Banco BS2 S.A.

Full Rating Report

Ratings

Foreign Currency

Long-Term IDR	B+
Short-Term IDR	B

Local Currency

Long-Term IDR	B+
Short-Term IDR	B
Viability Rating	b+
Support Rating	5

National Ratings

Long-Term IDR	BBB(bra)
Short-Term IDR	F3(bra)

Sovereign Rating

Long-Term Foreign and Local Currency IDRs	BB–

Outlooks

Long-Term Foreign and Local Currency IDR	Stable
Long-Term National Rating	Positive
Sovereign Long-Term Foreign and Local Currency IDR	Stable

Financial Data

Banco BS2 S.A.

(BRL Mil.)	12/31/18	12/31/17
Total Assets	5,825.7	3,538.8
Total Equity	311.9	234.3
Loan Portfolio	723.0	894.5
Net Income	35.6	48.1
Operating Profit/ RWA (%)	1.9	2.8
Impaired Loans/ Gross Loans (%)	3.5	3.5
FCC Ratio (%)	9.0	8.4
Total Regulatory Capital Ratio (%)	11.5	13.5

RWA – Risk-weighted assets. FCC – Fitch Core Capital.

Related Research

Fitch Affirms Banco BS2's Ratings; National Rating Outlook Revised to Positive (November 2018)

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Key Rating Drivers

Outlook Positive: The revision of Banco BS2 S.A.'s (BS2) Long-Term National Rating Outlook to Positive in November 2018 from Stable, reflects Fitch Ratings' expectation relative to the bank's ability to maintain its recurring results while improving its asset quality after the change of its business model. The Positive Outlook also considers the expectation of strengthening the entity's capital base through capital injections and internal capital generation. BS2 has been able to progressively reposition its franchise, although it is still a small-sized bank.

Ratings Driven By Viability Rating: BS2's ratings affirmation considers the development of its franchise and its business model, as well as a comfortable liquidity. However, it also reflects the challenges of developing and maturing new business fronts, as well as regulatory capital ratios lower than its peers'.

Diversification Supports Results: BS2's main business areas, although recent, present adequate profitability. Fee revenues showed strong growth in 2018 and loan impairment charges were low. Despite this, the operating profit/risk-weighted assets (RWA) ratio decreased to 1.9% in 2018 from 2.8% in 2017. The decline was mainly due to the transfer of the joint venture (JV) of the bank with Banco Santander (Brazil) S.A. to the controlling family's holding company at the end of 2017, which removed an important source of revenues for the bank.

Low Delinquency Levels: BS2 maintains relevant operations with precatórios (securities originated by Brazilian states after the loss of lawsuits) while seeking out clients with better credit profile in the SME segment. Loans classified in the 'D–H' risk range remained stable, at 3.5% of gross loans, in 2018. NPLs over 90 days stood at a low 0.7% of the total portfolio compared with 2.4% in 2017, a level better than its peers' average.

Low Capital Base: BS2's capitalization has remained stable, despite the relevant growth of RWA in 2018. Regulatory Tier 1 ratio was close to 9.6% as of YE 2018 from 9.5% in 2017, while total regulatory capital ratio decreased to 11.5% compared with 13.5% in 2017. Shareholders injected BRL60 million in 2018 to support the growth of the bank's operations. However, the bank's capitalization ratios are still below its peers' average, despite this injection, and it is possible that BS2 will need further injections to support its growth plans.

Rating Sensitivities

VR and IDRs: Although unlikely in the short term, BS2's Viability Rating (VR) and Issuer Default Ratings (IDRs) could benefit from a sustained improvement in profitability, from the diversification of its funding base and from the sustained improvement of its capitalization, characterized by a Fitch Core Capital (FCC) ratio above 17%. An upgrade will also depend on the maturation of its business model and a meaningful improvement on its franchise, together with the ability to control the risk appetite and to post adequate asset-quality ratios.

National Rating: The continuing development and consolidation of BS2's new business fronts, in addition to maintaining the already good indicators of profitability and asset quality, may result in a positive rating action. However, Fitch may revise the Outlook on the National Rating to Stable if the bank's strategic objectives do not materialize. Capital pressures could also trigger a negative rating action.

Operating Environment

Fitch downgraded Brazil's IDRs to 'BB–' in February 2018 from 'BB', and revised the Rating Outlook to Stable from Negative. The downgrade reflects the persistence of large fiscal deficits, a high and growing government debt burden and the lack of legislative reforms that would improve the structural performance of public finances. Fitch downgraded Brazil's sovereign ratings to 'BB' from 'BB+' in May 2016.

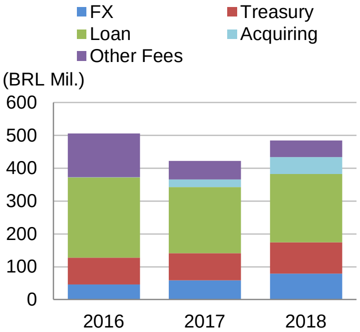
Fitch expects Brazil's GDP growth to reach 1.3% in 2018 and 2.2% in 2019. We believe the external demand and easing of political and policy uncertainties will support a gradual economic recovery in 2019–2020. Low inflation and a still stable and expansionary monetary policy (albeit tighter) will also be growth supportive. Downside risks include a further worsening in the external financing conditions and/or a deterioration in the overall policy environment.

After cutting interest rates by a cumulative 775bps since 2016, Bacen (Brazilian Central Bank) halted the monetary easing cycle in May 2018, keeping rates unchanged since then, despite some peaks of pressure on the BRL.

