-	7,963	7,963	5,574	5,574	7,748	-	7,748	5,424	5,424	
H .....	100.0	-	60,748	60,748	60,748	60,748	1,902	-	1,902	1,902	1,902	
<b>Total .....</b>		<b>368,118</b>	<b>68,711</b>	<b>436,829</b>	<b>87,769</b>	<b>87,769</b>	<b>460,822</b>	<b>19,070</b>	<b>479,892</b>	<b>18,070</b>	<b>18,723</b>	

**c. Allowance for loan losses**

As at December 31, 2016, the allowance for loan losses totaled R\$ 18,723, subject to changes during the year due to: a) additional allowance of R\$ 71,022 (2016 R\$ 17,433), b) reversal of allowance of R\$ 35 (2016 R\$ zero), c) write-offs R\$ 1,903 (2016 R\$ 21,737) and d) exchange loss of R\$ 38 (2016 R\$ 34), reaching the final balance of R\$ 87,769, corresponding to 20.1% (2016 - 3.9%) of the loan portfolio. During 2017 and 2016 there were no loan recoveries against loss and the balance of renegotiated operations in 2017 totaled R\$ 51,100 (2016 R\$ 51,068).

**d. Concentration of Loan portfolio (includes collaterals provided)**

	Dec 31, 2017		Dec 31, 2016	
	Amount	%	Amount	%
. Main debtor .....	143,573	21.0%	146,742	18.4%
. 10 main debtors .....	575,636	84.4%	613,485	76.8%
. 20 main debtors .....	672,501	98.6%	740,974	92.7%
. 50 main debtors .....	682,113	100.0%	799,281	100.0%
. Total - Portfolio .....	<b>682,113</b>	<b>100.0%</b>	<b>799,281</b>	<b>100.0%</b>

**9 Other receivables and other payables**

**a. Other receivables - Foreign Exchange portfolio (Asset):** composed of foreign exchange purchase pending settlement of R\$ zero (2016 R\$ 16,183) and exchange sale receivables of R\$ zero (2016 R\$ 21,159). **Other payables - Foreign Exchange portfolio (Liabilities):** composed of foreign exchange sales pending settlement of R\$ zero (2016 R\$ 21,199) and exchange purchase payables of R\$ zero (2016 R\$ 16,017).

**b. Other receivables - trading account (Asset):** represented by escrow deposits held in banks abroad of R\$ 8,082 (2016 R\$ 18,579) and transactions with financial assets carried out at B3 (see note 7 "a") in the amount of R\$ 6,481 (2016 R\$ zero), whose financial settlements take place up to the third business day following the balance sheet date.

**c. Other receivables - Sundry:** composed of receivables arising from export contracts (see Note 8 "a") of R\$ 20,269 (2016 R\$ 20,645), tax credits (see Note 13 "b") of R\$ 171,080 (2016 R\$ 103,108), escrow deposits (see Note 14 "a") of R\$ 113,642 (2016 R\$ 114,717), taxes for offset of R\$ 7,903 (2016 R\$ 5,907) and advances, reimbursable payments and sundry debtors of R\$ 1,171 (2016 R\$ 969).

**d. Other payables - tax and social security:** composed of the provision for deferred income tax calculated on the adjustment to fair value of securities and derivative instruments (see Note 13 "b") of R\$ 25,247 (2016 R\$ 41,450), taxes and contributions on income of R\$ zero (2016 R\$ 510) and taxes and contributions payable of R\$ 1,783 (2016 R\$ 3,479).

**e. Other payables - trading account (Liabilities):** represented by transactions with financial assets carried out at B3 (see note 7 "a") in the amount of R\$ 874 (2016 R\$ 1,801), whose financial settlements take place up to the third business day following the balance sheet date

**f. Other payables - Sundry:** composed of provision for tax risks (see Note 14 "a") of R\$ 113,497 (2016 R\$ 115,101), accrued payments of R\$ 4,038 (2016 R\$ 3,992), provision for labor liabilities (see note 14 "b.2") of R\$ zero (2016 R\$ 1,131), provision for guarantees provided (see Note 9 "g") of R\$ 3,500 (2016 R\$ zero) and sundry creditors - domestic of R\$ 2,478 (2016 R\$ 1,547).

**g. Financial guarantees provided:** CMN Resolution 4512 of July 28, 2016 regulated the assessment of losses associated to the probability of future disbursements related to financial guarantees provided, as well as, on the constitution and registration of a provision sufficient to cover these probable losses to be applied prospectively to effective January 1, 2017. In January 2017, the Bank performed an initial assessment and recorded a provision for possible losses for the financial guarantees provided in the amount of R\$ 4,506, as a contra entry to the retained earnings in equity (R\$ 2,478 net of tax credits). During the year, this provision was reversed in the amount of R\$ 1,006, reaching the final balance of R\$ 3,500 corresponding to 1.4% of the guarantees provided portfolio (R\$ 245,284).

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**10 Investments:** composed of interests in subsidiaries of R\$ 146,834 (2016 R\$ 145,155) and other investments of R\$ 9,979 (2016 R\$ 9,979), which are represented basically by shares issued by privately-held companies.

