

2Q18 Earnings Release

2Q18

The logo for Banc of California 2 (bs2) is displayed in a bold, white, lowercase sans-serif font. The 's' is stylized with a dot above it. The logo is positioned in the lower-left quadrant of the slide.

bs2.

Belo Horizonte, August 16, 2018 – The Banco BS2 S.A. ("Bank"), a multiple bank with commercial and credit, financing and investment portfolio, focused on **credit operations, foreign exchange services and payments market**, announces its earnings for the quarter, semester and year ended as of June 30, 2018. The financial information, except when otherwise stated, is related to the parent company (Bank), and is denominated in millions of reais.

In August 2017, the equity of Banco BS2 S.A. was subject to a partial spin-off upon the reversion of its fixed assets in Olé Consignado to its parent company, BBO Participações S.A. This fact is required due to the operational growth of Banco Olé and, also, because of the need for capital contributions in the institution, which would require an unnecessary level of fixed assets of Banco BS2. This transaction reinforced the transparency of the business managed by BS2, since its figures will reflect the performance of its areas of operation, without the influence of results from the relevant equity method of accounting. BBO Participações consolidated its position as a financial holding company, which holds 100% of the capital stock of Banco BS2 and 40% of the capital stock of Banco Olé Bonsucesso Consignado.

As part of the Bank's repositioning strategy, its name changed to Banco BS2 S.A., in order to adjust the mark to the digital era.

During the first half of 2018, BS2 increased its capital by BRL 60 million, showing the confidence of its shareholders in the management of its strategic planning and improvement of its Basel ratio, and allowing the expansion of its active operations.

As part of its business expansion plan, Banco BS2 has approved the organization of BS2 Câmbio e Investimentos (DTVM), a subsidiary that has been operating in retail foreign exchange trading solutions and will operate in the marketing of investment products.

BS2 currently concentrates its transactions in the business credit segment, acquisition of credit rights, foreign exchange market, third-party assets management (BS2 Asset) and also in the acquiring segment, operating both in the accreditation and financial settlement of transactions with credit and debit cards for commercial establishments.

Main Figures

Total Assets	3.8 billion	Net Equity	312 million
Credit and credit rights portfolio	965 million	Net Income (Loss)	17.9 million
Total Fund Raising	1.7 billion	ROAE (p.a.)	13.9 %

Main indicators

	1H18	1H17	Var.
Gross Income (Loss) from financial intermediation	21.8	13.3	63.9%
Net Income (Loss) (*)	17.9	24.0	-25.4%
Net Equity (*)	312.5	514.5	-39.3%
Total Assets	3,842.4	2,303.6	66.8%
Credit Portfolio	909.6	758.9	19.9%
Total Fund Raising	1,735.0	1,538.0	12.8%

(*) Reduction of the Net Equity due to the spin-off of the part related to Banco Olé and the entry of the equity method of accounting in the holding company BBO Participações S.A.

Performance Indexes

	1H18	1H17	Var.
ROAA (p.a.)	1.0%	2.6%	-1.6 p.p.
ROAE (p.a.)	13.9%	11.6%	2.3 p.p.
Efficiency Ratio	62.3%	70.8%	-8.5 p.p.
Basel Index	15.7%	14.1%	1.6 p.p.
Net financial margin (p.a.)	11.3%	9.3%	2 p.p.
Default	0.3%	2.8%	-2.5 p.p.

Overview

The Banco BS2 S.A. keeps continuous focus on four areas, which are its supporting pillars. Two of these areas are linked to credit and the other two to the provision of the following services:

- **Acquisition of credit rights** – Most of it refers to the purchase of Federal and State court-ordered debts, a market in which BS2 has expertise and profitable operations since 2012;
- **Enterprise BS2** - Working capital solutions for medium-sized companies;
- **Foreign exchange** - Wholesale segment in which Banco BS2 operates. More recently, it started retail operations through the BS2 Câmbio e Investimentos (DTVM);
- **Payments Market** – Acquiring Company. In this segment, BS2 has been present in the physical world since 2017 and in the digital world since 2016, and Adyen is its main partner.
- **BS2 Hub** - In addition, the Bank continues investing in the construction of its technology platform - the BS2 Hub, which will be fully launched in the market in the second half of 2018.