The Brazilian banking system is well developed but highly concentrated. Loan growth and asset quality came under pressure from the weak operating environment between 2014 and 2016, but pressures have alleviated since 2017. Total sector loans fell 0.6% in 2017 yoy, compared with a decline of 3.5% in 2016. Growth began to recover in 2018, reaching 5.5%, driven by loans to individuals. Meanwhile, NPLs represented 2.9% in 2018, down from 3.3% in 2017. By the end of 2018, the credit-to-GDP ratio was 47.4% from 47% in 2017, but still far from the 50% of 2016.

The infrastructure supporting the financial system is adequate and well established. The regulatory environment is generally considered to be strong. The two main regulators, Bacen and the Securities and Exchange Commission of Brazil (CVM), have good reputations for their level of sophistication, controls, monitoring capacity and flexibility, and their capacity to react quickly to adverse situations. Enforcement of legislation also is adequate.

Revenues



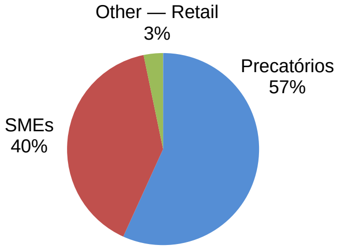
Source: Fitch Ratings, Fitch Solutions, Banco BS2.

Company Profile

Repositioning of Franchise and Business Model

BS2 is a small bank focused, in recent periods, on repositioning its strategy and its franchise after the sale of its payroll-deductible credit operations in 2014. The sale of this business to Santander, which was its main source of income, through an operating agreement, resulted in the creation of JV Banco Olé Consignado S.A. (Olé Consignado). The group kept a 40% stake in the JV, owned directly by BS2 until the end of 2017, when it was transferred to the holding company of the bank's controlling family.

Loan Portfolio — 2018



Source: Fitch Ratings, Fitch Solutions, Banco BS2.

Up until 2017, most of BS2's revenue stream came from its minority stake in Olé Consignado. In 2017, the equity profit of Olé Consignado accounted for approximately 36% of BS2's operating profit.

Although Fitch believes the sale of the payroll-deductible loans operations has addressed BS2's structural liquidity issues, given the long-term nature of the payroll business and the intrinsic dependence of the bank on more volatile and short-term wholesale funding, it also led BS2 to develop and implement other businesses as part of its franchise repositioning goal.

Currently, the bank has four main lines of business: credit operations with precatórios, which accounted for 57% of the credit portfolio in 2018; credit operations with SMEs, which corresponded to 40% of the loan portfolio; foreign exchange operations; and, more recently, operations related to the acquiring segment.

Related Criteria

Bank Rating Criteria (October 2018)
National Scale Ratings Criteria (July 2018)

Combined, credit operations accounted for 43% of revenues in 2018. In the foreign exchange segment, the bank strengthened its business by hiring executives with a long history in the segment. In acquiring, it entered into a partnership with Adyen B.V., a global payment company, which paved the way for its entry into the segment, resulting in the formation of Adiq Soluções de Pagamento S.A. (Adiq). By the end of 2018, the exchange area accounted for 16% of the revenues, while acquiring revenues accounted for 10%.

Simple Organizational Structure

BS2's organizational structure is simple and clear. The bank's origin dates back to 1992, in Belo Horizonte (MG). The bank is ultimately controlled by the Pentagna Guimarães family. In addition to BS2, the consolidated structure includes BS2 Distribuidora de Títulos e Valores Mobiliários S.A., established in 2017, Previmax Previdência Privada e Seguradora S.A., Adiq and BS2 Asset Management - Administradora de Recursos Ltda. The bank also holds interests in companies not linked to the financial segment, which do not represent important financial investments, but provide support and complement its activities.

Management

Adequate Management Quality and Governance

BS2's strategic decisions are the responsibility of the board, which is composed of six members, four of whom are from the controlling family. The Board of Directors is composed of six members, all from the family. Fitch considers BS2's leadership to be good, with professionals with extensive experience in the institution and knowledge of the market.

Corporate governance is typical of small and medium-sized private equity banks with a corporate family structure and absence of independent members on the board of directors, indicating that there is room for improvement.

Strategic Objectives and Execution

Overall, BS2 is shifting its business model to a lighter structure, focused on the balance between service and credit operations that are capital-consuming. The bank has gradually increased its operations with SMEs, starting from a small base, with an improvement in asset quality, especially from 2017. BS2 aims to gradually increase its current exposure to loans to small and midsize companies, while it leverages precatórios purchases at discounted rates. In addition, the bank has expanded its foreign exchange and acquiring operations, having grown strongly since Adiq was established. For 2019, the plan is to expand the service-oriented digital bank project and build partnerships within the open banking concept.

Execution has improved in the last two years, as BS2 was able to achieve its business and financial goals. However, these developments are still recent and will require more time to have a more relevant impact on the assessment of the bank's execution. Fitch believes BS2's execution will be directly linked to its capacity to generate capital internally and/or materialize new capital injections from its shareholders, given the existing small capital cushion, which limits the capacity of expanding the operations.

Risk Appetite

Underwriting Standards and Risk Controls Adequate to Profile

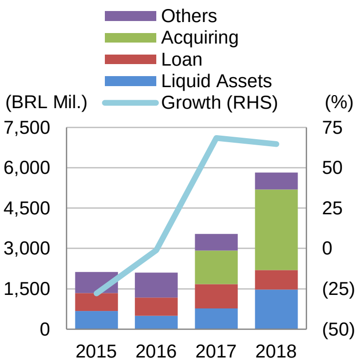
BS2's credit risk is primarily concentrated in its loan portfolio of BRL723 million, which also includes its exposure to precatórios. These are securities originated by either the federal or sub-national governments. In the case of BS2, they are mostly originated by the government of the state of Minas Gerais, following judicial litigations. BS2 has expertise on acquiring such securities with large discounts (around 70% of the face value), and holds the securities to maturity to receive the full amount. The delinquency is historically very low, with only one problematic case over the last 10 years. The exposure to SMEs has shown a significant improvement, after experiencing some problems in the past.

