

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

# **Banco Fator S.A.**

Financial Statements  
for the Six-month Period and Year Ended  
December 31, 2016 and  
Independent Auditor's Report

Deloitte Touche Tohmatsu Auditores Independentes

## **Management Report**

# **Banco Fator S.A. and Subsidiaries**

**Dear Shareholders, Clients and Employees,**

We are pleased to present below the financial statements of Banco Fator S.A. and Subsidiaries, accompanied with the related explanatory information and the independent auditor's report, for the periods January 1 to December 31, 2016 and 2015. As required by Article 8 of Central bank of Brazil (BACEN) Circular 3068/01, we, Banco Fator S.A., hereby declare that we have the financial ability and the intent to hold the securities classified in the category "Held-to-maturity securities".

The Executive Committee

# **Banco Fator S.A. and Subsidiaries**

## **AUDIT COMMITTEE'S REPORT**

In the discharge of its duties, the Fator Financial Group's Audit Committee is responsible for ensuring the integrity of the financial statements, the compliance with the legal and regulatory requirements, the independence and quality of the independent audit and the internal audit, and for the quality and effectiveness of the internal control systems and the risk management.

During the period, the Audit Committee conducted several meetings with different areas of the Fator Group, attended by, in addition to the audit committee members, representatives from Risk and Compliance, Internal Audit, Independent Audit, the Fator Ombudsman's Office, Accounting, Operational Risk, and other Corporate Areas. We highlight below the main issues addressed in these meetings:

- Financial statements for the periods from January 1 to December 31, 2016 and 2015.
- External Audit Work.
- Internal Audit Work.
- Ombudsman's Six-month Report.
- BACEN's Official Letters.
- CVM's/SIN's Official Letters.
- Self-regulation Units' Report (Anbima).

Based on the Independent Audit work and the Internal Audit work, the Audit Committee understands that the tests conducted and the procedures performed by Fator Group, are effective and efficient.

The financial statements, individual and consolidated, of the financial institutions that are part of the Fator Financial Group have been analyzed and duly approved by the Audit Committee.

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## INDEPENDENT AUDITOR'S REPORT

To the Management and Shareholders of  
Banco Fator S.A.  
São Paulo - SP

We have audited the accompanying individual and consolidated financial statements of Banco Fator S.A. ("Bank") and its subsidiaries ("Consolidated"), which comprise the balance sheets as at December 31, 2016 and the related income statement, statement of changes in equity ("Bank") and statement of cash flows for the six-month period and year then ended, as well as the related explanatory notes, including a summary of the main accounting policies.

In our opinion, the financial statements referred to above present fairly, in all material respects, the individual and consolidated financial position of Banco Fator S.A. and subsidiaries as at December 31, 2016, the individual and consolidated results of their operations and their cash flows for the six-month period and year then ended, in conformity with accounting practices adopted in Brazil applicable to the financial institutions authorized to operate by the Central Bank of Brazil (BACEN).

### **Basis for opinion**

We conducted our audit in accordance with Brazilian and international standards on auditing. Our responsibilities, in conformity with those standards, are described below in the "Auditor's responsibilities for the audit of the financial statements" section. We are independent in relation to the Bank in accordance with the relevant ethical principles set out in the Code of Ethics for Professional Accountants and professional standards issued by the Federal Accounting Council ("CFC"), and we have fulfilled our other ethical responsibilities in accordance with those standards. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Other matter**

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

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

Management is responsible for such other information that 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 individual and consolidated financial statements, our responsibility is to read the Management Report and, in doing so, consider whether such report is materially inconsistent with the financial statements or our knowledge obtained during 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 will be required to report such fact. We have nothing to report in this regard.

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

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

In preparing the individual and consolidated financial statements, Management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, when applicable, those matters related to its continuity as a going concern and using the going concern basis of accounting in the preparation of the financial statements, unless Management either intends to liquidate the Bank or discontinue operations, or has no realistic alternative to prevent the discontinuance of operations.

Those charged with governance of the Bank are responsible for overseeing the financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the individual and consolidated financial statements, taken 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 it is not a guarantee that an audit conducted in accordance with Brazilian and international standards on auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken based on these financial statements.

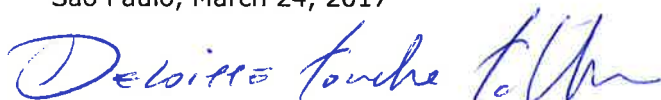
As part of an audit conducted in accordance with Brazilian and international standards on auditing, we exercise professional judgment and maintain professional skepticism during the course of our audit. We also:

- Identify and assess the risks of material misstatement of the individual and consolidated financial statements, whether due to fraud or error, design and perform audit procedures in response to those risks, and obtain sufficient and appropriate audit evidence to provide a basis for our audit opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve the override of internal controls, collusion, forgery, intentional omissions or misrepresentations.
- Obtain an understanding of internal controls 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 there is material uncertainty with respect to events or conditions that may raise significant doubt with respect to the Bank's ability to continue as a going concern. If we conclude that material uncertainty exists, we must draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inappropriate, modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may give rise to the Bank's inability to continue as a going concern.

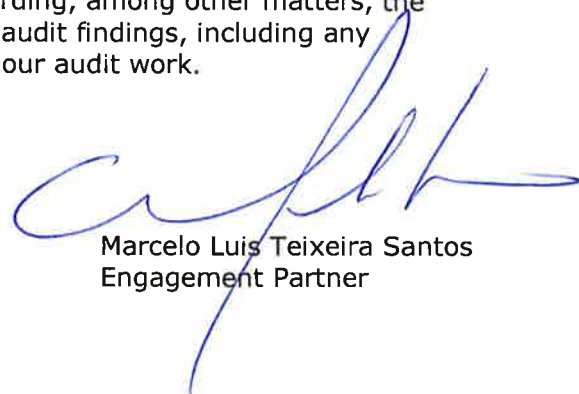
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the related transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the Group entities or business activities to express an opinion on the consolidated financial statements. We are responsible for the steering, supervision and performance of the Group audit and, consequently, for the audit opinion.

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

São Paulo, March 24, 2017



DELOITTE TOUCHE TOHMATSU  
Auditores Independentes



Marcelo Luis Teixeira Santos  
Engagement Partner

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**Banco Fator S.A. and Subsidiaries**

Balance Sheets

(In thousands of Brazilian reais - R\$)

ASSETS	NOTES	Bank		Consolidated	
		12/31/2016	12/31/2015	12/31/2016	12/31/2015
<b>CURRENT ASSETS</b>		<b>405,627</b>	<b>576,231</b>	<b>1,035,833</b>	<b>1,241,347</b>
<b>CASH</b>	<b>3b and 4</b>	<b>457</b>	<b>858</b>	<b>2,928</b>	<b>2,086</b>
<b>INTERBANK INVESTMENTS</b>	<b>3b, 3c, 4 and 5</b>	<b>175,027</b>	<b>-</b>	<b>175,027</b>	<b>-</b>
Money market investments		175,027	-	175,027	-
<b>SECURITIES AND DERIVATIVE FINANCIAL INSTRUMENTS</b>	<b>3d, 3e and 6</b>	<b>142,169</b>	<b>440,681</b>	<b>464,004</b>	<b>718,705</b>
Own portfolio		80,974	219,557	147,376	271,042
Linked to repurchase agreements		30,228	161,150	30,228	161,150
Derivatives		-	1,281	-	1,281
Linked to guarantees		23,615	58,693	279,048	285,232
Securities under resale agreements with free movement		7,352	-	7,352	-
<b>INTERBANK ACCOUNTS</b>		<b>108</b>	<b>209</b>	<b>108</b>	<b>209</b>
Deposits in the Central Bank		108	209	108	209
<b>LENDING OPERATIONS</b>	<b>3f and 7</b>	<b>67,380</b>	<b>100,780</b>	<b>67,380</b>	<b>100,780</b>
Private sector		94,682	115,699	94,682	115,699
(Allowance for loan losses)	<b>7e</b>	(27,302)	(14,919)	(27,302)	(14,919)
<b>OTHER RECEIVABLES</b>	<b>8</b>	<b>20,191</b>	<b>33,467</b>	<b>250,106</b>	<b>356,127</b>
Income receivable		10,921	24,756	7,207	6,326
Trading account	<b>3g</b>	507	546	3,291	34,703
Insurance premium receivable	<b>3h</b>	-	-	67,506	50,158
Sundry		8,763	8,165	175,279	266,630
(Allowance for losses on other receivables)	<b>7e</b>	-	-	(3,177)	(1,690)
<b>OTHER ASSETS</b>		<b>295</b>	<b>236</b>	<b>76,280</b>	<b>63,340</b>
Prepaid expenses		295	236	5,332	3,886
Insurance and reinsurance operations	<b>10</b>	-	-	70,948	59,454
<b>LONG-TERM ASSETS</b>		<b>324,142</b>	<b>381,497</b>	<b>460,435</b>	<b>506,087</b>
<b>SECURITIES AND DERIVATIVE FINANCIAL INSTRUMENTS</b>	<b>3d, 3e and 6</b>	<b>239,533</b>	<b>277,142</b>	<b>254,279</b>	<b>293,096</b>
Own portfolio		188,627	161,283	203,373	177,237
Linked to repurchase agreements		6,923	17,471	6,923	17,471
Derivatives		-	15	-	15
Linked to guarantees		17,662	98,373	17,662	98,373
Securities under resale agreements with free movement		26,321	-	26,321	-
<b>LENDING OPERATIONS</b>	<b>3f and 7</b>	<b>44,660</b>	<b>71,305</b>	<b>44,660</b>	<b>71,305</b>
Private sector		46,845	76,046	46,845	76,046
(Allowance for loan losses)	<b>7e</b>	(2,185)	(4,741)	(2,185)	(4,741)
<b>OTHER RECEIVABLES</b>	<b>8</b>	<b>39,760</b>	<b>33,045</b>	<b>102,124</b>	<b>87,677</b>
Trading account	<b>3g</b>	-	-	132	1,268
Insurance premium receivable	<b>3h</b>	-	-	14,215	16,509
Sundry		39,760	33,045	87,777	69,900
<b>OTHER ASSETS</b>		<b>189</b>	<b>5</b>	<b>59,372</b>	<b>54,009</b>
Prepaid expenses		189	5	235	5
Insurance and reinsurance operations	<b>10</b>	-	-	59,137	54,004
<b>PERMANENT ASSETS</b>		<b>247,487</b>	<b>262,060</b>	<b>12,367</b>	<b>11,993</b>
<b>INVESTMENTS</b>	<b>3i</b>	<b>238,292</b>	<b>253,801</b>	<b>273</b>	<b>649</b>
Interests in associates and subsidiaries - domestic	<b>11</b>	238,292	253,801	-	-
Other investments		-	-	273	649
<b>PROPERTY AND EQUIPMENT IN USE</b>	<b>3j</b>	<b>2,679</b>	<b>3,086</b>	<b>5,370</b>	<b>6,036</b>
Fixed assets		7,493	7,148	19,223	18,481
(Accumulated depreciation)		(4,814)	(4,062)	(13,853)	(12,445)
<b>INTANGIBLE ASSETS</b>	<b>3k</b>	<b>6,516</b>	<b>5,173</b>	<b>6,724</b>	<b>5,308</b>
Intangible assets		9,219	6,640	9,868	7,239
(Accumulated amortization)		(2,703)	(1,467)	(3,144)	(1,931)
<b>TOTAL ASSETS</b>		<b>977,256</b>	<b>1,219,788</b>	<b>1,508,635</b>	<b>1,759,327</b>