	Haitong Securities do Brasil CCVM S.A.	Haitong do Brasil DTVM S.A. (a)	Haitong do Brasil Participações Ltda.	TOTAL
Capital.....	100,000	19,375	40,780	
Adjusted equity.....	88,842	3,928	54,064	
Profit and Loss for the period.....	1,886	(354)	76	
Number of common shares.....	12,809,890	377,491,836	-	
Number of preferred shares.....	12,528,520	-	-	
Number of quota.....	-	-	40,779,891	
% ownership interest.....	100.00%	100.00%	100.00%	
<b>Equity in earnings (Losses) of subsidiaries</b> .....				
- for de year ended December 31, 2017.....	<b>1,886</b>	<b>(354)</b>	<b>76</b>	<b>1,608</b>
- for de year ended December 31, 2016.....	<b>(5,320)</b>	<b>(4,503)</b>	<b>1,760</b>	<b>(8,063)</b>
<b>Carrying amount of investment:</b> .....				
- as of Dec 31,2017.....	<b>88,842</b>	<b>3,928</b>	<b>54,064</b>	<b>146,834</b>
- as of Dec 31,2016.....	<b>86,885</b>	<b>4,282</b>	<b>53,988</b>	<b>145,155</b>

(a) On January 26, 2018, a capital increase of R\$ 32,525 was issued through the issuance of 3,126,027,866 registered common shares, with no par value, and paid-in at the time of subscription. This capital increase was approved by BACEN on February 06, 2018.

**11 Funds raised**

**a. Breakdown by aging list**

						Dec 31, 2017		Dec 31, 2016	
	Up to 3 months	3 to 12 months	1 to 3 years	3 to 5 years	Over 5 years	Carrying Amount	Cost Value	Carrying Amount	Cost Value
Interbank Deposits (a).....	104,995	59,711	-	-	-	164,706	164,706	417,803	417,803
Time Deposits (b).....	145,793	610,222	206,180	-	-	962,195	962,195	1,412,597	1,408,811
<b>Total - Deposits.....</b>	<b>250,788</b>	<b>669,933</b>	<b>206,180</b>	-	-	<b>1,126,901</b>	<b>1,126,901</b>	<b>1,830,400</b>	<b>1,826,614</b>
Money Market funding.....	1,637,793	889,214	-	86,979	-	2,613,986	2,613,986	5,666,867	5,666,867
Financial Bills (c).....	5,265	59,109	47,169	-	-	111,543	111,543	74,665	74,665
Structured Finance Certificates.....	-	840	-	-	-	840	840	11,353	11,353
Onlendings -BNDES (d).....	5,554	12,232	39,613	35,108	124,593	217,100	217,100	229,402	229,402
Onlendings - FINAME (d).....	2,081	4,328	381	-	-	6,790	6,790	15,241	15,241
<b>Total as of December 31, 2017.....</b>	<b>1,901,481</b>	<b>1,635,656</b>	<b>293,343</b>	<b>122,087</b>	<b>124,593</b>	<b>4,077,160</b>	<b>4,077,160</b>	-	-
<b>% Concentration 2017.....</b>	<b>46.6%</b>	<b>40.1%</b>	<b>7.2%</b>	<b>3.0%</b>	<b>3.1%</b>	<b>100.0%</b>	-	-	-
<b>Total as of December 31, 2016.....</b>	<b>4,539,743</b>	<b>2,134,320</b>	<b>604,818</b>	<b>398,780</b>	<b>150,267</b>	-	-	<b>7,827,928</b>	<b>7,824,142</b>
<b>% Concentration 2016.....</b>	<b>58.0%</b>	<b>27.3%</b>	<b>7.7%</b>	<b>5.1%</b>	<b>1.9%</b>	-	-	<b>100.0%</b>	-

As at December 31, 2017, the funds raised in Brazil had the following characteristics:

- (a) Interbank deposits with maturities up to July 2018, indexed to the Interbank Deposit (DI) rate fluctuation;  
(b) Time deposits negotiated at a fixed rate of up to 19.06% p.a., maturing through November 2019 and indexed to the DI and IPCA fluctuation, maturing through December 2019;  
(c) Financial bills issued with maturities through November 2020, basically indexed to the DI and IPCA fluctuation; and  
(d) Onlendings (BNDES) with maturity through March 2034, basically indexed to the fluctuation of the Long-Term Interest Rate (TJLP) plus interest of up to 7.8% p.a.

**b. Concentration of Deposits (include interbank and time deposits)**

	Dec 31, 2017		Dec 31, 2016	
	Amount	%	Amount	%
. Main depositor.....	200,436	17.8%	417,114	22.8%
. 10 main depositors.....	955,475	84.8%	1,458,324	79.7%
. 20 main depositors.....	1,084,800	96.3%	1,588,991	86.8%
. 50 main depositors.....	1,125,706	99.9%	1,743,933	95.3%
. Total - Deposits.....	<b>1,126,901</b>	<b>100.0%</b>	<b>1,830,400</b>	<b>100.0%</b>

**12 Equity**

- a. **Capital** - capital of R\$ 420,000 is represented by 127,338,665 registered shares, of which 63,669,344 are common shares and 63,669,321 are preferred shares, with no par value.  
b. **Dividends** - The Bank's bylaws establishes a minimum dividend of 25% of annual profit, adjusted as provided for in Article 202 of the Brazilian Corporate Law. As for preferred shares, dividends are fixed in an amount at least 10% higher than the amount of common shares, in accordance with item I, Article 17 of Law 6404/76, as amended by Law 9457/97.