The concentration of the bank's portfolio, derived mainly from the precatórios segment, remains a concern. The top twenty credit exposures represented a high percentage of 91% of the portfolio as of YE 2018. The precatórios portfolio is ultimately concentrated in few public entities, despite having a pulverized base of individual bonds with maturities distributed over time.

The complementary activities of the bank are still small and, by themselves, do not alter or compromise the risk profile of the bank, in Fitch's opinion. Management is careful when establishing profit targets, manages risk adequately and has risk controls in line with banking industry standards. However, the bank is heavily affected by the local environment and competition. By the end of 2018, the bank's operational risk represented 14% of the total RWA.

Accelerated Growth of Acquiring Operations Puts Pressure on Capital

Assets Growth



Source: Fitch Ratings, Fitch Solutions, Banco BS2.

With the transfer of the payroll operations to the JV, BS2 assets declined up to 2016. From 2017 on, operations related to precatórios increased, as did the appetite for the SME segment. However, by the end of 2018, the credit portfolio decreased 19%, still representing a relatively low 2.3x its equity. The strong growth of the bank's assets as of 2017 is mainly due to the acquiring operations, which, by the end of 2018, totaled approximately BRL3.0 billion up from BRL1.3 billion in 2017. In the same period, RWA grew more slowly, reaching BRL2.4 billion from BRL2.0 billion, respectively.

Fitch believes that, despite the low loan leverage, the strong growth in acquiring operations will require special attention as it begins to consume a larger portion of the bank's capital, although these operations are subject to a lower risk-weighting factor than loans. This translates into the institution's low capital cushion, mainly Tier 1 capital, close to the regulatory floors.

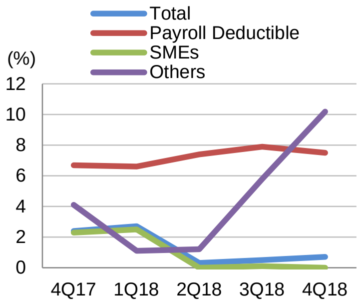
Market Risk

The main sources of market risk for BS2 (tenor and interest rate mismatches) decreased after the transfer of its payroll loans to the JV. Historically, the bank has always made use of derivatives to mitigate potential risks arising from potential mismatches from its pre-fixed loans and its funding base, usually linked to the benchmark interest rate. So far, market risk has remained low, as the treasury desk is not a revenue-generating unit, and its main role is to capture, manage mismatches between assets and liabilities, properly price assets and manage the bank's liquidity. Market risks are monitored according to value-at-risk methodologies, with no extrapolation registered in recent periods. Market risk represented 10% of RWA at the end of 2018.

Financial Profile

Good Asset Quality

Asset Quality
NPLs (> 90 Days)



Source: Fitch Ratings, Fitch Solutions, Banco BS2.

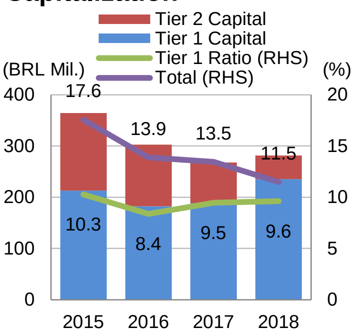
BS2's delinquency rates have improved significantly in recent years, reflecting the better profile of its operations with SMEs, as well as the strong growth in precatórios operations, the main driver of credit growth. Loans classified in the 'D–H' risk range fell from a high of 16.8% of the total portfolio in 2015 to 3.5% at the end of 2018. NPLs corresponded to a low of 0.7% of the portfolio in 2018 from 2.4% in 2017, far below its peers' average. BS2's final loan losses are still small, with net write-offs of 0.4% of average credit in 2018, net reversal of 0.4% in 2017, as a result of a strong recovery, mainly from its SME portfolio.

BS2's asset quality assessment also reflects the concentrated nature of its loan portfolio, which might create greater volatility in its default indicators.

In addition to its SME portfolio of about BRL288 million, BS2's credit exposure also includes BRL411 million of precatórios. Historically, the bank accounted for it on the securities portfolio, but, from June 2017, reclassified the precatórios as credit. By local rules, BS2 does not necessarily have to lower the risk rating of exposures in case of delays, as precatórios are not considered traditional credit.

The nature of the judicial decisions may be related to salaries claims, pensions, disability benefits or other legal actions, such as expropriations and tributes. Precatórios are unappealable, meaning that final judicial decisions cannot be reverted. Given the very long-term nature of those notes, there is a large demand for anticipating the liquidation by banks, such as BS2, which are willing to buy those promissory notes with a haircut of usually 70%. BS2 has developed a strong origination expertise in this business. The historic of nonpayment on this portfolio has been very low, with only one problematic case over the last 10 years.

Capitalization



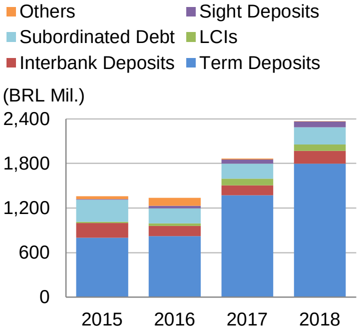
Source: Fitch Ratings, Fitch Solutions, Banco BS2.

Better Results Depend on the Evolution of New Business Fronts

Until 2017, BS2's earnings profile reflected the bank's strong dependence on its stake in the JV (36% of the operating result in 2017). BS2 has managed to develop its new business areas, despite the transfer of the stake to the group holding company in 2017. However, the bank continues with the challenge to further expand and mature its recent new business initiatives to increase its profitability.

