Banco Inter S.A.

Consolidated Financial Statements December 31, 2017, 2016 and 2015

Content

KPMG Auditores Independentes
Rua Paraíba, 550 - 12º andar - Bairro Funcionários
30130-141 - Belo Horizonte/MG - Brasil
Caixa Postal 3310 - CEP 30130-970 - Belo Horizonte/MG - Brasil
Telefone +55 (31) 2128-5700, Fax +55 (31) 2128-5702
www.kpmg.com.br

Independent auditors report on the consolidated financial statements

To the Management and shareholders of Banco Inter S.A.

Belo Horizonte - Minas Gerais

Opinion

We have audited the consolidated financial statements of Banco Inter S.A. (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2017, the consolidated statements of profit or loss and other comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material aspects, the consolidated financial position of Banco Inter S.A. as at December 31, 2017, and of its the consolidated financial performance and its consolidated cash flows for the year then ended, in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

Basis for opinion

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit the consolidated financial statements" Section of our report. We are independent of the Group in accordance with the relevant ethical requirements included in the Accountant Professional Code of Ethics ("Código de Ética Profissional do Contador") and in the professional standards issued by the Brazilian Federal Accounting Council ("Conselho Federal de Contabilidade") and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those that, in our professional judgement, were of the most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming of our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of loans and advances to customers	
See Notes "3e viii" and "11" to the consolidated financial statements.	
The Key audit matter	**How the matter was addressed in our audit**
As disclosed in Notes 3e viii and 11 to the consolidated financial statements, the Group evaluates, at least at each statement of financial position date, any objective evidence of impairment loss of the portfolio of loans and advances to customers. The Group uses the following method and internal policies, which take into account external and internal aspects, as well as the debtor's payment history, to determine whether there is objective evidence of impairment loss: • Regarding to loans and advances to customers who are individually significant, the objective evidence of impairment loss is assessed individually. These transactions take place mostly in the corporate, institutional and commercial segments. • Collective evaluations of the portfolio are performed, and their model is essentially based on loans and advances to customers of a homogeneous nature, such as real estate credit and payroll credit. Due to the relevance of the balances of loans and advances to customers, the degree of judgment, and the uncertainty underlying the determination of an estimate for impairment losses and the impact on the amounts recorded in the consolidated financial statements due to any change in the assumptions used for determining said loss, we considered this topic as a key audit matter.	We evaluate the design, implementation and operational effectiveness of key internal control relating to the approval, recording, classification and update of the risk levels of loans and advances to customers, as well as the key assumptions used for measuring impairment losses in collective analyses or individual analysis of loans and advances to customers. Based on tests, we evaluate the assumptions used by management for recording impairment losses, as well as the presentations and disclosures made by the Group on the consolidated financial statements described in Note 3e viii and 11. Based on the results of the procedures conducted and described above, and on the respective evidence obtained, we identify adjustments that affected the measurement and disclosure of impairment losses of loans and advances to customers which have not been recorded by the management for being considered as immaterial. We consider the provision levels acceptable, as well as the disclosures made in the financial statements taken as a whole.

Applications controls and general information technology controls	
The Key audit matter	How the matter was addressed in our audit
Due to the high dependence of the Group on an information technology infrastructure due to the increased use of digital platforms; high investments on this infrastructure; high volume of transactions processed; the importance of Technology and Information Security controls in its systems and applications for access to programs and data; change management; and	Supported by our information technology and cybersecurity experts, we evaluate the design, implementation and operational effectiveness of general IT access-related controls, such as authorizations for new users, exclusion of non-active users, regular monitoring of active users, information security policies, and change management in the internal systems whenever

the impact thereof on the preparation of the consolidated financial statements, we consider that this area is important for our audit.	we plan to rely on the information supplied by a given system and the transactions deemed relevant for purposes of preparing the consolidated financial statements. We also evaluate the operational effectiveness of the key automated controls of business processes deemed relevant for the audit of the financial statements by checking the access controls and settings of business rules, as well as equipment vulnerability, from the point of view of Information Security. The evidence obtained through the procedures above enabled us to consider the information extracted from application controls and general information technology controls to plan the nature, timing and extent of our procedures regarding the consolidated financial statements taken as a whole.

Responsibility of Management and Those Charged with Governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and for such internal controls as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or to error.

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 misstatements when its 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 the users taken on the basis of these financial statements.

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

– Identify and assess risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures re responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

– Obtain an understanding of internal 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 Group's internal controls.

– Evaluate the appropriateness of the accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

– Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to event or conditions that may cast significant doubt on the Group ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclousures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

– Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures and whether the consolidated financial statements represent the underlying transactions and events in a manner that achives fair presentation.