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**Banco Fator S.A. and Subsidiaries**  
 Balance Sheets  
 (In thousands of Brazilian reais - R\$)

LIABILITIES AND EQUITY	NOTES	Bank		Consolidated	
		12/31/2016	12/31/2015	12/31/2016	12/31/2015
<b>CURRENT LIABILITIES</b>		<b>493,497</b>	<b>540,522</b>	<b>923,672</b>	<b>987,981</b>
<b>DEPOSITS</b>	<b>3n, 12 and 20a</b>	<b>379,649</b>	<b>280,083</b>	<b>378,317</b>	<b>274,145</b>
Demand deposits		7,838	5,633	7,008	5,176
Interbank deposits		15,082	37,843	15,082	32,842
Time deposits		356,729	236,607	356,227	236,127
<b>MONEY MARKET FUNDING</b>	<b>3n and 13</b>	<b>70,659</b>	<b>178,003</b>	<b>68,848</b>	<b>178,003</b>
Own portfolio		37,060	178,003	35,249	178,003
Third parties portfolio		33,599	-	33,599	-
<b>FUNDS FROM ACCEPTANCE AND ISSUANCE OF SECURITIES</b>	<b>14</b>	<b>36,028</b>	<b>67,348</b>	<b>36,028</b>	<b>67,348</b>
Funds from real estate, mortgage, credit and similar bills		36,028	67,101	36,028	67,101
Certificate of Structured Finance		-	247	-	247
<b>DERIVATIVES FINANCIAL INSTRUMENTS</b>	<b>3e and 6c</b>	<b>-</b>	<b>1,477</b>	<b>-</b>	<b>1,477</b>
Derivatives		-	1,477	-	1,477
<b>OTHER PAYABLES</b>	<b>15</b>	<b>7,161</b>	<b>13,611</b>	<b>440,479</b>	<b>467,008</b>
Collected taxes and other		5	267	6	267
Tax and social security	3o	3,220	2,075	7,843	19,350
Trading account	3g	111	1,557	24,413	62,054
Insurance and reinsurance technical reserves	3p and 16	-	-	278,653	277,506
Payables from insurance and reinsurance operations		-	-	117,881	87,102
Other		3,825	9,712	11,683	20,729
<b>LONG-TERM LIABILITIES</b>		<b>144,294</b>	<b>335,917</b>	<b>245,498</b>	<b>427,997</b>
<b>DEPOSITS</b>	<b>3n, 12 and 20a</b>	<b>144,044</b>	<b>335,368</b>	<b>144,044</b>	<b>335,368</b>
Time deposits		144,044	335,368	144,044	335,368
<b>OTHER PAYABLES</b>	<b>15</b>	<b>250</b>	<b>549</b>	<b>101,454</b>	<b>92,629</b>
Insurance and reinsurance technical reserves	3p and 16	-	-	81,596	72,883
Payables from insurance and reinsurance operations		-	-	10,684	13,432
Other		250	549	9,174	6,314
<b>DEFERRED INCOME</b>		<b>8</b>	<b>327</b>	<b>8</b>	<b>327</b>
Deferred income		8	327	8	327
<b>SHAREHOLDERS' EQUITY</b>	<b>18</b>	<b>339,457</b>	<b>343,022</b>	<b>339,457</b>	<b>343,022</b>
Capital held by residents in Brazil		250,011	250,011	250,011	250,011
Earnings reserves		90,111	94,242	90,111	94,242
Valuation adjustments to equity		(665)	(1,231)	(665)	(1,231)
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>977,256</b>	<b>1,219,788</b>	<b>1,508,635</b>	<b>1,759,327</b>

The accompanying explanatory notes are an integral part of these financial statements.



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**Banco Fator S.A. and Subsidiaries**  
**Income Statement**  
(In thousands of Brazilian reais - R\$)

	NOTES	Bank			Consolidated	
		07/01 to 12/31/2016	01/01 to 12/31/2016	01/01 to 12/31/2015	01/01 to 12/31/2016	01/01 to 12/31/2015
<b>INCOME FROM FINANCIAL INTERMEDIATION</b>		<b>66,816</b>	<b>132,388</b>	<b>127,377</b>	<b>178,963</b>	<b>167,114</b>
Lending operations	3f and 7a	9,455	9,114	21,233	9,114	21,233
Securities transactions	3d	57,156	106,054	98,332	152,311	138,093
Gains (losses) on derivatives	3e	205	17,220	7,812	17,538	7,788
<b>EXPENSES ON FINANCIAL INTERMEDIATION</b>		<b>(55,025)</b>	<b>(104,884)</b>	<b>(156,877)</b>	<b>(105,397)</b>	<b>(154,500)</b>
Funding transactions	3n	(44,721)	(95,242)	(139,201)	(94,129)	(136,578)
Allowance for loan losses	3f, 7e and 17b	(10,304)	(9,602)	(17,676)	(11,268)	(17,922)
<b>GROSS PROFIT FROM FINANCIAL INTERMEDIATION</b>		<b>11,791</b>	<b>27,544</b>	<b>(29,500)</b>	<b>73,566</b>	<b>12,614</b>
<b>OTHER OPERATING INCOME/EXPENSES</b>		<b>(19,892)</b>	<b>(30,967)</b>	<b>(6,359)</b>	<b>(71,355)</b>	<b>(85,437)</b>
Income from services provided	19a	5,826	18,041	18,508	37,469	48,065
Insurance premiums	19b	-	-	-	153,969	133,624
Incurred claims		-	-	-	(147,687)	(144,929)
Deferred insurance acquisition costs		-	-	-	(16,165)	(14,206)
Losses on reinsurance transactions		-	-	-	40,924	48,618
Personnel expenses		(13,664)	(28,456)	(44,373)	(77,121)	(107,393)
Other administrative expenses	19c	(7,034)	(16,013)	(17,420)	(43,128)	(54,605)
Tax expenses		(1,520)	(3,895)	(1,789)	(11,471)	(11,396)
Equity in subsidiaries and associates	11	(4,897)	(2,208)	38,892	-	(52)
Other operating income	19d	1,491	2,007	1,408	10,285	35,464
Other operating expenses	19e	(94)	(443)	(1,585)	(18,430)	(18,627)
<b>OPERATING INCOME (EXPENSES)</b>		<b>(8,101)</b>	<b>(3,423)</b>	<b>(35,859)</b>	<b>2,211</b>	<b>(72,823)</b>
<b>NONOPERATING LOSS</b>		<b>1</b>	<b>(20)</b>	<b>-</b>	<b>(240)</b>	<b>(182)</b>
<b>INCOME (LOSS) BEFORE TAXES ON INCOME</b>		<b>(8,100)</b>	<b>(3,443)</b>	<b>(35,859)</b>	<b>1,971</b>	<b>(73,005)</b>
<b>INCOME TAX AND SOCIAL CONTRIBUTION</b>	<b>3o and 9</b>	<b>5,468</b>	<b>4,612</b>	<b>(3,381)</b>	<b>(802)</b>	<b>33,765</b>
Provision for income tax		(336)	(336)	-	(2,872)	19,672
Provision for social contribution		(295)	(295)	-	(2,105)	11,026
Deferred tax assets		6,099	5,243	(3,381)	4,175	3,067
<b>NET INCOME (LOSS) FOR THE PERIOD</b>		<b>(2,632)</b>	<b>1,169</b>	<b>(39,240)</b>	<b>1,169</b>	<b>(39,240)</b>
Income (loss) per share - R\$		(0.51)	0.23	(7.60)	0.23	(7.60)

The accompanying explanatory notes are an integral part of these financial statements.

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**Banco Fator S.A. and Subsidiaries**  
 Statements of Changes in Equity (Note 18)  
 (In thousands of Brazilian reais - R\$)

	Capital	Earnings reserves		Valuation adjustments to equity	Accumulated Income / losses	Total
		Legal	Statutory			
<b>Balance at December 31, 2014</b>	<b>250,011</b>	<b>18,428</b>	<b>115,054</b>	<b>(182)</b>	-	<b>383,311</b>
Adjustment to fair value - available-for-sale securities	-	-	-	(1,049)	-	(1,049)
Net loss	-	-	-	-	(39,240)	(39,240)
Profit allocation:						
Absorption of losses	-	-	(39,240)	-	39,240	-
<b>Balance at December 31, 2015</b>	<b>250,011</b>	<b>18,428</b>	<b>75,814</b>	<b>(1,231)</b>	-	<b>343,022</b>
Changes in the period	-	-	(39,240)	(1,049)	-	(40,289)
<b>Balance at December 31, 2015</b>	<b>250,011</b>	<b>18,428</b>	<b>75,814</b>	<b>(1,231)</b>	-	<b>343,022</b>
Adjustment to fair value - available-for-sale securities	-	-	-	566	-	566
Dividends	-	-	(5,300)	-	-	(5,300)
Net income	-	-	-	-	1,169	1,169
Allocation of net income:						
Earning reserves	-	58	1,111	-	(1,169)	-
<b>Balance at December 31, 2016</b>	<b>250,011</b>	<b>18,486</b>	<b>71,625</b>	<b>(665)</b>	-	<b>339,457</b>
Changes in the period	-	58	(4,189)	566	-	(3,565)
<b>Balance at June 30, 2016</b>	<b>250,011</b>	<b>18,619</b>	<b>74,124</b>	<b>(202)</b>	-	<b>342,552</b>
Adjustment to fair value - available-for-sale securities	-	-	-	(463)	-	(463)
Net loss	-	-	-	-	(2,632)	(2,632)
Profit allocation:						
Earning reserves	-	(133)	(2,499)	-	2,632	-
<b>Balance at December 31, 2016</b>	<b>250,011</b>	<b>18,486</b>	<b>71,625</b>	<b>(665)</b>	-	<b>339,457</b>
Changes in the period	-	(133)	(2,499)	(463)	-	(3,095)

The accompanying explanatory notes are an integral part of these financial statements.