Net income reached BRL35.6 million in 2018 from BRL48.1 million in 2017, reducing the operating profit/RWA ratio to 1.9%, from 2.8% in 2017 (close to 1.7%, disregarding the results coming from JV) — a percentage close to its peers'. This result was possible due to the growing contribution of the new business segments and the reduced credit costs in the period, due to the continuous decrease in the delinquency rates of its loan portfolio.

Funding



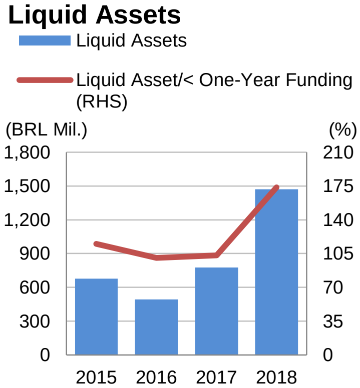
Source: Fitch Ratings, Fitch Solutions, Banco BS2.

After the period of re-adjustment of its structure after the transfer of the payroll-deductible credit segment, when it has greatly reduced its administrative costs, BS2 has invested in the expansion of its new business areas and in the development of its digital platform. As a result of this strategy, administrative expenses increased by 24% in the last 12 months, totaling BRL218 million in 2018 up from BRL173 million in 2017, leading to an efficiency ratio of 82% compared with 85.6% in 2017, a percentage higher than its peers.

Capitalization: Growth Will Require New Capital Injections

BS2's capitalization ratios have remained relatively stable, but below the average of their peers. The bank's total regulatory capital ratio fell to 11.5% as of YE 2018 from 13.5% in 2017, as a result of the gradual reduction in the use of its subordinated debt to make up Tier 2 capital, currently representing only 20% of the total. The Tier 1 capital ratio of 9.6% (9.5% in 2017) is lower than the average of the banks in the same rating category, despite the capital injections of BRL60 million made during 2018, and is a challenge for the expansion plans in credit and in acquiring, in Fitch's opinion.

Liquid Assets



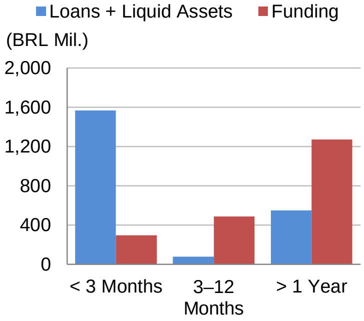
Source: Fitch Ratings, Fitch Solutions, Banco BS2.

Fitch expects further capital injections to occur in 2019. Recurrent internal capital generation should continue to improve as new businesses mature and become more representative. The bank's ratings may be under pressure if management adopts an aggressive capital management approach, with faster growth and without any increase in the capital base.

Concentrated Funding, Strong Liquidity

BS2's funding base in 2018 consisted predominantly of term deposits in the amount of BRL1.8 billion, or 76% of total funding. On a smaller scale, complementing the bank's funding, there were BRL174 million in interbank deposits, or 7.4%; BRL76 million in demand deposits, or 3.2%; BRL84 million in real estate credit bills, or 3.2%; and BRL233 million in subordinated debt, or 9.8%.

Maturity Structure — 2018



Source: Fitch Ratings, Fitch Solutions, Banco BS2.

Funding remains concentrated. The top 20 investors accounted for approximately 76% of the bank's total funding at the end of 2018, a factor mitigated by agreements with local brokerage firms, which in turn distribute BS2 funding instruments to a more diversified base of retail clients. In recent years, BS2 has been able to lengthen the average maturities of its funding instruments, based on agreements with brokerage firms that have broad access to retail investors, which contribute up to the limit of BRL250,000 covered by the Credit Guarantee Fund.

BS2 has maintained a strong liquidity position. Liquid assets of BRL1.5 billion at the end of 2018 (BRL777 million in 2017) covered 1.7x the bank's liabilities due in the short term. Asset and liability management is adequate in view of the need for cash to meet the demands of its foreign exchange operations and the short-term profile of its loans to SMEs. BS2's liquidity may fluctuate as the bank continues to expand through credit activities (including precatórios), which, however, should remain at appropriate levels.

Income Statement — Banco BS2 S.A.