– Obtain sufficient appropriate audit evidence regarding the financial information of the group's entities or business activities to express an opinion on the consolidated financial statements. We are responsible for the direction , supervision and performance of the group audit. We remain solely responsible that we identify during our audit.

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

From the matters communicated with those charged with governance, we determine those matters that were of the most significance in the audit of the consolidated financial statements for the current year and are therefore the key audit matters. We describe these matters in our auditors' reportunless law or regulation precludes public disclousure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Belo Horizonte, February 22, 2018

KPMG Auditores Independentes
CRC SP-014428/O-6 F-MG

Anderson Luiz de Menezes
Accountant CRC MG-070240/O-3

Banco Inter S.A.

Consolidated statement of financial position as of december 31, 2017, 2016 and 2015

(In thousands of Reais)

	Note	12/31/2017	12/31/2016	12/31/2015
ASSETS				
Cash and cash equivalents	**8**	472,262	532,141	230,287
Derivative Financial Instruments	**9**	4,089	326	-
Loans and advances to financial institutions	**10**	90,912	439	1,341
Loans and advances to customers, net of provision for losses	**11**	2,516,122	2,245,669	2,063,017
Financial assets available-for-sale	**12**	314,408	248,256	117,982
Non-current assets held for sale	**15**	62,579	33,446	17,727
Property and equipment	**13**	5,535	5,222	5,125
Intangible Assets	**14**	958	-	-
Deferred tax assets	**31**	29,191	33,402	22,445
Other assets	**16**	88,719	92,992	70,095
Total Assets		**3,584,775**	**3,191,893**	**2,528,019**
LIABILITIES				
Liabilities with financial institutions	**17**	298,396	671,522	396,599
Liabilities with customers	**18**	1,317,012	859,959	785,727
Securities issued	**19**	1,411,179	1,198,741	910,648
Loans and on lending	**20**	34,818	37,441	39,241
Current taxes	**21**	6,359	5,959	8,228
Provisions	**22**	13,741	10,814	6,647
Other liabilities	**23**	112,661	53,886	43,787
Total Liabilities		**3,194,166**	**2,838,322**	**2,190,877**
SHAREHOLDERS' EQUITY				
Share capital	**24a**	311,874	298,111	281,245
Treasury Shares	**24f**	(2,284)	(2,004)	(1,358)
Profit reserves	**24b**	79,875	57,414	56,387
Equity valuation adjustment	**24c**	166	(355)	(118)
Total shareholders' equity of controlling shareholders	**24**	**389,631**	**353,166**	**336,156**
Non-controlling interests		978	405	986
Total shareholders' equity		**390,609**	**353,571**	**337,142**
Total liabilities and shareholders' equity		**3,584,775**	**3,191,893**	**2,528,019**

The accompanying notes are an integral part of the Consolidated Financial Statements.

Banco Inter S.A.

Consolidated statement of profit or loss

For the years ended December 31, 2017, 2016 and 2015

(In thousands of Reais)

	Note	12/31/2017	12/31/2016	12/31/2015
Interest income		497,227	577,701	480,480
Interest expenses		(276,430)	(320,838)	(236,996)
Net interest income	**25**	**220,797**	**256,863**	**243,484**
Revenue from services and commissions		42,431	24,674	19,471
Expenses forfrom services and commissions		(17,200)	(43,079)	(59,133)
Net income from services and commissions	**26**	**25,231**	**(18,405)**	**(39,662)**
Income from financial assets available-for-sale	**12**	29,546	21,431	36,822
Income from derivative financial instruments	**9**	10,671	326	-
Other revenues	**27**	12,924	15,567	9,783
Revenues		**299,169**	**275,782**	**250,427**
Impairment losses of financial assets	**28**	(24,128)	(72,859)	(58,949)
Personnel expenses	**29**	(85,380)	(70,151)	(59,764)
Depreciation and amortization		(1,382)	(1,275)	(3,328)
Other administrative revenues (expenses)	**30**	(135,516)	(102,440)	(83,105)
Income before taxes		**52,763**	**29,057**	**45,281**
Current income and social contribution taxes	**31**	(1,256)	(14,184)	(14,368)
Deferred income tax and social contribution	**31**	(3,826)	10,956	2,793
Profit for the year		**47,681**	**25,829**	**33,706**
Income attributable to:				
Controlling shareholders		47,079	25,358	32,895
Non-controlling interests		602	471	811
Basic and diluted earnings per share (Reais - R$)				
Common shares	**24**	3.9569	2.1392	2.7758
Preferred shares	**24**	3.9568	2.1393	2.7757
Basic and diluted earnings per share (Reais - R$)				
Common shares	**24**	3.9569	2.1392	2.7758
Preferred shares	**24**	3.8316	2.0474	2.6859

The accompanying notes are an integral part of the Consolidated Financial Statements.