BS2 Business Fronts



Financial and operational performance

Profitability

	1H18	1H17	Var.
ROAA (p.a.)	1.0%	2.6%	-1.6 p.p.
ROAE (p.a.)	13.9%	11.6%	2.3 p.p.
Net Income (Loss) (*)	17.9	24.0	-25.4%
Net Equity (*)	312.5	514.5	-39.3%
Total Assets	3,842.4	2,303.6	66.8%

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In the first half of 2018, the net income of Banco BS2 amounted to BRL17.9 million, with an annualized total return (ROAE) of 13.9% per year. This impact was mainly due to the fact that the equity method of accounting of Banco Olé is no longer included in the Bank's results, as it did in the first half of 2017. It was also due to the consolidation of the business of its post-paycheck credit strategic planning.

The reduction in the net equity of Banco BS2 was due to the partial spin-off in August 2017, which transferred its interest in Banco Olé Bonsucesso Consignado S.A. to its holding company BBO Participações S.A. Such fact allowed Banco B2B to focus even more on its *core business*, regardless of the equity interest, which, in turn, continues very well structured and profitable.

Income (Loss) from financial intermediation

	1H18	1H17	Var.
Revenue from financial intermediation	122.8	93.9	30.8%
Credit Operations	30.5	30.1	1.3%
Net Income from TVM and Cash Investments	22.5	38.5	-41.6%
Income (Loss) from derivative financial instruments	22.8	7.2	216.7%
Income from foreign exchange operations	43.4	17.9	142.5%
Sales transactions or transfers of financial assets	3.6	0.2	1700.0%
Financial intermediation expenses	(101.0)	(80.8)	-25.0%
Fund raising transactions in the market	(94.4)	(78.9)	-19.6%
Lending, assignments and on-lending operations	(2.1)	(0.2)	-950.0%
Sales transactions or transfers of financial assets	(0.4)	(1.5)	73.3%
Provision for doubtful accounts	(4.1)	(0.2)	-1950.0%
Income (Loss) from financial intermediation	21.8	13.1	66.4%

The gross income from financial intermediation reached BRL 21.8 million in 1H18, which is BRL 8.7 million higher than in 1H17. The increase was mainly due to the excellent result of the foreign exchange transactions, which increased by 142.5% in 1H18, compared to 1H17.

The increase in the result with derivative financial instruments in the 1H18 of BRL 15.6 million compared to 1H17 was due to the foreign exchange swap gain that hedges the USD variation of the debt. This gain was offset by the negative variation of the US Dollar of the debt, as shown in financial intermediation expenses in the expenses of funding operations in the market.

Other operating revenues and expenses

	1H18	1H17	Var.
Other operating revenues (expenses)	9.8	16.7	-41.3%
Services provision revenues	24.8	4.3	476.7%
Bank fee revenues	1.1	0.6	83.3%
Personnel expenses	(22.5)	(19.5)	-15.4%
Other administrative expenses	(68.9)	(42.2)	-63.3%
Tax Expenses	(9.6)	(6.1)	-57.4%
Income (Loss) from equity in affiliates and subsidiaries	0.5	14.8	-96.6%
Other operating income	102.6	81.3	26.2%
Other operating expenses	(18.2)	(16.5)	-10.3%

Other operating income and expenses reached a positive net result of BRL 9.8 million in 1H18, a reduction of BRL 6.9 million compared to 1H17. Here are some facts that contributed to this variation.

- The result of equity interests was reduced by 96.6% due to the spin-off of Banco Olé Bonsucesso Consignado S.A. in August 2017. So, in 1H17 it affected the equity method of accounting, which did not occur in 1H18.
- Administrative expenses increased by 63.3% in 1H18 compared to 1H17, mainly due to increased technology investments and foreign exchange expenses, due to the natural increase resulting from the increase in operations and revenues, which were fully under control and in line with its budget.
- In 1H18, the Bank recorded a BRL 20.5 million increase in its service revenues, compared to 1H17, as a result of the consolidation of the payment services transactions (acquiring) and advances of payment transactions (credit rights) to commercial establishments.
- Other operating revenues increased by 26.2% in 1H18 compared to 1H17. This was mainly due to the increase in its operations with court-ordered payment of judgment debt owed by the government, which generated revenues of BRL 23.7 million higher in 1H18 compared to 1H17.