(BRL Mil., Year End as of Dec. 31)	2018[a] (USD Mil.) A/U	2018[a] A/U	2018[a] As % of Earning Assets	2017[a] A/U	2017[a] As % of Earning Assets	2016[a] A/U	2016[a] As % of Earning Assets	2015[a]	2015[a] As % of Earning Assets	2014[a]	2014[a] As % of Earning Assets
Interest Income on Loans	16.2	62.8	2.53	61.7	3.24	142.7	8.03	508.8	27.09	619.5	24.60
Other Interest Income	45.4	175.7	7.07	142.1	7.47	279.9	15.76	325.9	17.35	162.5	6.45
Dividend Income	0.0	0.0	—	0.0	—	0.0	—	0.0	—	0.0	—
Gross Interest and Dividend Income	**61.6**	**238.5**	**9.60**	**203.8**	**10.71**	**422.6**	**23.79**	**834.7**	**44.44**	**782.0**	**31.05**
Interest Expense on Customer Deposits	43.5	168.4	6.78	151.2	7.94	176.0	9.91	199.9	10.64	192.0	7.62
Other Interest Expense	0.7	2.7	0.11	3.0	0.16	9.5	0.53	268.3	14.29	184.6	7.33
Total Interest Expense	**44.2**	**171.1**	**6.89**	**154.2**	**8.10**	**185.5**	**10.44**	**468.2**	**24.93**	**376.6**	**14.95**
Net Interest Income	**17.4**	**67.4**	**2.71**	**49.6**	**2.61**	**237.1**	**13.35**	**366.5**	**19.51**	**405.4**	**16.09**
Net Fees and Commissions	14.6	56.6	2.28	25.5	1.34	6.2	0.35	22.5	1.20	18.6	0.74
Net Gains (Losses) on Trading and Derivatives	0.0	0.0	—	0.0	—	0.0	—	0.0	—	0.0	—
Net Gains (Losses) on Assets and Liabilities at Fair Value	0.0	0.0	—	0.0	—	0.0	—	0.0	—	0.0	—
Net Gains (Losses) on Other Securities	0.0	0.0	—	0.0	—	0.0	—	0.0	—	0.0	—
Net Insurance Income	0.0	0.0	—	0.0	—	0.0	—	0.0	—	0.0	—
Other Operating Income	36.6	141.7	5.70	126.4	6.64	16.0	0.90	125.5	6.68	(42.7)	(1.70)
Total Non-Interest Operating Income	**51.2**	**198.3**	**7.98**	**151.9**	**7.98**	**22.2**	**1.25**	**148.0**	**7.88**	**(24.1)**	**(0.96)**
Total Operating Income	**68.6**	**265.7**	**10.69**	**201.5**	**10.59**	**259.3**	**14.60**	**514.5**	**27.39**	**381.3**	**15.14**
Personnel Expenses	13.9	53.8	2.17	45.8	2.41	39.8	2.24	40.4	2.15	53.4	2.12
Other Operating Expenses	42.3	164.0	6.60	126.7	6.66	162.7	9.16	342.7	18.25	239.9	9.52
Total Non-Interest Expenses	**56.2**	**217.8**	**8.77**	**172.5**	**9.06**	**202.5**	**11.40**	**383.1**	**20.40**	**293.3**	**11.64**
Equity-Accounted Profit/Loss — Operating	(0.9)	(3.5)	(0.14)	20.3	1.07	9.0	0.51	15.5	0.83	13.3	0.53
Pre-Impairment Operating Profit	**11.5**	**44.4**	**1.79**	**49.3**	**2.59**	**65.8**	**3.70**	**146.9**	**7.82**	**101.3**	**4.02**
Loan Impairment Charge	(0.7)	(2.9)	(0.12)	(6.2)	(0.33)	(15.7)	(0.88)	14.3	0.76	93.1	3.70
Securities and Other Credit Impairment Charges	0.0	0.0	—	0.0	—	0.0	—	0.0	—	0.0	—
Operating Profit	**12.2**	**47.3**	**1.90**	**55.5**	**2.92**	**81.5**	**4.59**	**132.6**	**7.06**	**8.2**	**0.33**
Equity-Accounted Profit/Loss — Non-Operating	0.0	0.0	—	0.0	—	0.0	—	0.0	—	0.0	—
Goodwill Impairment	0.0	0.0	—	0.0	—	0.0	—	0.0	—	0.0	—
Nonrecurring Income	0.3	1.1	0.04	1.7	0.09	0.0	—	0.0	—	0.0	—
Nonrecurring Expense	0.0	0.0	—	0.0	—	0.0	—	0.0	—	0.0	—
Change in Fair Value of Own Debt	0.0	0.0	—	0.0	—	0.0	—	0.0	—	0.0	—
Other Non-Operating Income and Expenses	0.0	0.0	—	0.0	—	0.0	—	0.0	—	0.0	—
Pretax Profit	**12.5**	**48.4**	**1.95**	**57.2**	**3.01**	**81.5**	**4.59**	**132.6**	**7.06**	**8.2**	**0.33**
Tax Expense	3.3	12.8	0.52	9.1	0.48	19.7	1.11	(0.9)	(0.05)	(6.3)	(0.25)
Profit/Loss from Discontinued Operations	0.0	0.0	—	0.0	—	0.0	—	0.0	—	0.0	—
Net Income	**9.2**	**35.6**	**1.43**	**48.1**	**2.53**	**61.8**	**3.48**	**133.5**	**7.11**	**14.5**	**0.58**
Change in Value of AFS Investments	0.0	0.0	—	0.0	—	0.0	—	0.0	—	0.0	0.00
Revaluation of Fixed Assets	0.0	0.0	—	0.0	—	0.0	—	0.0	—	0.0	0.00
Currency Translation Differences	0.0	0.0	—	0.0	—	0.0	—	0.0	—	0.0	0.00
Remaining OCI Gains/(Losses)	0.0	0.0	—	0.0	—	0.0	—	0.0	—	0.0	0.00
Fitch Comprehensive Income	**9.2**	**35.6**	**1.43**	**48.1**	**2.53**	**61.8**	**3.48**	**133.5**	**7.11**	**14.5**	**0.58**
Memo: Profit Allocation to Non-Controlling Interests	0.0	0.0	—	0.0	—	0.0	—	0.0	—	0.0	0.00
Memo: Net Income after Allocation to Non-Controlling Interests	9.2	35.6	1.43	48.1	2.53	61.8	3.48	133.5	7.11	14.5	0.58
Memo: Common Dividends Relating to the Period	4.5	17.5	0.70	17.4	0.91	30.3	1.71	26.6	1.42	13.0	0.52
Memo: Preferred Dividends and Interest on Hybrid Capital Accounted for as Equity Related to the Period	0.0	0.0	—	0.0	—	0.0	—	0.0	—	0.0	0.00

[a]Exchange rate: 2018 — USD1 = BRL3,8742; 2017 — USD1 = BRL3,3074; 2016 — USD1 = BRL3,2585; 2015 — USD1 = BRL3,9042; 2014 — USD1 = BRL2,6556.
A/U – Audited - Unqualified. AFS – Available for sale. OCI – Other comprehensive income.
Source: Fitch Ratings, Fitch Solutions.

Balance Sheet — Banco BS2 S.A.