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**Banco Fator S.A. and Subsidiaries**  
 Statements of Cash Flows  
 (In thousands of Brazilian reais - R\$)

	<b>Bank</b>			<b>Consolidated</b>	
	<b>07/01 to 12/31/2016</b>	<b>01/01 to 12/31/2016</b>	<b>01/01 to 12/31/2015</b>	<b>01/01 to 12/31/2016</b>	<b>01/01 to 12/31/2015</b>
<b>ADJUSTED INCOME (LOSS) FOR THE PERIOD</b>	<b>7,887</b>	<b>10,652</b>	<b>(54,925)</b>	<b>14,204</b>	<b>(15,546)</b>
Net income (loss) for the period	(2,632)	1,169	(39,240)	1,169	(39,240)
Adjustments to net income (loss) for the period:	10,519	9,483	(15,685)	13,035	23,694
Allowance for loan losses (note 7e)	10,377	9,827	17,942	11,493	18,188
Provision for contingent liabilities	68	82	23	1,626	3,427
Depreciation and amortization	1,277	2,610	1,861	3,886	4,799
Deferred taxes (note 9a)	(6,099)	(5,243)	3,381	(4,175)	(3,067)
Equity in subsidiaries and affiliates (note 11)	4,897	2,208	(38,892)	-	52
Profit from disposal of fixed assets	(1)	(1)	-	(15)	-
Others	-	-	-	220	295
<b>CHANGES IN ASSETS AND LIABILITIES</b>	<b>103,770</b>	<b>144,721</b>	<b>70,640</b>	<b>171,475</b>	<b>19,899</b>
(Increase) decrease in securities and derivatives financial instruments	105,274	336,687	224,095	294,084	230,440
(Increase) decrease in interbank and interbranch accounts (assets/liabilities)	33	101	104	101	104
(Increase) decrease in lending operations	10,771	50,218	(23,024)	50,218	(23,024)
(Increase) decrease in other receivables	3,865	(2,993)	6,818	94,128	(190,485)
(Increase) decrease in other assets	(92)	(243)	65	(18,303)	(4,346)
(Decrease) increase in deposits	(42,442)	(91,758)	38,394	(87,152)	38,365
(Decrease) increase in money market funding	34,871	(107,344)	(143,000)	(109,155)	(134,298)
(Decrease) increase in funds from acceptance and issuance of securities	(6,958)	(31,320)	(29,826)	(31,320)	(29,826)
(Decrease) increase in derivatives financial instruments	(80)	(1,477)	268	(1,477)	268
(Decrease) increase in other payables	(1,452)	(6,831)	(3,137)	(19,330)	132,818
Changes in deferred income	(20)	(319)	(117)	(319)	(117)
<b>NET CASH GENERATED BY/(USED IN) OPERATING ACTIVITIES</b>	<b>111,657</b>	<b>155,373</b>	<b>15,715</b>	<b>185,679</b>	<b>4,353</b>
Dividends and interest on capital received (note 11)	7,550	35,100	12,763	-	-
Acquisition of investments	-	-	-	(41)	(17)
Disposal of investments	-	-	-	173	-
Capital increase on subsidiaries (note 11)	(7,000)	(7,000)	(25,000)	-	-
Acquisition of fixed assets	(221)	(451)	(1,579)	(1,338)	(1,659)
Acquisition of intangible assets	(1,761)	(3,096)	(3,022)	(3,304)	(3,177)
<b>NET CASH GENERATED BY/(USED IN) INVESTING ACTIVITIES</b>	<b>(1,432)</b>	<b>24,553</b>	<b>(16,838)</b>	<b>(4,510)</b>	<b>(4,853)</b>
Dividends and interest on capital paid (note 18b)	-	(5,300)	-	(5,300)	-
<b>NET CASH GENERATED BY/(USED IN) FINANCING ACTIVITIES</b>	<b>-</b>	<b>(5,300)</b>	<b>-</b>	<b>(5,300)</b>	<b>-</b>
<b>INCREASE/(DECREASE) IN NET CASH AND CASH EQUIVALENTS (Notes 3b and 4)</b>	<b>110,225</b>	<b>174,626</b>	<b>(1,123)</b>	<b>175,869</b>	<b>(500)</b>
Beginning of the period	65,259	858	1,981	2,086	2,586
End of the period	175,484	175,484	858	177,955	2,086

The accompanying notes are an integral part of these financial statements.

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

**Banco Fator S.A. and Subsidiaries**

**Notes to the Financial Statements for the year Ended December 31, 2016 and 2015**

(Amounts in thousands of Brazilian reais - R\$)

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**NOTE 1 - GENERAL INFORMATION**

Banco Fator S.A. (“Bank”) is organized to operate as a full-service bank and carries out its operations through commercial and investment portfolios.

The operations are fully conducted in the financial market and certain transactions have the joint participation or the intermediation of Fator Financial Group companies.

**NOTE 2 - PRESENTATION OF THE FINANCIAL STATEMENTS**

The financial statements have been prepared in accordance with accounting practices adopted in Brazil, which include the accounting guidelines set out in Law 6404/76, as amended by Law 11638/07 and Law 11941/09, the standards of the Central Bank of Brazil (BACEN) and the National Monetary Council (CMN), in compliance with Private Insurance Authority (SUSEP) and National Board of Private Insurance (CNSP) standards, where applicable, and are being presented in accordance with the Standard Chart of Accounts for Financial Institutions (COSIF).

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities, disclosures on contingent liabilities, and revenues and expenses in the reporting periods. Actual amounts may differ from those estimates.

The consolidated financial statements include the individual financial statements of the Bank and those of its subsidiaries:

Company	Activity	12/31/2016	12/31/2015
		Equity interest (%)	
Fator S.A. Corretora de Valores	Financial institution	100.00%	100.00%
FAR - Fator Administração de Recursos Ltda.	Nonfinancial institution	99.99%	99.99%
Fator Seguradora S.A.	Insurance company	100.00%	100.00%

The financial statements for the periods from January 1 and to December 31, 2016 and 2015 were approved by the board of directors on March 24, 2017.

**NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting practices adopted in the preparation of the financial statements are as follows:

**a) Basis of consolidation**

On consolidation, the balances of intragroup transactions were eliminated.

The accounting policies adopted to record the transactions and value the equity components of the parent and the companies included in consolidation have been consistently applied.

**b) Cash and cash equivalents**

Pursuant to CMN Resolution 3604/08, cash and cash equivalents include cash, bank deposits, highly liquid short-term investments, subject to an insignificant risk of change in value and limits, with original maturities of 90 days or less.

**c) Interbank investments**

Fixed-rate investments are recorded at their redeemable amount less income allocated to future periods and floating-rate investments are recorded at cost plus income earned through the end of the reporting period.

**d) Securities**

As established by Central Bank of Brazil Circular 3068/01 and amendments, portfolio securities are classified in the following categories, according to Management's intention:

- **Trading securities** - value at their fair value at the end of the reporting period plus income earned through the end of the reporting period, and are classified in current assets regardless of their maturities. Mark-to-market is recognized in profit or loss for the period.

- **Available-for-sale securities** - stated at their fair value at the end of the reporting period plus income earned through the end of the reporting period. The adjustments of available-for-sale securities to fair value are recorded against a separate account in equity, net of taxes, and are transferred to profit or loss for the period when actually realized through the sale of the securities.

- **Held-to-maturity securities** - value at cost plus income earned through the end of the reporting period.

**e) Derivatives**

Derivatives, consisting of options, futures, and swaps, are accounted for under the following criteria:

- **Options** - premiums paid or received are recorded at fair value in assets or liabilities, respectively, until the exercise of the option, and accounted for as a decrease or an increase of an option's cost as a result of its exercising, or in income or expense if the option was not exercised.

- **Futures** - mark-to-market is recorded on a daily basis in assets or liabilities and allocated either as income or expenses also on a daily basis.

- **Swaps** - the amount receivable or payable is accounted for at fair value in assets or liabilities, respectively, and allocated as income or expenses on a daily pro rata basis through the end of the reporting period.

Derivatives are stated at fair value, with gains or losses recorded as described below:

Derivatives not considered as hedge: As income or expense in profit or loss.

Derivatives considered as hedge: These are classified as market risk hedge or cash flow hedge.

Market risk hedges are intended to offset the risks arising from the exposure to fluctuations in the fair value of the hedged item, and gains and losses are recorded as a contra entry to income or expenses, in profit or loss.

Cash flow hedges are intended to offset fluctuations in estimated future cash flows, the effective portion used in this offset being recorded as a contra entry to a separate line item in equity, less tax effects any other fluctuation as a contra entry to the appropriate income or expense account in profit or loss.

**f) Lending operations and allowance for loan losses**

Lending operations are classified according to Management's risk assessment, considering the economic conditions, past experience and specific risks related to the operation, debtors and guarantors, according to the parameters set by CMN Resolution 2682/99, as subsequently amended, which requires a periodic analysis of the portfolio and its rating into nine different levels, from "AA" (minimum risk) to "H" (loss).

Income from lending operations over 60 days past due, regardless of their risk rating, is only recognized when actually received.

Operations classified into level “H” remain under this rating for 180 days, when they are written off against the existing allowance account and controlled for at least five years in a memorandum account, no longer appearing on the balance sheet.

Renegotiated loans remain at least in the same rating in which they were originally classified. Renegotiated loans that had already been written off against the allowance account and were maintained in memorandum accounts are rated as H, and possible recoveries are only recognized as income when received.

The allowance for loan losses, considered sufficient by Management, meets the requirement set out in CMN Resolution 2682/99 and amendments, as described in Note 7.

**g) Trading account**

Represents the intermediation of transactions carried out on stock exchanges, recognized at the amount of the commitments assumed, on behalf of customers. Rates, fees and brokerage commissions are recognized in profit or loss on the accrual basis.

**h) Insurance premiums and sales revenue**

Insurance premiums, ceded premiums, and the costs of sales are recognized in profit or loss when a policy is written on the accrual basis, over the respective policy terms. The Insurance does not conduct any retrocession transactions.

Sales revenue and costs are deferred and allocated to profit or loss over the respective policy terms. Revenue and expenses from the mandatory bodily injury insurance (DPVAT) line transactions are recognized based on the reports sent by Seguradora Líder dos Consórcios do Seguro DPVAT S.A.

The recoverable value on insurance premiums is calculated according to technical study prepared by Fator Seguradora management, which takes into consideration the history of incurred losses and default risk, as per the client and the severity of the observed delay, as permitted by Circular No. 517/15 SUSEP. The insurance company recognized an allowance for effective risks issued but not yet reported based on an actuarial note.

**i) Investments**

Investments in subsidiaries and associates are accounted for by the equity method.

Other investments are recognized at cost, less allowance for impairment for losses, where applicable.

**j) Property and equipment in use**

Property and equipment are recognized at cost, less accumulated depreciation. Depreciation is calculated on a straight-line basis using rated based on the estimated useful lives of these assets.

**k) Intangible assets**

Consists of expenses incurred on the acquisition and development of software, amortized over the software license period.