Net financial margin

	1H18	1H17	Var.
Result of financial intermediation before PDD ¹	12.9	9.4	37.2%
Other operating revenues and expenses ²	85.2	60.1	41.8%
Average appreciating assets	1,780.5	1,532.8	16.2%
Net financial margin (p.a.)	11.3%	9.3%	2 p.p.

Efficiency Ratio

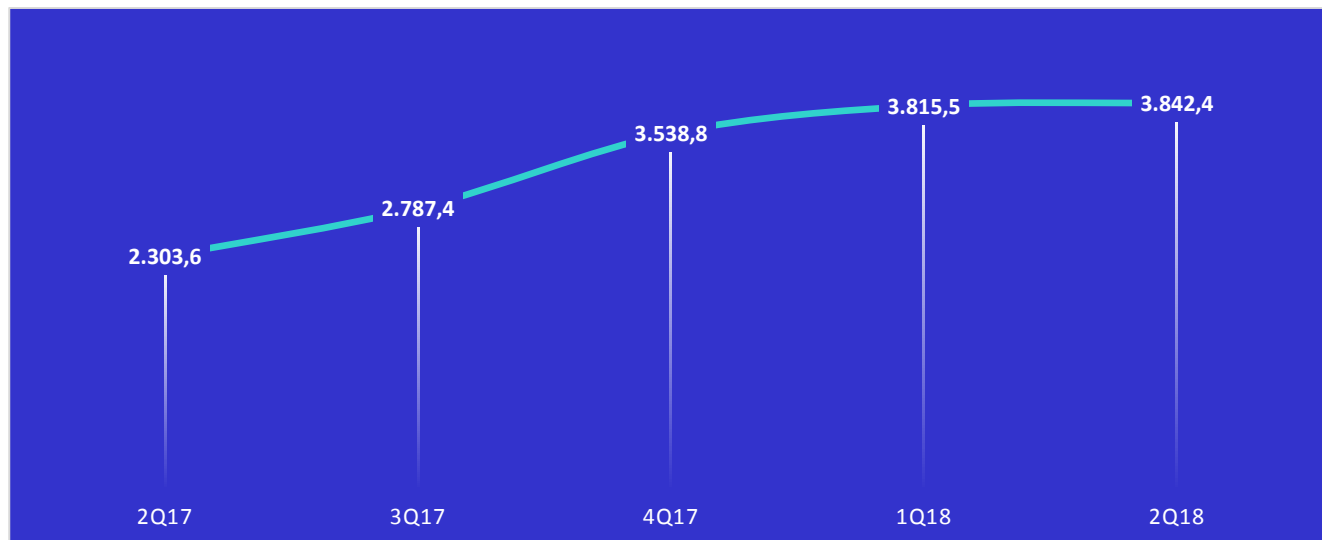
	1H18	1H17	Var.
Total Expenses	77.3	56.0	38.0%
Personnel expenses	22.5	19.5	15.4%
Other administrative expenses ¹	55.8	37.8	47.6%
Income(loss) from Equity Interest ³	(1.0)	(1.3)	23.1%
Total Income	124.0	79.1	56.8%
Result of financial intermediation before PDD ¹	12.9	9.4	37.2%
Services provision revenues	25.9	9.6	169.8%
Other operating revenues and expenses ²	85.2	60.1	41.8%
Efficiency Ratio	62.3%	70.8%	-8.5 p.p.

¹ Reclassification of foreign exchange commission expenses, expenses incurred with origination of credits to income (loss) from financial intermediation from other administrative expenses.

² Considered as "Other operating revenues and expenses", the income (loss) from exchange variation and adjustment to market value of foreign funding, the gain with repurchase of subordinated debt, recovery of payroll-deductible credit and the result with court-ordered debt payments.