Due to the loss obtained in 2017, Management decided not to distribute dividends. In 2016, interest on capital totaled R\$ 16,500, corresponding to gross values of R\$0.123405454654673 per common share and R\$0.13574600012014 per preferred share, subject to the levy of withholding income tax at a rate of 15%. Interest on capital was calculated based on the Long-Term Interest Rate (TJLP) applicable to equity accounts in accordance with Law 9249 of December 26, 1995. The adoption of the payment of the aforementioned interest on capital increased the reduced the Bank's current income tax and social contribution by approximately R\$ 7,425. This interest was accounted for in accordance with BACEN Circular 2739/97 and in compliance with tax provisions.

- c. **Earnings reserves** - The "Reserve for Expansion" is recorded to support future investment plans and, it will be used to offset losses, if any, increase capital or pay dividends. Out of the profit for the year, 5% is allocated to the Legal Reserve, which should not exceed 20% of capital.

**13 Income tax and social contribution**

**a. Statement of calculation of income tax (IRPJ) and social contribution (CSLL)**

	Years ended December 31			
	2017		2016	
	Income Tax	Social Contribution	Income Tax	Social Contribution
<b>Income before taxes and profit sharing.....</b>	<b>(172,416)</b>	<b>(172,416)</b>	<b>80,627</b>	<b>80,627</b>
<b>Additions and exclusions on the calculation of the taxes:.....</b>	<b>175,780</b>	<b>176,440</b>	<b>(66,612)</b>	<b>(62,759)</b>
.Non-deductible expenses.....	80,729	79,559	1,173	10,755
.Non-deductible provisions.....	78,126	78,126	23,404	14,016
.Equity in earnings (Losses) of subsidiaries.....	(1,607)	(1,607)	8,063	8,063
.Profit (loss) from branch abroad.....	(5,574)	(5,574)	63,467	63,467
.Interest on capital.....	-	-	(19,750)	(19,750)
.Profit sharing.....	(1,579)	(1,579)	(2,192)	(2,192)
.Mark-to-market - securities and derivatives.....	27,515	27,515	(137,118)	(137,118)
.Other additions and deductions.....	(1,830)	-	(3,659)	-
<b>Tax Basis before offsetting.....</b>	<b>3,364</b>	<b>4,024</b>	<b>14,015</b>	<b>17,868</b>
<b>Total charges due in the current year.....</b>	<b>(725)</b>	<b>(804)</b>	<b>(3,328)</b>	<b>(3,574)</b>
Supplementation (Reversal) of deferred tax credits on temporary differences.....	37,271	29,897	(4,827)	(6,531)
(Supplementation) Reversal of deferred tax on mark-to-market - securities and derivatives.....	8,340	7,863	(24,618)	(16,832)
<b>Income Tax and Social Contribution expenses.....</b>	<b>44,886</b>	<b>36,956</b>	<b>(32,773)</b>	<b>(26,937)</b>



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**b. Tax credits and deferred provisions**

	<b>Dec 31, 2016</b>	<b>Recognition</b>	<b>Realization and/or reversal</b>	<b>Dec 31, 2017</b>
Allowance for loan losses.....	8,393	31,960	(856)	39,497
Credits written off against loss.....	9,781	35,389	-	45,170
Provision for credit risks.....	36,317	37,177	(34,534)	38,960
Provision for guarantees provided (see note 9 "g").....	-	2,028	(454)	1,574
Provision for tax risks.....	45,439	1,696	(2,337)	44,798
Other taxes receivable.....	<u>1,382</u>	<u>-</u>	<u>(873)</u>	<u>509</u>
<b>Sub Total Tax credits.....</b>	<b>101,312</b>	<b>108,250</b>	<b>(39,054)</b>	<b>170,508</b>
Negative adjustment to fair value - Available for sale securities.....	1,796	-	(1,224)	572
<b>Tax credits.....</b>	<b>103,108</b>	<b>108,250</b>	<b>(40,278)</b>	<b>171,080</b>
<b>Deferred tax liabilities</b> (Positive adjustment to fair value of securities and derivatives instruments).....	<u>(41,450)</u>	<u>-</u>	<u>16,203</u>	<u>(25,247)</u>
<b>NET.....</b>	<b>61,658</b>	<b>108,250</b>	<b>(24,075)</b>	<b>145,833</b>
	<b>Dec 31, 2015</b>		<b>Realization</b>	
	<b>(Republished)</b>	<b>Recognition</b>	<b>and/or reversal</b>	<b>Dec 31, 2016</b>
<b>Sub Total Tax credits.....</b>	112,670	45,680	(57,038)	101,312
Negative adjustment to fair value - Available for sale securities.....	1,951	-	(155)	1,796
<b>Tax credits.....</b>	<b>114,621</b>	<b>45,680</b>	<b>(57,193)</b>	<b>103,108</b>
<b>Deferred tax liabilities</b> (Positive adjustment to fair value of securities and derivatives instruments).....	<u>-</u>	<u>(41,450)</u>	<u>-</u>	<u>(41,450)</u>
<b>NET.....</b>	<b>114,621</b>	<b>4,230</b>	<b>(57,193)</b>	<b>61,658</b>

The balance of tax credits net of deferred tax liabilities amounted to R\$ 145,833 (2016 R\$ 61,658) corresponding to 27.6% (2016 10.3%) in relation to final equity:

- The income tax and social contribution credits amounted to R\$ 171,080 (2016 R\$ 103,108), and recognized in line item "Other receivables - Sundry" (Note 9 "c"). The recognition of these tax credits is based on the expected generation of future taxable income.
- The provisions for deferred income tax and social contribution in the amount of R\$ 25,247 (2016 R\$ 41,450) were calculated on the positive adjustments to the fair value of securities and derivative instruments and non-taxable income from updating escrow deposits, and recognized in line item "Other payables - Tax and social security" (Note 9 "d"). As at December 31, 2017, there were no tax credits not recorded in assets and the present value of the tax credits calculated based on the Selic rate amounts to R\$ 135,698 (2016 R\$ 55,617). Management estimates that the realization of these tax credits and deferred tax liabilities will take place in up to 10 years, as shown in the following table:

	<b>Carrying Amount as of December 31, 2017</b>				<b>% Long Term Asset (Liabilities)</b>	
	<b>Tax credits</b>	<b>Deferred tax</b>	<b>NET</b>	<b>Present Value</b>	<b>Annual</b>	<b>Acumulated</b>
2018.....	56,600	(16,416)	40,184	37,590	27.5%	27.5%
2019.....	26,663	(453)	26,210	24,564	18.0%	45.5%
2020.....	8,727	2,911	11,638	10,766	8.0%	53.5%
2021.....	9,142	396	9,538	8,831	6.5%	60.0%
2022.....	69,145	(15,111)	54,034	50,031	37.1%	97.1%
2023.....	177	3,112	3,289	3,045	2.3%	99.4%
2024.....	177	45	222	206	0.1%	99.5%
from 2025.....	<u>449</u>	<u>269</u>	<u>718</u>	<u>665</u>	<u>0.5%</u>	<u>100.0%</u>
<b>TOTAL.....</b>	<b>171,080</b>	<b>(25,247)</b>	<b>145,833</b>	<b>135,698</b>		

**14 Provisions, contingent liabilities and legal obligations**

The Bank and its subsidiaries, in the ordinary course of business, are parties to lawsuits of tax, social security, labor and civil nature. The respective provisions for risks were recognized based on the prevailing law, the opinion of the legal counsel, the nature and complexity of lawsuits, former court rulings, loss history and other criteria that enable Management to estimate the probable cash outflow amount as reliably as possible.

**a. Legal obligations:** Legal obligations refer to amounts payable related to tax liabilities, whose legality or constitutionality is being challenged in courts, particularly:

**a.1)** payment of taxes on revenue (PIS and COFINS), ruling out Article 3 of Law 9718, which established the inappropriate expansion of such tax basis, whose provision and corresponding escrow deposit totaled R\$ 111,995 (2016 R\$ 113,598) and R\$ 112,076 (2016 R\$ 113,151), respectively. Both the legal obligation and the escrow deposit were adjusted based on the Selic rate fluctuation.

As at December 31, 2016, the provision totaled R\$ 113,598, which was increased during the year by new obligations of R\$ 4,241 (2016 R\$ 6,845) and reversal adjustment of R\$ 5,844 (2016 R\$ zero), reaching the final balance of R\$ 111,995, which amount fully supports the risk arising from such obligations.

**a.2)** collection of alleged income tax, withholding tax and Federal VAT (PIS) credits, whose amounts were deposited in escrow to obtain a debt clearance certificate, with unclearance effects, from the Federal Revenue Service and the General Attorneys' Office of the National Treasury, whose provision and corresponding escrow deposit totaled R\$1,502 (2016 R\$1,502).

These legal obligations are recorded in the item "Tax contingencies" of the "Other liabilities - Miscellaneous" (Note 9 "f") and the existing judicial deposits are recorded under the caption "Debtors for escrow deposits" in the group "Others Credits - Other" (Note 9 "c").

**b. Contingent liabilities**

**b.1)** The Bank recognized the following main contingencies that were individually assessed by our legal counsel as "possible loss" (R\$ 20,292): **i)** social security - R\$ 10,926: administrative proceedings relating to the levy of social security contribution on non-compensatory amounts (from 2008 to 2012); **ii)** tax - R\$2,843: represented mainly by administrative proceedings relating to the offset of social contribution tax loss carryforwards for 2008 (R\$ 1,269), collection of IRPJ and CSLL on inflation adjustment of equity securities of CETIP (R\$ 531) and compensation claimed by PER/DCOMP and not approved (R\$ 786); and **iii)** labor - R\$ 6,523: lawsuits filed by former employees intended to seek indemnity related to alleged labor rights.

**b.2)** The subsidiary Haitong Securities do Brasil S.A. - C.C.V.M. recognized tax, social security and labor contingencies in the total amount of R\$ 88,618, which are being challenged at administrative and judicial levels and were assessed by our legal counsel as "possible loss", mainly represented by lawsuits relating to the collection of IRPJ and CSLL on the inflation adjustment of equity securities of the Stock Exchanges and CETIP (R\$ 40,585) and collection of PIS and COFINS on the proceeds from the sale of shares of Stock Exchanges and CETIP (R\$ 38,388) and labor lawsuits (R\$ 9,092).