(BRL Mil., Year End as of Dec. 31)	2018[a] (USD Mil.)	2018[a]	2018[a] As % of Assets	2017[a]	2017[a] As % of Assets	2016[a]	2016[a] As % of Assets	2015[a]	2015[a] As % of Assets	2014[a]	2014[a] As % of Assets
Assets											
Loans											
Residential Mortgage Loans	0.0	0.0	—	0.0	—	0.0	—	0.0	—	0.0	—
Other Mortgage Loans	0.0	0.0	—	0.0	—	0.0	—	0.0	—	0.0	—
Other Consumer/Retail Loans	7.1	27.5	0.47	48.9	1.38	90.6	4.31	181.0	8.51	1,255.6	42.64
Corporate and Commercial Loans	179.5	695.5	11.94	845.6	23.90	226.1	10.76	247.4	11.63	363.0	12.33
Other Loans	0.0	0.0	—	0.0	—	0.0	—	0.0	—	0.0	—
Less: Loan Loss Allowances	4.5	17.4	0.30	23.9	0.68	26.8	1.27	44.4	2.09	106.4	3.61
Net Loans	**182.1**	**705.6**	**12.11**	**870.6**	**24.60**	**289.9**	**13.79**	**384.0**	**18.05**	**1,512.2**	**51.35**
Gross Loans	**186.6**	**723.0**	**12.41**	**894.5**	**25.28**	**316.7**	**15.07**	**428.4**	**20.14**	**1,618.6**	**54.96**
Memo: Impaired Loans included Above	6.5	25.1	0.43	30.9	0.87	34.2	1.63	71.8	3.38	162.8	5.53
Memo: Specific Loan Loss Allowances	0.0	0.0	—	0.0	—	0.0	—	0.0	—	0.0	—
Other Earning Assets											
Loans and Advances to Banks	5.8	22.5	0.39	7.9	0.22	83.6	3.98	105.8	4.97	67.8	2.30
Reverse Repos and Securities Borrowing	257.3	996.8	17.11	318.7	9.01	159.7	7.60	162.4	7.63	104.0	3.53
Derivatives	34.5	133.8	2.30	102.9	2.91	97.7	4.65	163.7	7.70	93.8	3.19
Trading Securities and at Fair Value through Income	145.2	562.7	9.66	15.2	0.43	53.6	2.55	34.3	1.61	16.2	0.55
Securities at Fair Value through OCI/Available for Sale	0.4	1.4	0.02	545.1	15.40	405.0	19.27	509.3	23.94	359.2	12.20
Securities at Amortized Cost/Held to Maturity	0.0	0.0	—	0.0	—	370.9	17.65	231.6	10.89	183.4	6.23
Other Securities	1.3	5.0	0.09	6.1	0.17	0.0	—	0.0	—	0.0	—
Total Securities	**146.9**	**569.1**	**9.77**	**566.4**	**16.01**	**829.5**	**39.46**	**775.2**	**36.44**	**558.8**	**18.98**
Memo: Government Securities included Above	380.4	1,473.9	25.30	857.3	24.23	553.4	26.33	517.6	24.33	463.2	15.73
Memo: Total Securities Pledged	20.2	78.4	1.35	149.2	4.22	135.9	6.47	131.2	6.17	151.1	5.13
Equity Investments in Associates	14.7	56.9	0.98	36.6	1.03	316.0	15.03	287.0	13.49	182.2	6.19
Investments in Property	0.0	0.0	—	0.0	—	0.0	—	0.0	—	0.0	—
Insurance Assets	0.0	0.0	—	0.0	—	0.0	—	0.0	—	0.0	—
Other Earning Assets	0.0	0.0	—	0.0	—	0.0	—	0.0	—	0.0	—
Total Earning Assets	**641.3**	**2,484.7**	**42.65**	**1,903.1**	**53.78**	**1,776.4**	**84.51**	**1,878.1**	**88.29**	**2,518.8**	**85.53**
Non-Earning Assets											
Cash and Due From Banks	13.5	52.3	0.90	54.5	1.54	42.2	2.01	27.4	1.29	2.9	0.10
Memo: Mandatory Reserves included Above	0.1	0.5	0.01	0.3	0.01	0.0	—	0.0	—	0.0	—
Foreclosed Assets	3.9	15.0	0.26	19.4	0.55	39.9	1.90	0.0	—	0.0	—
Fixed Assets	7.5	29.0	0.50	24.0	0.68	21.0	1.00	16.8	0.79	18.1	0.61
Goodwill	0.0	0.0	—	0.0	—	0.0	—	0.0	—	0.0	—
Other Intangibles	9.6	37.0	0.64	7.0	0.20	1.7	0.08	0.7	0.03	0.0	0.00
Current Tax Assets	0.0	0.0	—	0.0	—	0.0	—	0.0	—	0.0	—
Deferred Tax Assets	17.5	67.7	1.16	79.3	2.24	85.6	4.07	91.7	4.31	92.6	3.14
Discontinued Operations	0.0	0.0	—	0.0	—	0.0	—	0.0	—	0.0	—
Other Assets	810.5	3,140.0	53.90	1,451.5	41.02	135.2	6.43	112.6	5.29	312.5	10.61
Total Assets	**1,503.7**	**5,825.7**	**100.00**	**3,538.8**	**100.00**	**2,102.0**	**100.00**	**2,127.3**	**100.00**	**2,944.9**	**100.00**

[a]Exchange rate: 2018 — USD1 = BRL3,8742; 2017 — USD1 = BRL3,3074; 2016 — USD1 = BRL3,2585; 2015 — USD1 = BRL3,9042; 2014 — USD1 = BRL2,6556.
OCI – Other comprehensive income. *Continued on next page.*
Source: Fitch Ratings, Fitch Solutions.