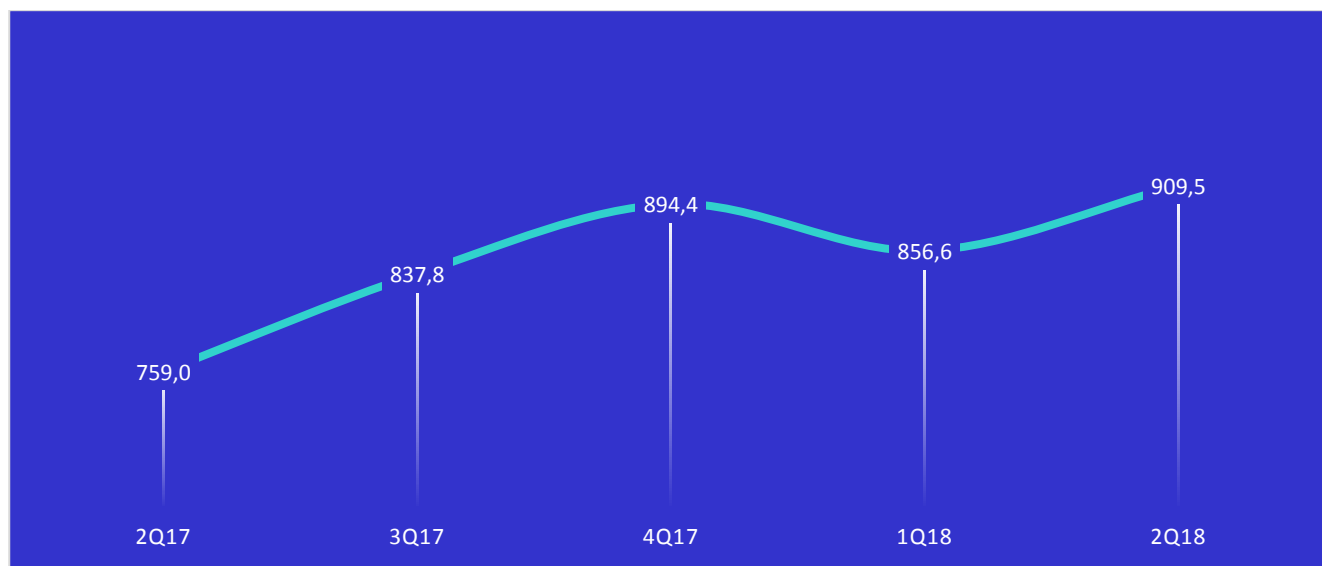
³ Result of equity held in BS2 Tecnologia, Bonsucesso Controladoria and Previmax Seguradora.

Evolution of assets



Total assets of the Bank reached BRL 3.8 billion in 2Q18, an increase of 66.8% if compared to 2Q17. This increase was mainly due to the growth of our credit (loan) portfolio and our acquisition transactions.

Total credit portfolio



BS2's total credit portfolio increased 19.9% in 2Q18 compared to 2Q17. The Enterprise portfolio had an increase of BRL 95.6 million and the portfolio of court-ordered debt payment had an increase of BRL 76.6 million in 2Q18, compared to 2Q17.

The following is the opening of the total credit portfolio:

	2Q17	3Q17	4Q17	1Q18	2Q18
Payroll-deductible loans	36.9	28.3	23.0	18.7	14.6
Non-Payroll-deductible personal loans	13.7	12.5	12.7	8.9	9.6
Enterprise	259.8	349.5	407.6	311.3	355.4
Court-ordered debt payment	442.5	445.0	438.9	505.4	519.1
Outros	6.1	2.5	12.2	12.3	10.8
Total credit portfolio	759.0	837.8	894.4	856.6	909.5