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**15 Related-party transactions**

a) The Bank's transactions are conducted within the context of a group of companies that operate in an integrated manner in the financial and capital markets and are broken down as follows:

	<b>Assets/(Liabilities)</b>		<b>Income/(Expenses)</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
<b>Swaps</b> .....				
Haitong Investment Ireland Plc. (Irlanda).....	-	(303)	(236)	(1,529)
		(303)	(236)	(1,529)
<b>Dividends and Interest on capital to be payed</b> .....	<b>(3,060)</b>	<b>(3,060)</b>	-	<b>(13,200)</b>
Haitong Bank S.A. (Lisboa).....	(3,060)	(3,060)	-	(13,200)
<b>Interbank deposits</b> .....	<b>(13,609)</b>	-	<b>(9)</b>	<b>(8)</b>
Haitong Securities do Brasil C.C.V.M. S.A. ....	(13,609)	-	(9)	(8)
<b>Time deposits</b> .....	<b>(16,855)</b>	<b>(18,636)</b>	<b>(1,725)</b>	<b>(2,633)</b>
Haitong Negócios S.A. ....	(4,752)	(6,758)	(571)	(966)
Haitong do Brasil Participações Ltda. ....	(12,103)	(11,878)	(1,154)	(1,667)
<b>Money market funding</b> .....	-	<b>(22,057)</b>	<b>(1,724)</b>	<b>(3,840)</b>
Haitong Securities do Brasil C.C.V.M. S.A. ....	-	(22,057)	(1,724)	(3,823)
Haitong do Brasil D.T.V.M. S.A. ....	-	-	-	(17)
<b>Debtors (Creditors)</b> .....	-	<b>(10)</b>	<b>(14)</b>	<b>(933)</b>
Haitong Securities do Brasil C.C.V.M. S.A. ....	-	(10)	(14)	(933)
<b>Services Provided payable</b> .....	-	-	-	<b>(1)</b>
Haitong do Brasil D.T.V.M. S.A. ....	-	-	-	(1)

b) Compensation of key Management personnel totaled R\$ 7,942 in the year of 2017 (2016 R\$ 7,700). The Bank does not offer long-term or severance benefits, or share-based compensation to its key Management personnel.

**16 Risk management**

**a. Introduction**

Haitong Brazil clearly assumes that the risk management of its activities is one of its strategic pillars for its growth and development in the country and, in this way, protect the capital of the institution and enable the best profitability of its business. These objectives are achieved through the definition of shareholder risk appetite and supported by a structure of policies and procedures fully compliant with local legislation, international best practices and integrated with the shareholder.

**b. Types of Risk**

- **Market Risk:** deals with the possibility of losses due to unfavorable fluctuations in the risk factors that the bank is exposed, such as interest rates, currencies, prices, indexes, etc. The management of market risk is carried out through daily information to the Management, to the Treasury and to the control of risks in the matrix. Monitoring is based on current exposure levels within the established limits. The main usual market metrics are used as: VaR (Value at Risk), sensitivity analysis (V01) and Stress Testing. Complementing the follow-up structure, the capital requirement to cover market risks is reported daily, according to the norms stipulated by the Central Bank of Brazil.
- **Credit risk:** this is the risk associated with a potential loss due to the non-fulfillment of future obligations by a customer with whom a direct or indirect financial relationship is maintained. Credit risk management is done by monitoring exposures with customers, both current and future potential, vis a vis the limits stipulated individually for each client or economic group to which this client belongs. All exposure to credit risk is approved locally (CCR) and endorsed by the parent in Global Credit Committees (GCC). The granting of limits by the Bank goes through a process of assigning a rating to clients of the different risk segments and follows a global internal methodology. Complementing the control of credit risks, monthly information is extracted from the Statement of Operational Limits (DLO) to assess credit risk at the level of capital consumption associated with positions.
- **Liquidity risk:** liquidity risk control is done through the daily monitoring of available liquidity, ie instruments considered to be HQLA (High Quality Liquid Asset) and that are free of any embarrassment. In addition, monthly monitoring of the liquidity indicators defined by the Basel Committee, namely LCR (Liquidity Coverage Ratio) and NSFR (Net Stable Funding Ratio) is carried out. All these metrics are reported to Management, Treasury and risk control in the matrix, which must conform to the limits defined internally. Additionally, cash flow projection mechanisms are used, adopting assumptions about the behavior of future inflows and outflows in a period of up to 365 calendar days, according to the good practices of liquidity risk control.
- **Operational risk:** it constitutes a category of risk that must cover the whole institution, including all its employees the services provided by third parties. The bank has adequate tools to evaluate, manage and monitor the operational risks arising from its activities. All with the intention of maintaining the regular functioning of the institution and avoiding to the maximum the occurrence of losses, both effective and potential. The occurrences of operational risk events are recorded in their own system (GRO - Operational Risk Management) by the respective areas. The events are monitored and reported by the Risk Control area to the Operational Risk Committee, to which the Administration and other responsible areas participate.
- **Risk of Compliance:** It is associated with non-compliance with legislation, internal regulations, code of ethics and conduct and good banking practices, impacting on sanctions, financial losses and image of the institution. Compliance risk is managed in a preventive way, through activities monitoring, acculturation of employees, training on legislation and internal rules applicable to the Bank's business.
- **Risk of Money Laundering and Terrorism Financing:** Risk that the Bank may be intentionally used to launder money, through its products and services, with funds of illicit origin in Brazil and / or abroad, such as corruption, drug trafficking and currency evasion. The risk of terrorist financing relates to the possibility of using the Bank for the operations of individuals and / or legal entities in transactions involving funds intended for terrorist activities. Such persons may or may not appear on international lists published by the FATF - International Financial Action Task Force, United Nations (UN), European Union, among others. To prevent and combat money laundering and terrorist financing, the Bank has control and monitoring tools based on international practices, which include corporate governance, computer systems, and teams capable of conducting internal monitoring. The Bank conducts periodic training for all its employees on the prevention of money laundering and combating the financing of terrorism, to enable them to carry out their internal policies on the subject.
- **Reputational Risk:** it is associated with an unfavorable perception of the Bank by the various agents with which it relates, whether internal or external agents, which may have an unfavorable impact on the results, as well as on the dynamics and evolution of the institution's activities.
- **Socio-environmental risk:** in accordance with CMN Resolution 4327 and based on the provisions of the Environmental Crime Law, socio-environmental risk, including image risk, is a factor considered in the credit and operational risk analyzes to which the institution is exposed. Thus, adequate management of socio-environmental risk is linked to the mitigation of events that may impact the operational risk, credit risk, reputational risk and capital risk of the institution. The institution establishes a social and environmental responsibility questionnaire as an indispensable form in the client's registry. In addition, the approval of any type of operation is subject to the relevant analyzes, considering the possible existence of socio-environmental impact in the allocation of resources. Whenever there is a social and environmental risk, the related contracts will establish a specific advance payment clause, the obligation of the debtor to keep environmental licenses up to date and to inform the institution of any assessment that has been suffered.