Balance Sheet — Banco BS2 S.A. (Continued)

(BRL Mil., Year End as of Dec. 31)	2018[a] (USD Mil.)	2018[a]	As % of Assets	2017[a]	As % of Assets	2016[a]	As % of Assets	2015[a]	As % of Assets	2014[a]	As % of Assets
Liabilities and Equity											
Interest-Bearing Liabilities											
Total Customer Deposits	483.3	1,872.3	32.14	1,423.7	40.23	858.4	40.84	812.7	38.20	1,042.2	35.39
Deposits from Banks	44.9	173.9	2.99	135.7	3.83	137.5	6.54	197.1	9.27	382.2	12.98
Repos and Securities Lending	0.0	0.0	—	0.0	—	102.6	4.88	22.8	1.07	0.0	—
Commercial Paper and Short-Term Borrowings	17.9	69.5	1.19	61.4	1.74	17.7	0.84	23.2	1.09	85.5	2.90
Customer Deposits and Short-Term Funding	**546.1**	**2,115.7**	**36.32**	**1,620.8**	**45.80**	**1,116.2**	**53.10**	**1,055.8**	**49.63**	**1,509.9**	**51.27**
Senior Unsecured Debt	4.1	15.7	0.27	42.4	1.20	18.1	0.86	7.1	0.33	13.4	0.46
Subordinated Borrowing	60.1	232.8	4.00	201.8	5.70	203.4	9.68	294.8	13.86	249.6	8.48
Covered Bonds	0.0	0.0	—	0.0	—	0.0	—	0.0	—	0.0	—
Other Long-Term Funding	0.0	0.0	—	0.0	—	0.0	—	0.0	—	0.0	—
Total Long-Term Funding	**64.1**	**248.5**	**4.27**	**244.2**	**6.90**	**221.5**	**10.54**	**301.9**	**14.19**	**263.0**	**8.93**
Memo: O/W Matures in Less than One Year	0.0	0.0	—	0.0	—	0.0	—	0.0	—	0.0	—
Trading Liabilities	0.0	0.0	—	0.0	—	0.0	—	0.0	—	0.0	—
Total Funding	**610.2**	**2,364.2**	**40.58**	**1,865.0**	**52.70**	**1,337.7**	**63.64**	**1,357.7**	**63.82**	**1,772.9**	**60.20**
Derivatives	0.0	0.0	—	0.1	0.00	0.1	0.00	0.0	—	0.0	—
Total Funding and Derivatives	**610.2**	**2,364.2**	**40.58**	**1,865.1**	**52.70**	**1,337.8**	**63.64**	**1,357.7**	**63.82**	**1,772.9**	**60.20**
Non-Interest Bearing Liabilities											
Fair Value Portion of Debt	0.0	0.0	—	0.0	—	0.0	—	0.0	—	0.0	—
Credit Impairment Reserves	0.0	0.0	—	0.0	—	0.0	—	0.0	—	0.0	—
Reserves for Pensions and Other	0.0	0.0	—	0.0	0.00	0.0	—	0.0	—	0.0	—
Current Tax Liabilities	0.0	0.0	—	0.0	—	0.0	—	0.0	—	0.0	—
Deferred Tax Liabilities	0.0	0.0	—	0.0	—	0.0	—	0.0	—	0.0	—
Other Deferred Liabilities	0.0	0.0	—	0.0	—	0.0	—	0.0	—	0.0	—
Discontinued Operations	0.0	0.0	—	0.0	—	0.0	—	0.0	—	0.0	—
Insurance Liabilities	0.0	0.0	—	0.0	—	0.0	—	0.0	—	0.0	—
Other Liabilities	813.0	3,149.6	54.06	1,439.4	40.67	274.5	13.06	296.5	13.94	784.0	26.62
Total Liabilities	**1,423.2**	**5,513.8**	**94.65**	**3,304.5**	**93.38**	**1,612.3**	**76.70**	**1,654.2**	**77.76**	**2,556.9**	**86.82**
Hybrid Capital											
Preferred Shares and Hybrid Capital Accounted for as Debt	0.0	0.0	—	0.0	—	0.0	—	0.0	—	0.0	0.00
Preferred Shares and Hybrid Capital Accounted for as Equity	0.0	0.0	—	0.0	—	0.0	—	0.0	—	0.0	0.00
Equity											
Common Equity	80.2	310.7	5.33	232.6	6.57	489.9	23.31	473.0	22.23	388.5	13.19
Non-Controlling Interest	0.0	0.0	—	0.0	—	0.0	—	0.0	0.00	0.0	0.00
Securities Revaluation Reserves	0.3	1.2	0.02	1.7	0.05	(0.2)	(0.01)	0.1	0.00	(0.5)	(0.02)
Foreign Exchange Revaluation Reserves	0.0	0.0	—	0.0	—	0.0	—	0.0	0.00	0.0	0.00
Fixed Asset Revaluations and Other Accumulated OCI	0.0	0.0	—	0.0	—	0.0	—	0.0	0.00	0.0	0.00
Total Equity	**80.5**	**311.9**	**5.35**	**234.3**	**6.62**	**489.7**	**23.30**	**473.1**	**22.24**	**388.0**	**13.18**
Memo: Equity plus Preferred Shares and Hybrid Capital Accounted for as Equity	80.5	311.9	5.35	234.3	6.62	489.7	23.30	473.1	22.24	388.0	13.18
Total Liabilities and Equity	**1,503.7**	**5,825.7**	**100.00**	**3,538.8**	**100.00**	**2,102.0**	**100.00**	**2,127.3**	**100.00**	**2,944.9**	**100.00**
Memo: Fitch Core Capital	56.7	219.8	3.77	168.3	4.76	427.7	20.35	411.3	19.33	358.1	12.16

[a]Exchange rate: 2018 — USD1 = BRL3,8742; 2017 — USD1 = BRL3,3074; 2016 — USD1 = BRL3,2585; 2015 — USD1 = BRL3,9042; 2014 — USD1 = BRL2,6556.
OCI – Other comprehensive income.
Source: Fitch Ratings, Fitch Solutions.