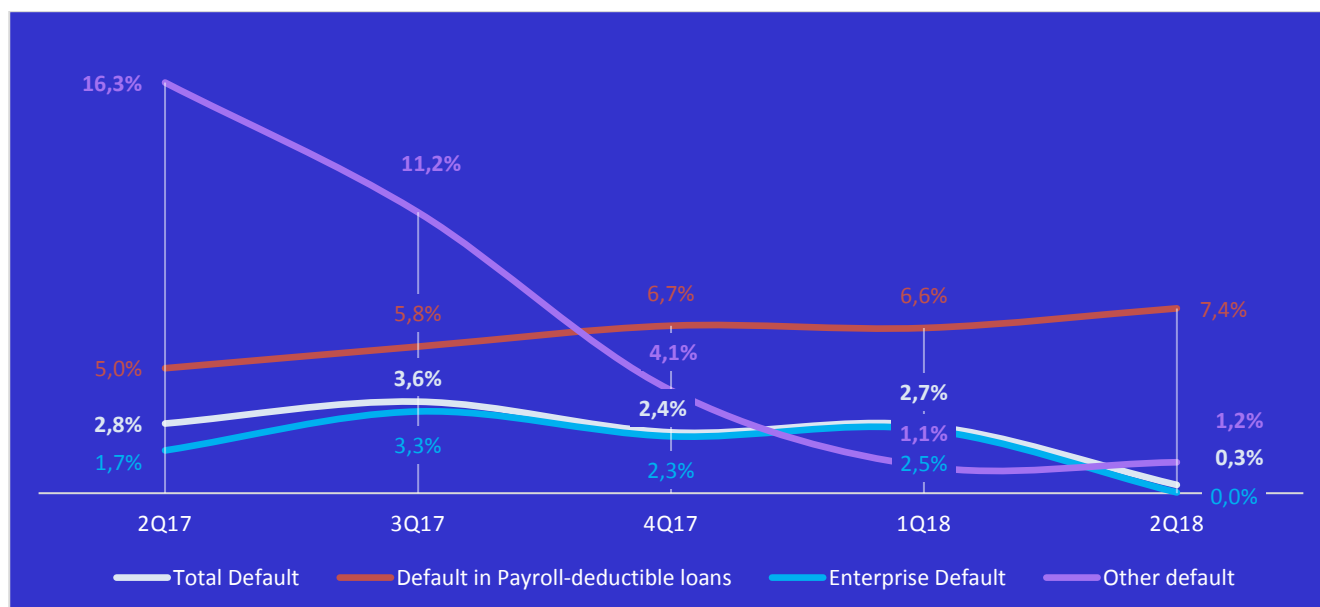
Quality of the credit portfolio

Rating	Required Provision (%)	1H18			1H17		
		Credit Portfolio	%	Provision	Credit Portfolio	%	Provision
AA		171.6	18.9%		174.4	23.0%	
A	0.5	585.3	64.4%	2.9	390.2	51.4%	2.0
B	1.0	78.5	8.6%	0.8	117.8	15.5%	1.2
C	3.0	47.1	5.2%	1.4	41.9	5.5%	1.3
D	10.0	3.2	0.4%	0.3	9.9	1.3%	1.0
E	30.0	1.2	0.1%	0.3	0.8	0.1%	0.2
F	50.0	16.3	1.8%	8.2	18.7	2.5%	9.4
G	70.0	5	0.5%	3.5	0.4	0.1%	0.3
H	100.0	1.3	0.1%	1.3	4.9	0.6%	4.9
Total		909.5	100.0%	18.7	759.0	100.0%	20.3
AA - D		885.7	97.4%	5.4	734.2	96.7%	5.5
E - H		23.8	2.6%	13.3	24.8	3.3%	14.8

The quality of the Bank's credit portfolio from AA to D totaled 97.4% in 1H18, an increase of 0.7 pp in relation to 1H17.

Default

BS2 ended 1H18 with a delinquency rate of 0.3%. This percentage is 2.5 pp below the index recorded in 1H17. This improvement was mainly due to credit recoveries in the Business segment. Despite the growth shown in the chart below, the delinquency in payroll-deductible loan portfolio is not very representative in monetary terms, given that the remaining portfolio is at the final settlement phase, both regarding composition of assets and the accountable result.