**c. Integrated Risk and Capital Management and Segmentation**

In accordance with the activities envisaged by the "BC + Agenda" and with the international alignment for best prudential regulation practices, CMN Resolution 4553 was published, which established the segmentation of financial institutions and other institutions authorized to operate in the country for the purpose of proportional application of prudential regulation, without jeopardizing the security, solidity of financial institutions, with greater efficiency and lower cost of compliance. In this context, **Haitong Brazil** was classified in the "S3" segment, designated institutions of between 0.1% and 1% of GDP at the date of publication.

Subsequently, on February 23, 2017, CMN Resolution 4557 was issued, which provides for the structure of risk and capital management (GIR). The Resolution points to the need to implement a continuous and integrated risk and capital management framework, requirements for the definition of the Risk Appetite Statement (RAS), establishing a stress testing program, the constitution of the Risk Committee and the appointment of a director responsible for risk management (CRO), with definitions of performance, responsibilities and independence requirements.

**d. Governance of Risks and Capital**

The Haitong Brazil Board of Directors (CA) is the main body responsible for establishing the guidelines, policies and powers for risk and capital management. In turn, the Risk Control Department, through the CRO, is responsible for supporting CA members in the performance of their risk and capital management responsibilities. At the Executive level, they play an important role in risk and capital management, the Bank's Board of Directors, the Chief Risk Officer (CRO), the Credit and Risk Committee (CCR) in Brazil and the Global Credit Committee (GCC) in Haitong Bank in Portugal.

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The management and control of risks and capital of Haitong Brazil is structured in accordance with responsibilities supported in "Three Lines of Defense" that perform independent functions, in a way that does not jeopardize its effectiveness, as well as its distinct performance, as follows:

1. First Line of Defense is the one represented by the business areas (Front-Office), responsible for identifying, measuring, evaluating, controlling, reporting and mitigating the risks of its operations and activities.
2. Second Line of Defense is an independent unit represented by the Risk Control Board. The responsibility of this second line is to ensure the monitoring and control of risk in order to ensure that the Bank's activities are adherent to the level of risk appetite defined by the Bank's Management. In Haitong Brazil, in addition to Risk Control, the second line is also supported by Compliance and IT / Security areas.
3. Third Line of Defense is represented by the Internal Audit, which, independently, reviews and validates the activities of the first two lines of defense and contributes to its improvement. The support of the Board of Directors and the Board of Directors completes the performance in the third line of defense.

The functioning of the "Three Lines of Defense", even independent of each other, must occur in a coordinated way, in order to maximize its efficiency and contribute to the development of the Bank.

Risk Culture: Haitong Brazil has adopted diverse actions to disseminate the culture of risk, in order to strengthen values and align its guidelines and risk appetite of the institution with its employees. In this way, the Bank makes cross-cutting and efficient the operation of the three lines of defense mentioned above.

**e. Integrated Risk Management**

In a conceptual way, risk management is the responsibility of all the areas and employees who must inform in a timely manner the risks, the failures and the deficiencies of control to the areas in conditions to heal them.

Haitong Brasil has an area responsible for Integrated Risk Management, whose responsibilities are exercised centrally and independently, led by the CRO (Chief Risk Officer). This unit is responsible for the identification, monitoring and reporting of risks considered relevant by Management (material risks), using specific processes, internal methodologies, limits, policies and procedures for controls established in accordance with the risk appetite defined by the Board of Directors. Accordance with the guidelines established and authorized by the shareholder.

The Risk Control area is responsible for the measurement, monitoring, reporting and continuous and integrated control of positions and exposures to risk vis-à-vis pre-approved limits, for all operations performed and for risk factors incurred, whose processes are formalized through periodic reports. Additionally, it is responsible for conducting risk stress tests of the Bank's portfolio. These exposures to material risks and own portfolio positions that guide risk tolerance limits are defined and formalized in the respective internal governance committees.