Summary Analytics — Banco BS2 S.A.

(%, Year End as of Dec. 31)	2018	2017	2016	2015	2014
Interest Ratios					
Interest Income/Average Earning Assets	11.73	10.97	23.86	38.98	31.42
Interest Income on Loans/Average Gross Loans	7.45	9.40	42.03	58.10	34.96
Interest Expense on Customer Deposits/Average Customer Deposits	11.19	13.28	21.87	21.69	15.54
Interest Expense/Average Interest-Bearing Liabilities	8.61	9.79	14.47	30.69	22.08
Net Interest Income/Average Earning Assets	3.32	2.67	13.39	17.11	16.29
Net Interest Income Less Loan Impairment Charges/Average Earning Assets	3.46	3.00	14.28	16.45	12.55
Net Interest Income Less Preferred Stock Dividend/Average Earning Assets	3.32	2.67	13.39	17.11	16.29
Other Operating Profitability Ratios					
Operating Profit/Risk-Weighted Assets	1.93	2.78	3.74	6.40	0.30
Non-Interest Expense/Gross Revenues	81.97	85.61	78.09	74.46	76.92
Loans and Securities Impairment Charges/Pre-Impairment Operating Profit	(6.53)	(12.58)	(23.86)	9.73	91.91
Operating Profit/Average Total Assets	1.07	2.10	3.80	5.25	0.28
Non-Interest Income/Gross Revenues	74.63	75.38	8.56	28.77	(6.32)
Non-Interest Expense/Average Total Assets	4.95	6.51	9.45	15.16	10.14
Pre-Impairment Operating Profit/Average Equity	15.51	11.94	13.52	32.94	25.44
Pre-Impairment Operating Profit/Average Total Assets	1.01	1.86	3.07	5.81	3.50
Operating Profit/Average Equity	16.53	13.44	16.75	29.74	2.06
Other Profitability Ratios					
Net Income/Average Total Equity	12.44	11.65	12.70	29.94	3.64
Net Income/Average Total Assets	0.81	1.82	2.88	5.28	0.50
Fitch Comprehensive Income/Average Total Equity	12.44	11.65	12.70	29.94	3.64
Fitch Comprehensive Income/Average Total Assets	0.81	1.82	2.88	5.28	0.50
Taxes/Pretax Profit	26.45	15.91	24.17	(0.68)	(76.83)
Net Income/Risk-Weighted Assets	1.45	2.41	2.84	6.44	0.53
Capitalization					
FCC/FCC-Adjusted Risk-Weighted Assets	8.98	8.44	19.64	19.84	13.02
Tangible Common Equity/Tangible Assets	3.83	4.85	20.97	19.91	12.96
Equity/Total Assets	5.35	6.62	23.30	22.24	13.18
Basel Leverage Ratio	0.00	0.00	0.00	0.00	0.00
Common Equity Tier 1 Capital Ratio	9.60	9.46	8.38	10.30	13.60
Fully Loaded Common Equity Tier 1 Capital Ratio	0.00	0.00	0.00	0.00	0.00
Tier 1 Capital Ratio	9.60	9.46	8.38	10.30	13.60
Total Capital Ratio	11.50	13.45	13.90	17.60	19.90
Impaired Loans Less Loan Loss Allowances/Fitch Core Capital	3.50	4.16	1.73	6.66	15.75
Impaired Loans Less Loan Loss Allowances/Equity	2.47	2.99	1.51	5.79	14.54
Cash Dividends Paid and Declared/Net Income	49.16	36.17	49.03	19.93	89.66
Risk-Weighted Assets/Total Assets	42.03	56.34	103.59	97.47	93.38
Risk-Weighted Assets — Standardized/Risk-Weighted Assets	0.00	0.00	0.00	0.00	0.00
Risk-Weighted Assets — Advanced Method/Risk-Weighted Assets	0.00	0.00	0.00	0.00	0.00
Loan Quality					
Impaired Loans/Gross Loans	3.47	3.45	10.80	16.76	10.06
Growth of Gross Loans	(19.17)	182.44	(26.07)	(73.53)	(19.09)
Loan Loss Allowances/Impaired Loans	69.32	77.35	78.36	61.84	65.36
Loan Impairment Charges/Average Gross Loans	(0.34)	(0.94)	(4.62)	1.63	5.25
Growth of Total Assets	64.62	68.35	(1.19)	(27.76)	0.96
Loan Loss Allowances/Gross Loans	2.41	2.67	8.46	10.36	6.57
Net Chargeoffs/Average Gross Loans	0.37	(0.40)	0.85	7.33	8.89
Impaired Loans + Foreclosed Assets/Gross Loans + Foreclosed Assets	5.43	5.50	20.78	16.76	10.06
Funding and Liquidity					
Loans/Customer Deposits	38.62	62.83	36.89	52.71	155.31
Liquidity Coverage Ratio	0.00	0.00	0.00	0.00	0.00
Customer Deposits/Total Funding (including Preferred Shares and Hybrids)	79.19	76.34	64.17	59.86	58.79
Interbank Assets/Interbank Liabilities	12.94	5.82	60.80	53.68	17.74
Net Stable Funding Ratio	0.00	0.00	0.00	0.00	0.00
Growth of Total Customer Deposits	31.51	65.86	5.62	(22.02)	(22.33)

Source: Fitch Ratings, Fitch Solutions.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.