**l) Impairment of nonfinancial assets**

The accounting recognition of an asset should evidence events or changes in economic, operating or technological circumstances that indicate that an asset might be impaired. Whenever evidence is identified and the net carrying amount exceeds the recoverable value, an allowance for impairment losses is recognized to adjust the carrying amount to the recoverable value. These allowances are recognized in profit or loss for the period, as provided for by CMN Resolution 3566/08.

Except for tax credits, whose realization is assessed semiannually, the amounts of nonfinancial assets are tested for impairment at least annually.

**m) Contingent assets and contingent liabilities, and legal, tax and social security obligations**

The recognition, measurement, and disclosure of contingent assets and contingent liabilities, and legal obligations is made in accordance with the criteria set forth in the CMN Resolution 3823/09, using the following criteria:

**Contingent assets:** these are not recognized in the financial statements, except when there is evidence that they will be realized and when they are no longer subject to appeals;

**Contingent liabilities:** are recognized in the financial statements when, based on the opinion of the legal counsel and management, the risk of loss in an administrative or judicial proceeding is considered probable, with a probable disbursement of resources to settle the obligations, and whenever the amounts involved can be reliably measured. Contingent liabilities classified by the legal counsel and Management as possible loss are disclosed in notes to the financial statements whereas those classified as remote loss are neither provided for nor disclosed;

**Legal tax and social security obligations:** refer to lawsuits challenging the legality or constitutionality of certain taxes. The amount under litigation is quantified, recognized and adjusted on a monthly basis.

**n) Deposits and money market funding**

Stated at the original amounts, plus charges incurred through the balance sheet date, recognized on a daily pro rata basis. Money market funding is classified in liabilities over their maturities regardless of the maturities of the papers backing these transactions.

**o) Provision for income tax and social contribution**

The provisions for income tax (IRPJ) and social contribution (CSLL), when payable, are calculated based on the accounting income or loss adjusted by permanent and temporary add-ons or deductions. Income tax is calculated at a 15% tax rate, plus a 10% surtax on taxable income for the year exceeding R\$240 (R\$120 for the six-month period), and social contribution is calculated at a 20% tax rate (15% through August 2015).

Income tax and social contribution deferred tax credits were calculated on temporary additions or deductions and tax loss carryforwards. Tax credits are based on current realization prospects and taking into account Management's technical studies and analyses, as described in Note 9.

**p) Technical reserves**

Unearned premium reserve is recognized based on the portion of the insurance premium corresponding to the risk period to elapse of written premiums, calculated on a daily pro rata basis, in accordance with the conditions and criteria prescribed by CNSP and SUSEP.

The provision for unearned premiums for unissued current risks is calculated for damages and personal insurance, according to the specific methodology described in actuarial technical note to determine the portion of unearned premiums relating to the risks assumed by the insurance company, which are already effective and to be issued.

The provision for unsettled claims is recorded based on estimated probable payments, net of recoverable coinsurance, based on the notices of claims received through the balance sheet date, subject to inflation adjustment, when applicable.

Fator Seguradora recognize provision for losses incurred but not enough reported, using a methodology described in actuarial technical note.

The provision for related expenses is recorded based on estimated probable payments, net of recoverable coinsurance, according to the claim expenses already informed through the balance sheet date and the actuarial technical note in order to determine the other remaining installments.

The provision for claims incurred but not reported is calculated according to SUSEP Circular Letter 517/15, except for collateral line, which, beginning 2011, was calculated based on the actuarial technical note in accordance with past experience of claims in this line.

The provision for future charges with Seguradora Líder dos Consórcios do Seguro DPVAT S.A., under provision for unsettled claims and provision for claims incurred but not reported, based on the information provided by the insurance company management. The amounts recorded are subject to interest charged to line item “Other operating expenses”.

The provision for supplementary coverage is recorded due to insufficient technical reserves, according to the value calculated in the Liability Adequacy Test, based on the specific requirements set forth in applicable regulation.

**q) Liability adequacy test**

As required by CPC 11, and the provisions of SUSEP Circular 517/15, at the end of the reporting period the Insurance Company conducted a liability adequacy test for all contracts that are effective as at June and December of each year.

To conduct the test, contracts are grouped based on the similar risks or when the insurance risk is jointly managed by Management. The test has taken into consideration the projected future claims based on realistic loss assumptions, administrative expenses and other expenses directly related to insurance contracts relating to run-off products and projection related to past claims. The projected cash flows are gross of reinsurance and discounted by the forward interest rate structures (ETTJ), for December 2016, free of risks corresponding to the guarantee offered in each product and, to identify the possible insufficiencies, they are compared to the carrying amounts of the deferred acquisition costs’ net liabilities and intangible assets to identify possible insufficiencies.

The tests conducted at the end of the reporting period did not show any inadequacy in the reserve recognized at December 31, 2016 and, therefore, there was no need to recognize supplemental reserves.

**r) Revenue and expenses**

Revenue and expenses are recognized on the accrual basis and include interest, charges and inflation adjustments or changes in exchange rates at official indices or rates, accrued on a daily pro rata basis through the end of the reporting period.

**NOTE 4 - CASH AND CASH EQUIVALENTS**

	Bank		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Cash	457	858	2,928	2,086
Money market investments	175,027	-	175,027	-
<b>Total</b>	<b>175,484</b>	<b>858</b>	<b>177,955</b>	<b>2,086</b>

**NOTE 5 - INTERBANK INVESTMENTS**

	12/31/2016		12/31/2015
	Up to 90 days	Total Bank/Consolidated	Total Bank/Consolidated
<b>Money market investments - own portfolio</b>	<b>175,027</b>	<b>175,027</b>	-
National Treasury Bills - LTNs	80,013	80,013	-
National Treasury Notes - NTN-B	95,014	95,014	-
<b>Total</b>	<b>175,027</b>	<b>175,027</b>	-



**NOTE 6 - SECURITIES AND DERIVATIVE FINANCIAL INSTRUMENTS**

**a) Portfolio breakdown**

	Bank						Consolidated					
	Own portfolio	Repurchase agreements	Pledged as collateral	Securities under resale agreements with free movement	Total		Own portfolio	Repurchase agreements	Pledged as collateral	Securities under resale agreements with free movement	Total	
					12/31/2016	12/31/2015					12/31/2016	12/31/2015
<b>Trading securities</b>	<b>37,712</b>	<b>30,228</b>	<b>9,729</b>	<b>7,352</b>	<b>85,021</b>	<b>91,465</b>	<b>104,114</b>	<b>30,228</b>	<b>265,162</b>	<b>7,352</b>	<b>406,856</b>	<b>369,489</b>
Debtentures (b) (d)	34,917	-	-	-	34,917	32,467	34,917	-	-	-	34,917	34,828
Bank Certificates of Deposit (b)	-	-	-	-	-	-	-	-	-	-	-	514
Shares of investment fund (c)	466	-	-	-	466	200	60,592	-	87,515	-	148,107	61,544
National Treasury Bills (LTNs) (a)	236	2,857	-	301	3,394	46,166	236	2,857	12,993	301	16,387	64,647
Stock (c)	-	-	-	-	-	1,961	-	-	-	-	-	1,962
Subscription warrants of public companies (c)	749	-	-	-	749	1,000	749	-	-	-	749	1,000
Financial Treasury Bills (LFTs) (a)	-	-	-	-	-	-	6,273	-	154,925	-	161,198	178,177
National Treasury Notes (NTN-B) (a) (e)	1,344	27,371	9,729	7,051	45,495	9,671	1,347	27,371	9,729	7,051	45,498	26,817
<b>Available-for-sale securities</b>	<b>133,541</b>	<b>6,923</b>	<b>13,885</b>	<b>26,321</b>	<b>180,670</b>	<b>286,154</b>	<b>133,541</b>	<b>6,923</b>	<b>13,885</b>	<b>26,321</b>	<b>180,670</b>	<b>286,154</b>
Debtentures (b) (d)	81,449	2,081	-	-	83,530	163,801	81,449	2,081	-	-	83,530	163,801
Rural Producer Bill (b)	-	-	-	-	-	3,478	-	-	-	-	-	3,478
Financial Treasury Bills (LFTs) (a)	2,474	1,814	-	26,321	30,609	-	2,474	1,814	-	26,321	30,609	-
Certificates of agrobusiness receivables (b)	8,425	-	-	-	8,425	-	8,425	-	-	-	8,425	-
Certificates of Real Estate Receivables (b)	5,862	-	-	-	5,862	283	5,862	-	-	-	5,862	283
Commercial Note (b)	31,827	-	-	-	31,827	22,072	31,827	-	-	-	31,827	22,072
National Treasury Notes (NTN-B) (a)	3,504	3,028	3,570	-	10,102	59,770	3,504	3,028	3,570	-	10,102	59,770
Agribusiness Credit Right Certificates (b)	-	-	10,315	-	10,315	36,750	-	-	10,315	-	10,315	36,750
<b>Held-to-maturity securities</b>	<b>98,348</b>	<b>-</b>	<b>17,663</b>	<b>-</b>	<b>116,011</b>	<b>338,908</b>	<b>113,094</b>	<b>-</b>	<b>17,663</b>	<b>-</b>	<b>130,757</b>	<b>354,862</b>
National Treasury Bills (LTNs) (a)	-	-	-	-	-	199,946	-	-	-	-	-	199,946
National Treasury Notes (NTN-B) (a)	-	-	-	-	-	40,589	-	-	-	-	-	40,589
Bank Certificates of Deposit (b)	98,348	-	17,663	-	116,011	98,373	113,094	-	17,663	-	130,757	114,327
<b>Derivatives (c)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,296</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,296</b>
<b>Total</b>	<b>269,601</b>	<b>37,151</b>	<b>41,277</b>	<b>33,673</b>	<b>381,702</b>	<b>717,823</b>	<b>350,749</b>	<b>37,151</b>	<b>296,710</b>	<b>33,673</b>	<b>718,283</b>	<b>1,011,801</b>

(a) Under the custody of the Special Clearance and Custody System (Selic) and BM&FBOVESPA (transactions' collateral).

(b) Under the custody of the Brazilian Clearance and Custody House (Cetip).

(c) Under the custody Companhia Brasileira de Liquidação e Custódia (CBLIC) and/or the fund's manager.

(d) As at June 30, 2015, debtentures were transferred from "Trading securities" to "Available-for-sale securities" in the amount of R\$55,009.

(e) As at June 30, 2016, NTN-B were transferred from "Held-to-maturity securities" to "Trading securities" in the amount of R\$43,440, with a gain of R\$776 in profit and loss; such position was settled in July 2016.