Amounts updated based on the last report distributed - 12/31/2017:

- Market Risk: The Bank's VaR totaled R\$ 1,828 (Average of R\$ 2,674 in 2017), which represented 0.41% of Reference Equity at the end of the year.
- Liquidity Risk: Free / available liquidity totaled R\$ 686,360 (Average of R\$ 854,707 in 2017), which represented 1.53 times the PR. The Bank calculates the liquidity indicators LCR and NSFR for consolidation purposes with the parent company and for its internal management, although there is no local application by the regulator for Haitong Brazil. At the time, the LCR was 465.9% and the NSFR at 115.9%, both higher than the limits set by local and global regulators.
- Leverage Ratio: At the closing date, the reported rate was 6.31%.
- Credit Risk: Loans and guarantees totaled R\$ 682,113, corresponding to 13.9% of Total Assets, being distributed in the following main sectors: Electric Energy (37.9%); Telecommunications (13.2%); Water and Sanitation (10.8%); Infrastructure and Transport (8.5%) and Agrifood (7.6%). Of this portfolio, 56.9% of the operations were covered by guarantees provided by clients, represented mainly by: Secured Securities (44.9%); Sureties, guarantees from individuals and legal entities and stand by letter of credit (36.4%); equipment (6.7%) and the remainder distributed between reserve accounts, revenue binding, real estate and grain bonds (12%).

**f. Capital management:**

Capital management is defined as a continuous process of monitoring and controlling the capital of the Bank, assessing the need for capital against the risks to which the institution is subject and the planning of goals and capital needs, taking into account the strategic objectives of the institution. Always adopting a prospective position and anticipating the need for capital arising from possible changes in market conditions.

Responsible for the management of capital with the Central Bank of Brazil, the Chief Risk Management Officer (CRO), currently subordinate to the President, was appointed. The capital management process is aligned with best practices in the market and covers all areas involved in the identification and evaluation of the relevant integrated risks incurred by the Bank. If the assessment of the capital requirement points to a value above the Minimum Capital required by the Regulator, the institution will adopt appropriate measures to maintain capital compatible with the results of its internal evaluations.

The Haitong Brazil Capital Plan is prepared in a manner consistent with strategic planning and is prepared concomitantly with the annual review of the Annual Business Plan and Budget. The responsibilities and organizational structure of capital management involve the Board of Executive Officers, the Board of Directors, the Risk Control and Management Control areas. In addition, in accordance with current legislation, it has a Contingency Plan that allows adequate capitalization in case of stress conditions, thus requiring, to trigger the necessary and more adequate stages, for the application of the Contingency Plan established and approved by the top management.

**17 Other information**

- a. Haitong Banco de Investimento do Brasil S.A. determines its operational limits on a consolidated basis, within the parameters defined by Basel III, which requirements imposed more and better quality in the level of capital of institutions, and the prudential measures, which made the financial system more resilient to crises that may occur. Below is the ratio between the regulatory capital and the required capital and the weighted average risk (risk-weighted assets - RWA):

	<b>Conglomerate Prudencial</b>
Principal capital.....	447,237
<b>Regulatory capital - Total .....</b>	<b>447,237</b>
Capital allocation - credit risk .....	130,117
Capital allocation - market risk.....	91,019
Capital allocation - operational risk .....	21,454
<b>Required regulatory capital.....</b>	<b>242,590</b>
<b>Excess regulatory capital.....</b>	<b>204,647</b>
<b>Ratio as of Dec 31, 2017 .....</b>	<b>17.1%</b>
<b>Ratio as of Dec 31, 2016 .....</b>	<b>17.7%</b>
Additional of Principal capital - Segment "S3" .....	32,782
<b>Excess regulatory capital .....</b>	<b>171,865</b>
<b>Ratio as of Dec 31, 2017 .....</b>	<b>16.8%</b>
<b>Ratio as of Dec 31, 2016 .....</b>	<b>17.6%</b>
Regulatory capital calculated for covering the interest rate risk of operations not classified into the trading portfolio (IRRBB)	27,726

- b. Service revenue is composed of revenue from specialized technical advisory services R\$ 5,801 (2nd semester 2017 R\$ 1,830 e 2016 R\$ 4,229); income from guarantees provided R\$ 7,391 (2nd semester 2017 R\$ 3,536 e 2016 R\$ 8,369) and other revenues from fees, and Brokerage fee for securities placement and intermediation R\$ 12 (2nd semester 2017 R\$ 8 e 2016 R\$ 54).
- c. Other administrative expenses are composed of expenses on financial system services of R\$ 2,426 (2nd semester 2017 R\$ 1,055 e 2016 R\$ 5,013); communications of R\$ 4,514 (2nd semester 2017 R\$ 2,023 e 2016 R\$ 4,380); third-party and specialized technical services of R\$ 3,379 (2nd semester 2017 R\$ 1,787 e 2016 R\$ 5,035); rent and common area maintenance fees of R\$ 8,343 (2nd semester 2017 R\$ 4,553 e 2016 R\$ 6,622); data processing and IT services of R\$ 3,871 (2nd semester 2017 R\$ 1,849 e 2016 R\$ 3,510); travel expenses of R\$ 591 (2nd semester 2017 R\$ 206 e 2016 R\$ 2,014); depreciation and amortization of R\$ 5,000 (2nd semester 2017 R\$ 3,077 e 2016 R\$ 2,785) and other expenses of R\$ 3,594 (2nd semester 2017 R\$ 1,615 e 2016 R\$ 4,545).
- d. Tax expenses are composed of expenses on federal taxes (PIS, COFINS, IOF) of R\$ 4,598 (2nd semester 2017 R\$ 2,165 e 2016 R\$ 7,148), state taxes of R\$ 45 (2nd semester 2017 R\$ zero e 2016 R\$ 70) and municipal taxes (ISS, IPTU) of R\$ 1,092 (2nd semester 2017 R\$ 469 e 2016 R\$ 1,001).
- e. Other operating income are composed basically of finance income and interest on capital received of R\$ 92 (2nd semester 2017 R\$ 13 e 2016 R\$ 1,585), exchange gain on investments in foreign branches of R\$ 4,755 (2nd semester 2017 R\$ zero e 2016 R\$ zero) and reversal of provision of R\$ 1,007 (2nd semester 2017 R\$ 5 e 2016 R\$ zero).
- f. Other operating expenses are composed basically of exchange losses on investments in foreign branches of R\$ zero (2nd semester 2017 R\$ zero e 2016 R\$ 62,891), additional provision for credit risks of R\$ 3,670 (2nd semester 2017 R\$ 3,329 e 2016 R\$ zero), exchange losses on cash in foreign currency of R\$ 458 (2nd semester 2017 R\$ 458 e 2016 R\$ 4,427) and labor liabilities R\$ 540 (2nd semester 2017 R\$ 540 e 2016 R\$ 1,131).