Fund Raising

	1H18	1H17	Var.
Total Fund Raising	1,735.0	1,538.0	12.8%
Time Deposits	1,193.3	1,123.8	6.2%
Other deposits	167.8	128.1	31.0%
Foreign Fund Raising	228.3	202.0	13.0%
Obligations related to assignment-related operations	4.4	17.6	-75.0%
Others	141.2	66.5	112.3%

Total funding increased by 12.8% in 1H18 compared to 1H17, reaching BRL 1.7 billion. The funding accompanied the growth of the credit portfolio, with an average cost that is adequate to our scenario, and very efficient in relation to the market and adequately compensating our investors.

Liquidity

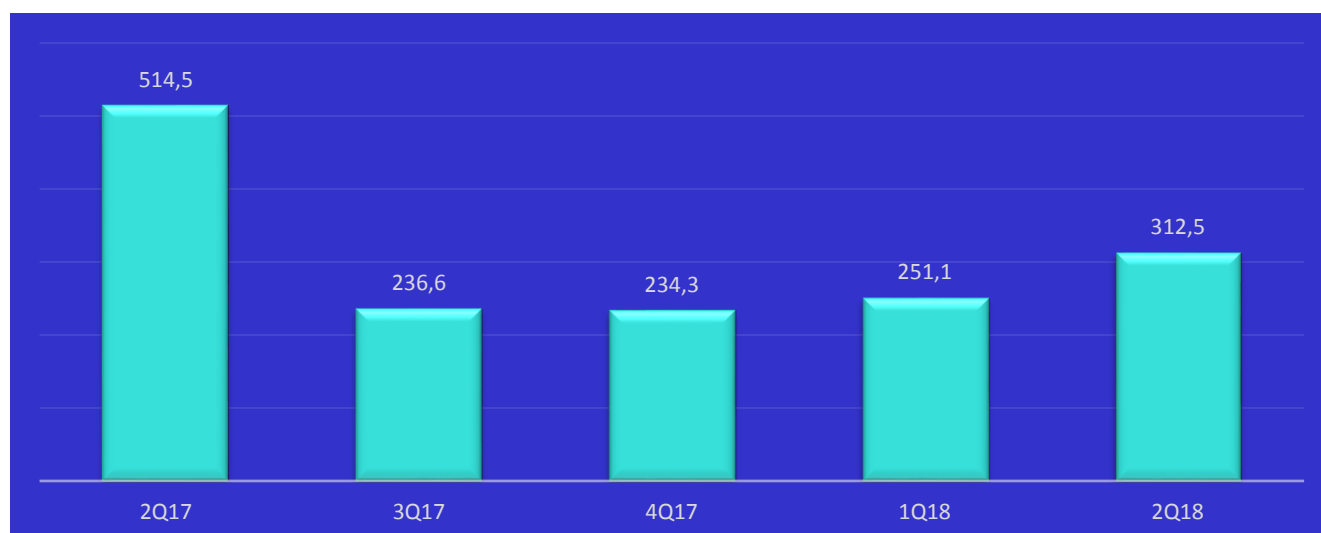
Market risk and liquidity management

In accordance with CMN Resolution No. 4557/17, the Bank defined its market risk and liquidity management structure in accordance with the nature of its transactions and the complexity of its products and services, considering its portfolio of payroll-deductible loans, credit for small and medium-sized enterprises (Business) and foreign exchange transactions and its performance in the Treasury.

The structure defines the bodies involved and their respective duties and responsibilities, the unit responsible for managing market risk and liquidity of the Conglomerado Prudencial BS2 and the statutory officer responsible for each of the risks with the Central Bank of Brazil, besides describing the market risk and liquidity management process.

Information on Market Risk and Liquidity Management is disclosed by the Bank on its Corporate Governance website under the section "Risk and Capital Management Structure" (www.bs2.com/banco/institucional/governanca-corporativa).

Net Equity



BS2 ended 2Q18 with a net equity of BRL 312.5 million, down 39.3% compared to 2Q17. The reduction is due to the already explained partial spin-off that resulted in the reversion of the Bank's interest in Banco Olé to its holding company, BBO Participações S.A., providing BS2 with better conditions to focus on its business.