**b) Portfolio by category and maturity**

<b>Consolidated</b>											
	No maturity	91 to 365 days	Above 365 days	Total		No maturity	Up to 90 days	91 to 365 days	Above 365 days	Total	
				12/31/2016	12/31/2015					12/31/2016	12/31/2015
<b>Trading securities</b>	<b>1,215</b>	<b>40,494</b>	<b>43,312</b>	<b>85,021</b>	<b>91,466</b>	<b>148,856</b>	<b>13,137</b>	<b>41,574</b>	<b>203,289</b>	<b>406,856</b>	<b>369,489</b>
Debtentures	-	-	34,917	34,917	32,467	-	-	-	34,917	34,917	34,828
Bank Certificates of Deposit	-	-	-	-	-	-	-	-	-	-	514
Shares of investment fund	466	-	-	466	200	148,107	-	-	-	148,107	61,544
National Treasury Bills (LTNs)	-	3,394	-	3,394	46,166	-	12,993	3,394	-	16,387	64,647
Stock	-	-	-	-	1,961	-	-	-	-	-	1,962
Subscription warrants of public companies	749	-	-	749	1,000	749	-	-	-	749	1,000
Financial Treasury Bills (LFTs)	-	-	-	-	-	-	144	1,080	159,974	161,198	178,177
National Treasury Notes (NTN-B)	-	37,100	8,395	45,495	9,671	-	-	37,100	8,398	45,498	26,817
<b>Available-for-sale securities</b>	<b>-</b>	<b>57,148</b>	<b>123,522</b>	<b>180,670</b>	<b>286,154</b>	<b>-</b>	<b>-</b>	<b>57,148</b>	<b>123,522</b>	<b>180,670</b>	<b>286,154</b>
Debtentures	-	3,011	80,519	83,530	163,801	-	-	3,011	80,519	83,530	163,801
Rural Producer Bill	-	-	-	-	3,478	-	-	-	-	-	3,478
Financial Treasury Bills (LFTs)	-	-	30,609	30,609	-	-	-	-	30,609	30,609	-
Certificates of agrobusiness receivables	-	8,425	-	8,425	-	-	-	8,425	-	8,425	-
Certificates of Real Estate Receivables	-	-	5,862	5,862	283	-	-	-	5,862	5,862	283
Commercial Note	-	31,827	-	31,827	22,072	-	-	31,827	-	31,827	22,072
National Treasury Notes (NTN-B)	-	3,570	6,532	10,102	59,770	-	-	3,570	6,532	10,102	59,770
Agribusiness Credit Right Certificates	-	10,315	-	10,315	36,750	-	-	10,315	-	10,315	36,750
<b>Held-to-maturity securities</b>	<b>-</b>	<b>-</b>	<b>116,011</b>	<b>116,011</b>	<b>338,908</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>130,757</b>	<b>130,757</b>	<b>354,862</b>
National Treasury Bills (LTNs)	-	-	-	-	199,946	-	-	-	-	-	199,946
National Treasury Notes (NTN-B)	-	-	-	-	40,589	-	-	-	-	-	40,589
Bank Certificates of Deposit (a)	-	-	116,011	116,011	98,373	-	-	-	130,757	130,757	114,327
<b>Derivatives</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,296</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,296</b>
<b>Total</b>	<b>1,215</b>	<b>97,642</b>	<b>282,845</b>	<b>381,702</b>	<b>717,823</b>	<b>148,856</b>	<b>13,137</b>	<b>98,772</b>	<b>457,568</b>	<b>718,283</b>	<b>1,011,801</b>

(a) Maturity on December 18, 2020.

The measurement model used by the Bank was developed internally for operations that are not quoted on the market basis information.

### c) Derivatives financial instruments

The Bank conducts derivative transactions so as to meet own or its customers' needs, which are recorded in balance sheet, income statement and memorandum accounts.

The use of derivative instruments considered the previous analysis of various aspects related to products, such as: objectives, methods of use, underlying risks and appropriate infrastructure for operational support.

The hedging strategy is determined based on the risk exposure limits inherent to the Bank's operations. Whenever these transactions generate risk exposures above the established limits, which could result in significant fluctuations in the Bank's profit or loss, the Bank uses derivative instruments, contracted in an organized or over-the-counter market, to hedge against such risks, as prescribed by BACEN Circular Letter 3082/02.

Hedging instruments seek to mitigate market risks, based on their respective indices.

Depending on the market liquidity, the maturity dates of hedging instruments are the closest possible to the dates of the financial flows of the hedged transaction, so as to ensure the desired hedge effectiveness.

As at December 31, 2016 and 2015, the Bank has no accounting hedge framework for the market or cash flow risk.

### Portfolio by category and maturity

	Bank/Consolidated				
	Up to 3 months	3 to 12 months	Above 12 months	Total	
				12/31/2016	12/31/2015
<b>Futures contracts</b>	<b>16,759</b>	<b>94,000</b>	<b>181,757</b>	<b>292,516</b>	<b>891,268</b>
<b>Long positions</b>	<b>15,130</b>	<b>50,500</b>	<b>134,500</b>	<b>200,130</b>	<b>679,187</b>
Interest rate – DI1	13,500	50,500	134,500	198,500	634,000
Dollar Spread Future Contract (DDI)	-	-	-	-	23,429
Bovespa Index - IND	-	-	-	-	3,509
Commercial dollar - DOL	1,630	-	-	1,630	18,249
<b>Short positions</b>	<b>1,629</b>	<b>43,500</b>	<b>47,257</b>	<b>92,386</b>	<b>212,081</b>
Interest rate – DI1	-	43,500	-	43,500	144,500
Dollar Spread Future Contract (DDI)	1,629	-	47,257	48,886	58,572
Bovespa Index - IND	-	-	-	-	223
Commercial dollar - DOL	-	-	-	-	8,786
<b>Option contracts</b>	<b>59,500</b>	-	-	<b>59,500</b>	<b>86,036</b>
<b>Long positions</b>	<b>37,000</b>	-	-	<b>37,000</b>	<b>77,524</b>
Index options	-	-	-	-	45,330
Dollar options	37,000	-	-	37,000	30,475
Share options	-	-	-	-	1,719
<b>Short positions</b>	<b>22,500</b>	-	-	<b>22,500</b>	<b>8,512</b>
Index options	-	-	-	-	2,800
Dollar options	22,500	-	-	22,500	5,712
<b>Other</b>	-	-	-	-	<b>19,230</b>
<b>Total</b>	<b>76,259</b>	<b>94,000</b>	<b>181,757</b>	<b>352,016</b>	<b>996,534</b>

## NOTE 7 - LENDING OPERATIONS

### a) Loan portfolio by type of transaction

	Bank/consolidated			
	12/31/2016		12/31/2015	
	Balance	%	Balance	%
Loans	91,852	64.90	132,796	69.26
Overdraft accounts	4,542	3.21	113	0.06
Export financing (i)	45,133	31.89	58,836	30.68
<b>Total</b>	<b>141,527</b>	<b>100.00</b>	<b>191,745</b>	<b>100.00</b>

(i) The loss from Lending Operations in the amount of R\$9,114 was affected by the exchange loss in the amount of R\$8,460 relating to the export financing transaction, which was offset by the gain arising from futures contracts recorded in income from derivative instruments.

### b) Lending operations by industry and maturity

	Bank/consolidated					Total	
	Past due		Current				
	From 15 days	Up to 3 months	3 to 12 months	Over one year	12/31/2016	12/31/2015	
<b>Loans and discounted notes</b>							
<b>Private sector:</b>	<b>28,717</b>	<b>21,528</b>	<b>44,437</b>	<b>46,845</b>	<b>141,527</b>	<b>191,745</b>	
Manufacturing	-	1,449	4,346	39,338	45,133	61,903	
Commerce	12,725	-	-	-	12,725	15,060	
Other services	15,701	15,519	40,045	7,417	78,682	114,251	
Individuals	291	4,560	46	90	4,987	531	
<b>Total</b>	<b>28,717</b>	<b>21,528</b>	<b>44,437</b>	<b>46,845</b>	<b>141,527</b>	<b>191,745</b>	
<b>Short term</b>					<b>94,682</b>	<b>115,699</b>	
<b>Long term</b>					<b>46,845</b>	<b>76,046</b>	

### c) Lending operations by risk rating

Rating	Bank/consolidated							
	12/31/2016				12/31/2015			
	Total lending operations	Past-due receivables	Recognized allowance	%	Total lending operations	Past-due receivables	Recognized allowance	%
A	191	-	1	-	3,302	-	16	0.08
B	20,647	-	206	0.70	46,964	-	470	2.39
C	68,136	-	2,947	9.99	97,472	-	4,101	20.86
E	30,279	12,725	9,084	30.82	39,330	15,472	11,799	60.02
G	21,984	15,702	16,959	57.51	4,677	-	3,274	16.65
H	290	290	290	0.98	-	-	-	-
<b>Total</b>	<b>141,527</b>	<b>28,717</b>	<b>29,487</b>	<b>100.00</b>	<b>191,745</b>	<b>15,472</b>	<b>19,660</b>	<b>100.00</b>

The allowance for loan losses is recognized based on CMN Resolution 2682/99 and amendments, taking into consideration the transactions' risk, based on internal and external inputs.

### d) Lending operations by risk concentration

	Bank/consolidated			
	12/31/2016		12/31/2015	
	RS'000	%	RS'000	%
10 largest customers	141,045	99.66	186,455	97.24
Other customers	482	0.34	5,290	2.76
<b>Total</b>	<b>141,527</b>	<b>100.00</b>	<b>191,745</b>	<b>100.00</b>

e) Changes in the allowance for loan losses and losses on other receivables

	Bank		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
<b>Opening balance</b>	<b>19,660</b>	<b>2,169</b>	<b>21,350</b>	<b>5,945</b>
Allowance recorded	13,188	26,904	14,957	27,150
Reversed allowance	(3,361)	(8,962)	(3,464)	(8,962)
Write-off	-	(451)	(179)	(2,783)
<b>Closing balance</b>	<b>29,487</b>	<b>19,660</b>	<b>32,664</b>	<b>21,350</b>

NOTE 8 - OTHER RECEIVABLES

	Bank		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
<b>Income receivable</b>	<b>10,921</b>	<b>24,756</b>	<b>7,207</b>	<b>6,326</b>
Commissions and brokerage fees receivable	-	-	-	193
Dividends and bonuses receivable (note 11)	5,200	20,000	-	-
Other income receivable	5,721	4,756	7,207	6,133
<b>Trading account</b>	<b>507</b>	<b>546</b>	<b>3,423</b>	<b>35,971</b>
Settlement and clearinghouse	-	-	863	-
Debtors pending settlement	500	467	422	34,462
Transactions with financial assets and commodities pending settlement	7	79	1,386	226
Swap intermediation transactions	-	-	752	1,283
<b>Insurance premium receivable</b>	<b>-</b>	<b>-</b>	<b>81,721</b>	<b>66,667</b>
<b>Other</b>	<b>48,523</b>	<b>41,210</b>	<b>263,056</b>	<b>336,530</b>
Salary advances	176	150	849	1,672
Deferred tax assets (note 9b)	35,416	30,173	42,562	38,387
Escrow deposits (a)	4,380	4,029	20,700	30,287
Recoverable taxes (b)	4,975	3,052	47,976	87,435
Securities and credits receivable	-	-	13,517	2,452
Receivables from related parties (Note 20a)	3,086	3,432	295	1,018
Reinsurance claims	-	-	90,843	134,426
Sundry debtors - Brazil	490	374	46,314	40,853
<b>(Allowance for losses on other receivables)</b>	<b>-</b>	<b>-</b>	<b>(3,177)</b>	<b>(1,690)</b>
<b>Total</b>	<b>59,951</b>	<b>66,512</b>	<b>352,230</b>	<b>443,804</b>
<b>Short term</b>	<b>20,191</b>	<b>33,467</b>	<b>250,106</b>	<b>356,127</b>
<b>Long term</b>	<b>39,760</b>	<b>33,045</b>	<b>102,124</b>	<b>87,677</b>

- (a) Refer basically to escrow deposits related to the Service Tax (ISS) levied on brokerage commissions of transactions conducted on the BM&F, fines imposed by the Federal Revenue Service (SRF) for failure to file information on the Provisional Tax on Banking Transactions (CPMF) on due dates and IRPJ and CSLL on the inflation adjustment of the shares issued by BM&F and BOVESPA, which are being challenged in courts, in the Broker (Note 15).
- (b) Refer basically to Cases No. 16327.903.132/2015-37 and 16327.903.137/2015-60, of September 10, 2015, whereby the Insurance Company gained the right to refund taxes overpaid in 2010 levied on the profit earned on the sale of BM&FBOVESPA shares. On February 22, 2016, the Federal Revenue Service credited part of this amount, R\$32,213, in a bank account held in the name of the Insurance Company.