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In thousands of Brazilian reais - R\$)**

**18 Restructuring organization**

In March 2017, Haitong Bank S.A. laid the groundwork for its strategic planning called “**Haitong 2025**”. This strategic plan has the following main definitions: (i) Definition of 3 Business Pillars: Investment Bank, Markets and Alternative Products (Asset / Private Equity / Structured Funds); (ii) Emphasis on the Chinese angle; (iii) Focus of action in Brazil, Iberia and Poland as “Originator” countries and New York and London as “Distributors” countries; and (iv) Cost structure review and optimization.

As part of the Haitong 2025 project, the Haitong Bank of Brazil Investment Management has been perfecting its strategic plan based on business profitability and increased operational efficiency, with effective cost control. In this scenario, during the first half of 2017, a series of changes in the organizational structure of the Bank and subsidiaries were adopted, with emphasis on:

- a)** completion of the processes of optimization of the governance structure and reorganization of the business, operational, institutional and administrative areas, making it possible to reduce the number of employees of the Bank and its subsidiaries;
  - b)** the subsidiary Haitong Securities of Brasil Corretora de Câmbio e Valores Mobiliários S.A. (CCVM) suspended its activities as a Trading Participant (“PN”) with B3, failing to carry out its own operations and to intermedate its clients’ operations; and
  - c)** a reduction of 30% in personnel and infrastructure costs, mainly related to the physical space of the facilities, communications and technology and computer expenses, among others.
- The adoption of these changes in the organizational structure of the Bank and subsidiaries increased personnel expenses and other administrative expenses, increasing the loss for the year, as follows:

	Impacts of Restructuring Organizational
<b>. Loss for the year .....</b>	<b>(92,153)</b>
. Extraordinary adjustments .....	13,473
. Personnel expenses .....	11,739
. Other administrative expenses .....	7,602
. Equity in the losses of subsidiaries .....	2,835
. Income tax and social contribution .....	(8,703)
<b>. Adjusted loss for the year .....</b>	<b>(78,680)</b>

On the other hand, it confirms the strategic plan adopted with positive impacts as of the second half of this year. With this emphasis, Management will continue to evaluate its strategies in order to seek operational efficiency and profitability for its shareholders.

**BOARD OF DIRECTORS**

**Christian George Jacques Minzolini**  
Chairman

**Alan do Amaral Fernandes**  
**Frederico dos Reis Arrochela Alegria**  
**Paulo José Lameiras Martins**  
**Yong Lin**

**DIRECTORS**

**Alan do Amaral Fernandes**  
President

**José Luis de Saldanha Ferreira Pinto Basto**  
Vice-President

**Carlos José Caetano Guzzo**  
**Frederico dos Reis Arrochela Alegria**  
**Roberto Fonseca Simões Filho**  
**Silvan Barros Suassuna**

**ACCOUNTANT**

**Marcos Tetsuo Takeda - CRC-1SP197374/O-1**

(Convenience Translation into English from the Original Previously Issued in Portuguese)

To the Board of Directors and Shareholders of

**Haitong Banco de Investimento do Brasil S.A.**

São Paulo - SP

### **Opinion**

We have audited the accompanying financial statements of Haitong Banco de Investimento do Brasil S.A. ("Bank"), which comprise the balance sheet as of December 31, 2017, and the statement of profit and loss, statement of changes in equity and statement of cash flows for the six-month period and year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Haitong Banco de Investimento do Brasil S.A. as of December 31, 2017, and its financial performance and its cash flows for the six-month period and year then ended in accordance with accounting practices adopted in Brazil, applicable to financial institutions authorized to operate by the Central Bank of Brazil.

### **Basis for opinion**

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are independent of the Bank in accordance with the relevant ethical requirements in the Code of Ethics for Professional Accountants and the professional standards issued by the Brazilian Federal Accounting Council (CFC), and we have fulfilled our other ethical responsibilities in accordance with those requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Other information accompanying the financial statements and the independent auditor's report**

Management is responsible for the other information. The other information comprises the Management Report.

Our opinion on the financial statements does not cover the Management Report, and we do not express any form of audit conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management Report and, in doing so, consider whether this report is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement in the Management Report, we are required to report that fact. We have nothing to report in this regard.

### **Responsibilities of Management and those charged with governance for the financial statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting practices adopted in Brazil, applicable to financial institutions authorized to operate by the Central Bank of Brazil, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless Management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Brazilian and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Brazilian and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The accompanying financial statements have been translated into English for the convenience of readers outside Brazil.

São Paulo, March 27, 2018

**Deloitte.**

**DELOITTE TOUCHE TOHMATSU**  
Auditores Independentes

Vanderlei Minoru Yamashita  
Engagement Partner