In March 2018 BS2 increased its capital by BRL 10 million, approved by the Central Bank on April 10, 2018 and, in June 2018, BS2 increased its capital by BRL 50 million. This fact was reported to the Central Bank and now it is awaiting its approval.

The Basel Index



BS2 closed 2Q18 with Basel III Index (adjusted to Required Referential Equity) at 15.7%, an increase of 1.6 pp in relation to the closing of 2Q17, in accordance with what has been anticipated by BACEN, since the minimum required is 10.5% (Basel Index + ACP) in accordance with CMN Resolution No. 4193/2013.



Balance sheet (in thousands of reais)

	1H18	1H17
Assets		
Cash equivalents	83,900	30,279
Cash investments	70,588	155,961
Securities and derivatives	565,814	33,482
Interbank Transactions	1,791,750	3,102
Credit Operations	250,916	195,920
Assignment-related Credit Transactions	4,161	12,023
Provisions for doubtful accounts	(7,937)	(9,873)
Other Credits	267,976	422,562
Other values and assets	16,574	42,906
Current Assets	3,043,742	886,362
Cash investments	55	1,416
Securities and derivatives	131,388	628,975
Credit Operations	126,522	103,853
Assignment-related Credit Transactions	0	3,687
Provisions for doubtful accounts	(9,050)	(8,986)
Other Credits	452,368	325,835
Other values and assets	1,127	1,690
Non-current Assets	702,410	1,056,470
Interest in affiliates and subsidiaries in the country	50,697	332,932
Other Investments	1,405	1,380
Property, plant and equipment	27,896	21,721
Intangible Assets	16,253	4,692
Permanent Assets	96,251	360,725
Total Assets	3,842,403	2,303,557

**Balance sheet (in thousands of reais)**

	1H18	1H17
Liabilities		
Deposits	721,310	447,274
Funding in the open market	24,696	0
Funds from acceptance and issuance of securities	68,477	31,651
Interbank Transactions	309	167
Interbranch Transactions	21,826	19,033
Lending and on-lending Liabilities	11,661	5,085
Financial Derivative Instruments	255	34
Other Liabilities	1,712,664	191,401
Current Liabilities	2,561,198	694,645
Deposits	639,850	804,702
Funds from acceptance and issuance of securities	36,347	29,802
Other Liabilities	291,896	259,870
Long-term liabilities	968,093	1,094,374
Deferred Income (Loss)	631	40
Shareholders' Equity	261,721	489,712
Surplus Reserve	30,877	211
Adjustment to market value – TVM	1,980	555
Retained Earnings	17,903	24,020
Net Equity	312,481	514,498
Total Liabilities and Net Equity	3,842,403	2,303,557



Statement of income (in thousands of reais)

	1H18	1H17
Credit Operations	30,549	30,126
Net Income from TVM and Cash Investments	22,542	38,535
Income (Loss) from derivative financial instruments	22,776	7,229
Income from foreign exchange operations	43,377	17,914
Sales transactions or transfers of financial assets	3,599	226
Revenue from financial intermediation	122,843	94,030
Fund raising transactions in the market	(94,429)	(78,926)
Lending and on-lending operations	(2,135)	(162)
Sales transactions or transfers of financial assets	(413)	(1,523)
Provision for doubtful accounts	(4,075)	(155)
Financial intermediation expenses	(101,052)	(80,766)
Gross Income (Loss) from financial intermediation	21,791	13,264
Services provision revenues	24,838	4,332
Bank fee revenues	1,093	551
Personnel expenses	(22,548)	(19,530)
Other administrative expenses	(68,887)	(42,244)
Tax Expenses	(9,600)	(6,068)
Income (Loss) from equity in affiliates and subsidiaries	502	14,832
Other operating income	102,598	81,347
Other operating expenses	(18,246)	(16,516)
Other operating revenues (expenses)	9,750	16,704
Operating Income (Loss)	31,541	29,968
Non-operating Income (Loss)	(216)	658
Operating income before taxation on income and equity interests	31,325	30,626
Income tax and social contribution	(10,682)	(6,606)
Profit Sharing	(2,740)	0
Net income for the period	17,903	24,020

Ratings

FitchRatings BBB (bra) | Foreign Currency: B+

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