## NOTE 9 - INCOME TAX AND SOCIAL CONTRIBUTION

### a) Statement of calculation of Income Tax and Social Contribution Charges

	Bank		Consolidated	
	01/01 to 12/31/2016	01/01 to 12/31/2015	01/01 to 12/31/2016	01/01 to 12/31/2015
<b>Income (loss) before taxes on profit</b>	<b>(3,443)</b>	<b>(35,859)</b>	<b>1,971</b>	<b>(73,005)</b>
<b>Temporary additions</b>	<b>29,682</b>	<b>79,060</b>	<b>45,688</b>	<b>97,557</b>
Mark-to-market of securities and derivatives	8,284	40,405	8,713	41,287
Allowance for loan losses	12,145	34,452	21,056	39,409
Other temporary additions	9,253	4,203	15,919	16,861
<b>Permanent additions</b>	<b>39,898</b>	<b>80,616</b>	<b>7,858</b>	<b>22,766</b>
Equity in subsidiaries and associates	32,627	60,275	-	53
Other permanent additions	7,271	20,341	7,858	22,713
<b>Temporary deductions</b>	<b>(45,197)</b>	<b>(71,773)</b>	<b>(59,527)</b>	<b>(80,765)</b>
Mark-to-market of securities and derivatives	(8,631)	(70,378)	(9,182)	(70,985)
Allowance for loan losses	(17,925)	(1,395)	(25,169)	(6,105)
Temporary deductions	(18,641)	-	(25,176)	(3,675)
<b>Permanent deductions</b>	<b>(18,833)</b>	<b>(98,091)</b>	<b>(4,705)</b>	<b>(8,536)</b>
Equity in subsidiaries and associates	(15,319)	(90,867)	-	-
Other permanent deductions	(3,514)	(7,224)	(4,705)	(8,536)
<b>Tax basis before offset of tax loss carryforwards</b>	<b>2,107</b>	<b>(46,047)</b>	<b>(8,715)</b>	<b>(41,983)</b>
(-) 30% offset of tax loss carryforwards	(632)	-	(5,124)	(11,051)
<b>Basis for calculation of income tax and social contribution</b>	<b>1,475</b>	<b>(46,047)</b>	<b>(13,839)</b>	<b>(53,034)</b>
Current provision for income tax and social contribution	(631)	-	(5,264)	(11,435)
Income tax and social contribution adhesion to REFIS (a) (b)	-	-	287	42,133
Recognition/(reversal) of tax credits	5,243	(3,381)	4,175	3,067
<b>Total income tax and social contribution</b>	<b>4,612</b>	<b>(3,381)</b>	<b>(802)</b>	<b>33,765</b>

- (a) In 2015, refer to proceedings 16327.903.132/2015-37 and 16327.903.137/2015-60, of September 10, 2015, whereby the insurance company was authorized to reimburse the taxes overpaid in 2010 on the income from sales of BM&FBOVESPA stock, in the amount of R\$57,734.
- (b) In 2015, refers to payment, in the amount of R\$ 15,601, in connection with compliance with article 42 of Law 13043/14, as amended by article 145 of Law 13097/15, relating to IRPJ and CSLL on the alleged non-taxed gain on the merger of shares issued by BOVESPA into Nova Bolsa (BM&FBOVESPA) in calendar year 2008, at the Broker.

### b) Statement of Tax Credits

	Bank				Consolidated	
	12/31/2015	Recognition	Realization/ reversal	12/31/2016	12/31/2016	12/31/2015
Tax loss carryforwards	22,156	-	-	22,156	26,296	28,317
Allowance for loan losses	8,017	7,209	(1,966)	13,260	14,638	8,648
Mark-to-market of securities and derivatives	-	-	-	-	92	116
Provision for contingent liabilities	-	-	-	-	38	18
Accrued expenses	-	-	-	-	1,498	1,288
<b>Total tax credits</b>	<b>30,173</b>	<b>7,209</b>	<b>(1,966)</b>	<b>35,416</b>	<b>42,562</b>	<b>38,387</b>

On December 31, 2016, there were unrecognized tax credits on tax loss carryforwards and temporary differences in the amount of R\$12,205 (R\$26,634 on December 31, 2015) at the Bank and R\$50,563 (R\$55,841 on December 31, 2015) on a consolidated basis. The income tax and social contribution benefits will be recognized when actually realized or when there are reliable prospects for their recovery, pursuant to the rules established by CMN Resolution 3059/02, as subsequently amended.

**c) Expected realization of tax credits**

Period	Bank	Consolidated
	IRPJ/ CSLL	IRPJ/ CSLL
2017	5,723	10,567
2018	2,860	4,383
2019	5,441	6,220
2020	2,819	2,819
2021	3,042	3,042
2022 a 2024	15,531	15,531
<b>Total</b>	<b>35,416</b>	<b>42,562</b>

Tax credits will be offset within the statutory period set forth by CMN Resolution 3059/02 and amendments. Offset depends on the nature of the generated credit, arising from tax loss carryforwards and temporarily nondeductible differences. The present value of the tax credits at December 31, 2016 is R\$22,135 for the Bank and R\$28,299 on a consolidated basis, using the future interest curve obtained at BM&FBOVESPA, as the discount factor.

The recognition, realization or maintenance of the tax credits are periodically assessed based on the taxable income generation benchmark for income tax and social contribution purposes, in an amount that justifies the realization of such amounts.

**NOTE 10 - OTHER ASSETS - INSURANCE AND REINSURANCE OPERATIONS**

Lines	Consolidated			
	Deferred acquisition costs		Reinsurance premium deferred	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Bail lessor	140	78	325	155
Obligations guarantee - Private sector	-	40	-	112
Obligations guarantee - Public sector	148	217	1,325	1,912
Judicial guarantee	4	40	20	231
Insured guarantee - Private sector	1,578	2,861	8,764	14,986
Insured guarantee - Public sector	15,487	6,873	47,130	32,885
D&O civil liability	728	618	2,967	3,665
General civil liability	219	231	826	847
Professional Civil Liability - E&O	678	321	1,127	1,689
Engineering risks	2,738	2,987	32,485	33,666
Named perils and operating risks	2,165	807	11,231	8,237
<b>Total</b>	<b>23,885</b>	<b>15,073</b>	<b>106,200</b>	<b>98,385</b>
<b>Short term</b>	<b>12,334</b>	<b>8,433</b>	<b>58,614</b>	<b>51,021</b>
<b>Long term</b>	<b>11,551</b>	<b>6,640</b>	<b>47,586</b>	<b>47,364</b>

**NOTE 11 - EQUITY IN SUBSIDIARIES AND ASSOCIATES**

	Fator S.A. Corretora de Valores	FAR - Fator Administração de Recursos Ltda.	Fator Seguradora S.A.	Brasil Agrosec Companhia Securizadora	Total
Shareholders' Equity					
12/31/2016	26,138	9,126	203,029	-	<b>238,293</b>
12/31/2015	40,735	11,726	201,340	226	<b>254,027</b>
Income (loss) for the period					
01/01 to 12/31/2016	(14,597)	(9,600)	21,988	-	<b>(2,209)</b>
01/01 to 12/31/2015	(43,821)	(13,635)	96,400	(961)	<b>37,983</b>
Equity interests (%)	100.00%	99.99%	100.00%	-	
Book value of investment					
12/31/2016	26,138	9,126	203,029	-	<b>238,292</b>
12/31/2015	40,735	11,726	201,340	-	<b>253,801</b>
Equity in subsidiaries and associates					
01/01 to 12/31/2016	(14,597)	(9,599)	21,988	-	<b>(2,208)</b>
01/01 to 12/31/2015	(43,821)	(13,635)	96,400	(52)	<b>38,892</b>

In 2016, dividends from the subsidiary Fator Seguradora S.A. relating to 2015 were received in the amount of R\$20,000, and dividends relating to 2016 were approved in the amount of R\$5,200.

In 2016, interest on capital from the subsidiary Fator Seguradora S.A. in the amount of R\$15,100 was approved and received.

On December 20, 2016, was approved a capital increase in the amount of R\$7,000 in subsidiary FAR – Fator Administração de Recursos Ltda.

## NOTE 12 - DEPOSITS

	12/31/2016						12/31/2015		
	No maturity	1 to 30 days	31 to 180 days	181 to 365 days	Above 365 days	Total Bank	Total - consolidated	Total Bank	Total - consolidated
<b>Demand deposits</b>	7,838	-	-	-	-	7,838	7,008	5,633	5,176
Related companies	961	-	-	-	-	961	131	628	171
Unrelated companies	6,877	-	-	-	-	6,877	6,877	5,005	5,005
<b>Interbank deposits</b>	-	-	-	15,082	-	15,082	15,082	37,843	32,842
Related companies	-	-	-	-	-	-	-	5,001	-
Unrelated companies	-	-	-	15,082	-	15,082	15,082	32,842	32,842
<b>Time deposits</b>	-	17,727	115,817	223,185	144,044	500,773	500,271	571,975	571,495
Related companies	-	-	-	-	490	992	490	1,996	1,516
Unrelated companies	-	17,727	502	73,278	94,845	301,165	301,165	346,107	346,107
With Special FGC Guarantee	-	-	115,315	149,907	48,709	198,616	198,616	223,872	223,872
<b>Total</b>	<b>7,838</b>	<b>17,727</b>	<b>115,817</b>	<b>238,267</b>	<b>144,044</b>	<b>523,693</b>	<b>522,361</b>	<b>615,451</b>	<b>609,513</b>

## NOTE 13 - MONEY MARKET FUNDING

	12/31/2016			12/31/2015	
	1 to 30 days	31 to 180 days	Total Bank	Total - Consolidated	Total Bank/ Consolidated
<b>Own portfolio</b>	37,060	-	37,060	35,249	178,003
Debentures	2,076	-	2,076	2,076	-
National Treasury Bills (LTNs)	2,852	-	2,852	2,852	127,362
Financial Treasury Bills (LFTs)	1,811	-	1,811	-	-
National Treasury Notes (NTN-B)	30,321	-	30,321	30,321	50,641
<b>Third parties portfolio</b>	26,290	7,309	33,599	33,599	-
National Treasury Bills (LTNs)	-	300	300	300	-
Financial Treasury Bills (LFTs)	26,290	-	26,290	26,290	-
National Treasury Notes (NTN-B)	-	7,009	7,009	7,009	-
<b>Total</b>	<b>63,350</b>	<b>7,309</b>	<b>70,659</b>	<b>68,848</b>	<b>178,003</b>

## NOTE 14 - FUNDS FROM ACCEPTANCE AND ISSUANCE OF SECURITIES

	12/31/2016			12/31/2015	
	1 to 30 days	31 to 180 days	181 to 365 days	Total Bank/ Consolidated	Total Bank/ Consolidated
<b>Agricultural Credit Bills</b>	3,613	1,265	-	4,878	31,841
Unrelated companies	3,613	1,265	-	4,878	31,841
<b>Mortgage loan notes</b>	19,613	8,784	2,753	31,150	35,260
Unrelated companies	19,613	8,784	2,753	31,150	35,260
<b>Certificates of Structured Finance</b>	-	-	-	-	247
Unrelated companies	-	-	-	-	247
<b>Total</b>	<b>23,226</b>	<b>10,049</b>	<b>2,753</b>	<b>36,028</b>	<b>67,348</b>



## NOTE 15 - OTHER PAYABLES

	Bank		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
<b>Collected taxes and similar amounts</b>	<b>5</b>	<b>267</b>	<b>6</b>	<b>267</b>
Tax on financial transactions (IOF)	5	267	6	267
<b>Tax and social security</b>	<b>3,220</b>	<b>2,075</b>	<b>7,843</b>	<b>19,350</b>
Provision for income taxes	631	-	631	-
Taxes payable (a)	2,589	2,075	7,212	19,350
<b>Trading account</b>	<b>111</b>	<b>1,557</b>	<b>24,413</b>	<b>62,054</b>
Settlement and clearinghouse	-	-	307	19,193
Commissions and brokerage fees payable	-	103	96	438
Creditors pending settlement	89	1,207	23,988	42,176
Transactions with financial assets and commodities pending settlement	22	124	22	124
Creditors for loans of shares	-	123	-	123
<b>Insurance and reinsurance technical reserves</b>	<b>-</b>	<b>-</b>	<b>360,249</b>	<b>350,389</b>
<b>Payables from insurance and reinsurance operations</b>	<b>-</b>	<b>-</b>	<b>128,565</b>	<b>100,534</b>
<b>Other</b>	<b>4,075</b>	<b>10,261</b>	<b>20,857</b>	<b>27,043</b>
Cashier's checks	-	230	-	230
Accrued liabilities	2,642	7,818	8,602	17,957
Provision for contingent liabilities (Note 17b)	407	549	9,801	6,710
Payables to related parties (Note 20a)	170	347	-	67
Sundry creditors - domestic	856	1,317	2,454	2,079
<b>Total</b>	<b>7,411</b>	<b>14,160</b>	<b>541,933</b>	<b>559,637</b>
<b>Short term</b>	<b>7,161</b>	<b>13,611</b>	<b>440,479</b>	<b>467,008</b>
<b>Long term</b>	<b>250</b>	<b>549</b>	<b>101,454</b>	<b>92,629</b>

- (a) As at December 31, 2015, refers basically to income tax and social contribution related to the BOVESPA and BM&F IPO, amounting to R\$13,330, for joining the REFIS tax installment program, under Law 13043/14, said amount was settled by transferring to the National Treasury part of the escrow deposits, at Broker. (Note 8)

## NOTE 16 - INSURANCE AND REINSURANCE TECHNICAL RESERVES

Lines	Unearned premium reserve		Reserve for claims payable		Reserve for claims incurred but not reported		Other reserves		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Compulsory automobile insurance (DPVAT)	-	-	17,573	19,885	69,250	35,372	671	404	87,494	55,661
Bail lessor	793	436	-	-	45	19	-	-	838	455
Obligations guarantee - Private sector	-	230	-	-	-	-	-	-	-	230
Obligations guarantee - Public sector	2,508	3,620	-	-	-	-	-	-	2,508	3,620
Court guarantee	29	357	-	-	-	-	-	-	29	357
Insured guarantee - Private sector	13,852	26,602	39,591	76,539	-	-	11,455	144	64,898	103,285
Insured guarantee - Public sector	90,546	58,380	1	1	-	-	1	-	90,548	58,381
D&O civil liability	5,051	5,920	2,057	1,644	438	651	138	1,331	7,684	9,546
General civil liability	1,523	1,556	1,904	1,786	356	187	531	307	4,314	3,836
Professional Civil Liability - E&O	3,028	2,775	89	16	650	547	29	-	3,796	3,338
Engineering risks	38,982	40,663	9,410	6,344	786	745	7,544	420	56,722	48,172
Named perils and operating risks	18,482	10,796	16,982	39,104	3,029	6,186	2,925	7,422	41,418	63,508
<b>Total</b>	<b>174,794</b>	<b>151,335</b>	<b>87,607</b>	<b>145,319</b>	<b>74,554</b>	<b>43,707</b>	<b>23,294</b>	<b>10,028</b>	<b>360,249</b>	<b>350,389</b>
<b>Short term</b>									<b>278,653</b>	<b>277,506</b>
<b>Long term</b>									<b>81,596</b>	<b>72,883</b>

## NOTE 17 - CONTINGENT ASSETS AND CONTINGENT LIABILITIES AND LEGAL, TAX, AND SOCIAL SECURITY OBLIGATIONS

### a) Contingent assets

As at December 31, 2016 and 2015, the Bank, the Broker and the FAR did not recognize any contingent assets.

The insurance company recorded final and unappealable lawsuits in the amount of R\$1,923 (R\$1,956 as at December 31, 2015).

### b) Contingent liabilities classified as probable losses and legal obligations

The provisions for probable losses are recorded in the total amount of R\$9,801 (R\$6,710 as at December 31, 2015) and comprise the following:

Tax lawsuits: The provision amounts to R\$231 (R\$228 as at December 31, 2015) and refer to challenges involving the Insurance Company with respect to the levy of taxes, contributions and social charges;

Civil lawsuits: The provision amounts to R\$1,544 (R\$1,308 as at December 31, 2015) and refers to insurance premiums in the amount of R\$313 (R\$397 as at December 31, 2015) and claims of indemnity nature in the amount of R\$1,230 (R\$911 as at December 31, 2015).

Labor lawsuits: The recognized provision is R\$7,869 (R\$4,792 at December 31, 2015) and refers to lawsuits filed against the insurance and broker company are provided for taking into consideration the history of losses on these lawsuits.

#### Breakdown and changes in the consolidated provisions for the period:

	Consolidated					
	12/31/2016					12/31/2015
	Tax	Civil	Labor	Guarantee	Total	Total
Opening balances	227	1,308	4,793	382	6,710	3,549
Recognition	4	339	3,857	259	4,459	5,160
Reversal/ Settlements	-	(103)	(781)	(484)	(1,368)	(1,999)
<b>End balances</b>	<b>231</b>	<b>1,544</b>	<b>7,869</b>	<b>157</b>	<b>9,801</b>	<b>6,710</b>

### c) Contingent liabilities classified as possible losses

The judicial and administrative proceedings that, based on the legal counsel and management's opinion, are classified as possible losses are not booked, and are broken down as follows:

	12/31/2016					12/31/2015
	Bank	Broker	FAR	Insurer	Consolidated	Consolidated
<b>Tax (i) (ii)</b>	3,944	42,337	478	9,948	56,707	55,595
<b>Civil</b>	5	6,503	-	241	6,749	3,435
<b>Labor</b>	4,720	12,194	-	12	16,926	19,674
<b>Total</b>	<b>8,669</b>	<b>61,034</b>	<b>478</b>	<b>10,201</b>	<b>80,382</b>	<b>78,704</b>

(i) *The Broker is challenging at administrative level the levy of PIS/COFINS (taxes on revenue) on the alleged gain not subject to taxation upon the merger of Bovespa's shares into "Nova Bolsa" (BM&FBovespa) and CETIP's demutualization process; PIS/COFINS (taxes on revenue) on the expenses incurred by its brokers on the intermediation of financial transactions related to the demutualization of the stock and mercantile exchanges, ISS on brokerage commissions, and other contingencies. The value at risk as at December 31, 2016 R\$ 42,337 (R\$ 43,283 as at December 31, 2015).*

(ii) *The insurance company is challenging the levy of PIS/COFINS/IR/CS on inflation adjustments to escrow deposits and levy of INSS on amounts paid through incentive cards.*

## NOTE 18 - SHAREHOLDERS' EQUITY

### a) Issued capital

As at December 31, 2016 and 2015, the fully subscribed and paid-in capital is represented by 5,161,402 shares, equally divided into registered common and preferred shares without par value.

## b) Dividend distribution

The Bank's bylaws provide for mandatory dividends of 25% of profit for the year, in compliance with the prevailing corporate law.

The Extraordinary Shareholders' Meeting held on February 24, 2016 and the Extraordinary Shareholders' Meeting held on April 15, 2016, approved the distribution of dividends in the amount of R\$3,000 and R\$2,300, respectively.

## NOTE 19 - BREAKDOWN OF INCOME AND LOSS ACCOUNTS

	Bank		Consolidated	
	01/01 to 12/31/2016	01/01 to 12/31/2015	01/01 to 12/31/2016	01/01 to 12/31/2015
<b>a) Income from services provided</b>	<b>18,041</b>	<b>18,508</b>	<b>37,469</b>	<b>48,065</b>
Income from technical assistance	9,720	-	9,720	7,802
Income from investment fund management	4,628	7,031	14,157	16,856
Income from securities placement commissions	2,436	1,813	2,812	2,117
Income from guarantees provided	819	1,764	819	1,764
Income from custody services	3	-	1,884	1,363
Income from brokerage transactions in stock exchange	-	-	7,595	18,000
Other	435	7,900	482	163
<b>b) Insurance premiums</b>	<b>-</b>	<b>-</b>	<b>153,969</b>	<b>133,624</b>
Compulsory automobile insurance (DPVAT)	-	-	47,008	44,186
Insured guarantee - Public sector	-	-	15,045	30,624
Engineering risks	-	-	22,426	9,429
Named perils and operating risks	-	-	15,994	17,000
Insured guarantee - Private sector	-	-	33,542	11,718
Obligations guarantee - Public sector	-	-	1,122	3,557
Obligations guarantee - Private sector	-	-	230	119
Court guarantee	-	-	116	1,756
Revenue from issuance of insurance policy	-	-	2,797	2,567
D&O civil liability	-	-	9,168	6,693
Other lines	-	-	6,521	5,975
<b>c) Other administrative expenses</b>	<b>16,013</b>	<b>17,420</b>	<b>43,128</b>	<b>54,605</b>
Financial services	3,922	2,967	11,338	15,311
Specialized technical services	2,874	3,124	6,172	5,688
Data processing	2,423	2,550	5,924	6,140
Rents	1,684	2,234	4,102	5,837
Communication	793	948	2,704	3,803
Condominium	458	462	1,159	1,327
Professional Associations/Organizations	350	387	596	833
Outside services	322	483	2,007	2,363
Asset maintenance and upkeep	322	493	799	1,313
Travels	257	681	654	1,177
Public utilities	249	206	596	702
Promotions and public relations	208	423	519	1,274
Publications	179	314	892	873
Transportation	176	194	335	430
Advertising and publicity	144	414	258	807
Other administrative expenses	1,652	1,540	5,073	6,727
<b>d) Other operating income</b>	<b>2,007</b>	<b>1,408</b>	<b>10,285</b>	<b>35,464</b>
Inflation adjustment gains	1,043	912	2,592	32,490
Recovery of charges and expenses	116	496	199	493
Inflation adjustment of escrow deposits	-	-	1,146	-
Other	848	-	6,348	2,481
<b>e) Other operating expenses</b>	<b>443</b>	<b>1,585</b>	<b>18,430</b>	<b>18,627</b>
Inflation adjustment losses	149	93	10,834	9,511
Contingencies	27	-	319	-
Compulsory automobile insurance (DPVAT)	-	-	3,656	3,359
Other	267	1,492	3,621	5,757

## NOTE 20 - RELATED-PARTY TRANSACTIONS

### a) Subsidiaries and associates

Based on the criteria set out in CMN Resolution 3750/09, related-party transactions were carried out under market terms and conditions as regards charges and maturities, and consist basically of:

Transaction/related parties	Bank				Consolidated			
	12/31/2016		12/31/2015		12/31/2016		12/31/2015	
	Assets (liabilities)	Revenue/ (expenses)	Assets (liabilities)	Revenue/ (expenses)	Assets (liabilities)	Revenue/ (expenses)	Assets (liabilities)	Revenue/ (expenses)
<b>Income receivable</b>	<b>5,200</b>	<b>-</b>	<b>20,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Fator Seguradora S.A.	5,200	-	20,000	-	-	-	-	-
<b>Demand deposits</b>	<b>(961)</b>	<b>-</b>	<b>(641)</b>	<b>-</b>	<b>(131)</b>	<b>-</b>	<b>(37)</b>	<b>-</b>
FAR - Fator Administração de Recursos Ltda.	(242)	-	(112)	-	-	-	-	-
Fator S.A. Corretora de Valores	(588)	-	(492)	-	-	-	-	-
Related companies - non-financial	(131)	-	(37)	-	(131)	-	(37)	-
<b>Interbank deposits</b>	<b>-</b>	<b>(257)</b>	<b>(5,001)</b>	<b>(971)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Fator S.A. Corretora de Valores	-	(257)	(5,001)	(971)	-	-	-	-
<b>Time deposits</b>	<b>(992)</b>	<b>(277)</b>	<b>(1,996)</b>	<b>(734)</b>	<b>(490)</b>	<b>(226)</b>	<b>(1,516)</b>	<b>(343)</b>
FAR - Fator Administração de Recursos Ltda.	(502)	(51)	(480)	(391)	-	-	-	-
Related companies - non-financial	(490)	(226)	(1,516)	(343)	(490)	(226)	(1,516)	(343)
<b>Money market funding</b>	<b>(1,811)</b>	<b>(805)</b>	<b>-</b>	<b>(1,261)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Fator S.A. Corretora de Valores	(1,811)	(805)	-	(1,261)	-	-	-	-
<b>Trading account</b>	<b>395</b>	<b>-</b>	<b>(785)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Fator S.A. Corretora de Valores	395	-	(785)	-	-	-	-	-
<b>Receivables/Payable to related parties</b>	<b>2,916</b>	<b>23,409</b>	<b>3,085</b>	<b>35,945</b>	<b>270</b>	<b>1,585</b>	<b>787</b>	<b>3,123</b>
FAR – Fator Administração de Recursos Ltda.	1,560	8,513	972	9,020	-	-	-	-
Fator S.A. Corretora de Valores	836	10,353	1,148	11,472	-	-	-	-
Fator Seguradora S.A.	250	2,958	178	2,330	-	-	-	-
Fator Empreendimentos e Participações Ltda.	270	1,585	787	3,123	270	1,585	787	3,123

### b) Compensation of key management personnel

The management fees payable for the period totaled R\$6,980 (R\$5,989 at December 31, 2015) for the Bank and R\$14,779 (R\$15,726 at December 31, 2015) on a consolidated basis, which are considered short-term benefits.

## NOTE 21 - MANAGED THIRD-PARTY FUNDS

The Fator Group's managed third party funds in the amount of R\$4,751,393 (R\$4,167,609 at December 31, 2015).

## NOTE 22 - COLLATERALS BENEFICIARIES

Collaterals provided to third parties, in the amount of R\$6,500 (R\$60,528 as at December 31, 2015), are recorded in a memorandum account.

## NOTE 23 - RISK MANAGEMENT

### a) Credit risk

Credit risk management requires a high level of discipline and control of the analyses and the transactions conducted, by preserving the integrity and independence of the processes. The Bank's credit policy aims at ensuring the security, quality and liquidity of asset investments, the agility and profitability of the business, by minimizing the risks inherent to any credit transaction, as well as providing guidance on the setting of operating limits and credit granting.

The model used by the Bank complies with the criteria set out in CMN Resolution 3721/09 and amendments.

## **b) Market risk**

The daily monitoring of the market risk, Banco Fator uses the benchmarks:

- 1) Value-at-risk (VaR) with a 99% confidence interval and a one-day time horizon, a statistical model that uses the historic data analysis to standardize the distribution of returns to estimate the possible financial loss in a one-day market for 99% of the cases.
- 2) Stress test, a technique that aims at analyzing the impact of extreme fluctuation in asset and derivative prices; the stress scenarios used to calculate possible shocks are those disclosed on a daily basis by BM&FBOVESPA. The purpose of this approach is to preserve the bank's equity in atypical market situations.

The model used by the Bank complies with the criteria set out in CMN Resolution 3464/07 and amendments.

## **c) Liquidity risk**

The monitoring of the liquidity risk aims at mitigating the risk of unbalances between tradable assets and liabilities—payables and receivables mismatches—that might affect the payment ability of the Bank, taking into consideration the different currencies and settlement terms of its assets and liabilities.

This risk is managed on a daily basis by monitoring the cash threshold and the projected cash flows using a specific report that values the bank's assets and liabilities for the next 252 business days, taking into account five liquidity scenarios using different assumptions.

The model used by the Bank complies with the criteria set out in CMN Resolution 4090/12 and amendments.

## **d) Operational risk**

The operational risk management aims at mitigating the possibility of incurring losses as a result of failure, weakness, or inadequacy of internal processes, people and systems, or external events; including the legal risk associated to the inadequacy or weaknesses in contracts entered into by the Bank, penalties and/or compensation paid for damages as a result of the activities conducted by the Bank.

The operational risk management process provides for a quantitative approach. The quantitative approach consolidates the Group's losses in an internal database with its related causes and action plans. This database allows the qualitative analysis of the incurred losses, by facilitating the analysis of the risk and the internal control effectiveness, aimed at reducing losses and the business's operational improvement.

The model used by the Bank complies with the criteria set out in CMN Resolution 3380/06 and amendments.

## **e) Insurance risk**

The management of the insurance risk is a critical aspect of the business. Consists of applying the probability theory and is applied to price and provide for the insurance operations. The main risk is that the frequency and severity of the claims is higher than the estimated amount.

The insurance risk is the risk where the insurer transfers to the underwriter, in this case Fator Seguradora, the risk of incurring a claim on the insured asset. The main risks covered by the insurance contracts are represented by the costs of claims as opposed to the overall amount of the premiums received.

Insurance risks are controlled based in internal policies that establish procedures that follow specific provisions of the regulatory requirements.

## **f) Capital management**

Capital is managed to maintain capital adjusted to the risks incurred by the Bank, in line with the nature of transactions, complexity of products and services offered and extent of its exposure to risks.

Capital management policy, as well as the capital plan, must be approved and reviewed, at least annually, by the Bank's Executive Board and Board of Directors, so as to determine their compatibility with the Bank's strategic plan and market conditions.

The model used by the Bank complies with the criteria set out in CMN Resolution 3988/11 and amendments.

The risk and capital management structure description is available at the Bank's website:  
([http://www.fator.com.br/bem\\_vindo/quem\\_somos/risco\\_compliance](http://www.fator.com.br/bem_vindo/quem_somos/risco_compliance)).

#### NOTE 24 - OPERATIONAL LIMITS

The table below shows the Basel ratio, as established by CMN Resolution 4193/13 and amendments:

	<b>Bank</b>	
	<b>12/31/2016</b>	<b>12/31/2015</b>
Credit risk (RWAcpad)	58,366	100,536
Currency risk (RWAcam)	1,261	166
Interest rate (RWAapjur)	8,156	11,358
Stock price risk (RWAacs)	223	547
Operational risk (RWAopad)	6,470	9,614
Commodities Risk (RWAcom)	84	-
<b>Required Regulatory Capital (PRE)</b>	<b>74,560</b>	<b>122,221</b>
Equity	<b>339,457</b>	<b>343,022</b>
Prudential adjustments	(125,400)	(83,987)
<b>Regulatory Capital (PR)</b>	<b>214,057</b>	<b>259,035</b>
<b>Basel ratio</b>	<b>28.35%</b>	<b>23.31%</b>
<b>Rban</b>	<b>30,079</b>	<b>25,222</b>

The Insurance company adjusted equity is fully adequate based on the criteria set out in CNSP Resolution 321/15, and amendments.

<b>Description</b>	<b>12/31/2016</b>	<b>12/31/2015</b>
Adjusted equity	198,421	194,835
(-) Capital Requirement (EC)	32,146	15,000
Capital Adequacy - R\$	166,275	179,835
Capital Adequacy (% of EC)	517.25%	1,198.90%

**THE EXECUTIVE COMMITTEE**

**CARLOS AUGUSTO SENNA DE ALMEIDA – CRC 1RJ – 079955/O-6 “S” - SP**