Banco Inter S.A.

Consolidated statement of other comprehensive income

For the years ended December 31, 2017, 2016 and 2015

(In thousands of Reais)

	12/31/2017	12/31/2016	12/31/2015
Net income for the year	47,681	25,829	33,706
Other comprehensive income for the year			
Items that may be subsequently reclassified to income			
Income from fair value measurement of securities available-for-sale	521	(237)	(98)
Income and social contribution taxes on other comprehensive income	(234)	107	44
Other comprehensive income for the year, net of income and social contribution taxes	**287**	**(130)**	**(54)**
Total comprehensive income for the year	**47,968**	**25,699**	**33,652**
Allocation of comprehensive income			
Controlling shareholders' portion of comprehensive income	47,366	25,228	32,841
Non-controlling interests portion of comprehensive income	602	471	811
Total comprehensive income for the year	**47,968**	**25,699**	**33,652**

The accompanying notes are an integral part of the Consolidated Financial Statements.

Banco Inter S.A.

Consolidated statement of changes in shareholders' equity

For the years ended December 31, 2017, 2016 and 2015

(In thousands of Reais)

			Profit reserves						
	Share capital	Treasury shares	Legal reserve	Earnings retention reserve	Retained earnings	Equity valuation adjustments	Controlling Shareholders' Equity	Non-controlling interests	Total Shareholders' Equity
Balances at January 01, 2015	**269,845**	**-**	**4,595**	**37,648**	**-**	**(107)**	**311,981**	**675**	**312,656**
Capital increase	11,400	-	-	-	-	-	**11,400**	-	**11,400**
Net income	-	-	-	-	32,895	-	**32,895**	811	**33,706**
Proposed allocations:									
Creation of legal reserve	-	-	1,599	-	(1,599)	-	**-**	-	**-**
Creation of earnings retention reserve	-	-	-	12,545	(12,545)	-	**-**	-	**-**
Dividends and interest on equity	-	-	-	-	(18,751)	-	**(18,751)**	(500)	**(19,251)**
Acquisition of treasury shares	-	(1,358)	-	-	-	-	**(1,358)**	-	**(1,358)**
Equity valuation adjustments									
Financial assets available-for-sale	-	-	-	-	-	(11)	**(11)**	-	**(11)**
Balances at December 31, 2015	**281,245**	**(1,358)**	**6,194**	**50,193**	**-**	**(118)**	**336,156**	**986**	**337,142**
Capital increase	16,866	-	-	-	-	-	**16,866**	-	**16,866**
Increase in non-controlling interests	-	-	-	-	-	-	**-**	100	**100**
Net income	-	-	-	-	25,358	-	**25,358**	471	**25,829**
Proposed allocations:									
Creation of legal reserve	-	-	1,274	-	(1,274)	-	**-**	-	**-**
Creation of earnings retention reserve	-	-	-	(247)	247	-	**-**	-	**-**
Dividends and interest on equity	-	-	-	-	(24,331)	-	**(24,331)**	(1,152)	**(25,483)**
Acquisition of treasury shares	-	(646)	-	-	-	-	**(646)**	-	**(646)**
Equity valuation adjustments									
Financial assets available-for-sale	-	-	-	-	-	(237)	**(237)**	-	**(237)**
Balances at December 31, 2016	**298,111**	**(2,004)**	**7,468**	**49,946**	**-**	**(355)**	**353,166**	**405**	**353,571**
Aumento de capital	13,763	-	-	-	-	-	**13,763**	-	**13,763**
Net income	-	-	-	-	47,079	-	**47,079**	602	**47,681**
Proposed allocations:									
Creation of legal reserve	-	-	2,407	-	(2,407)	-	**-**	-	**-**
Reversal of earnings retention reserve	-	-	-	20,054	(20,054)	-	**-**	-	**-**
Dividends and interest on equity	-	-	-	-	(24,618)	-	**(24,618)**	(29)	**(24,647)**
Acquisition of treasury shares	-	(280)	-	-	-	-	**(280)**	-	**(280)**
Equity valuation adjustments									
Financial assets available-for-sale	-	-	-	-	-	521	**521**	-	**521**
Balances at December 31, 2017	**311,874**	**(2,284)**	**9,875**	**70,000**	**-**	**166**	**389,631**	**978**	**390,609**

The accompanying notes are an integral part of the Consolidated Financial Statements.

Banco Inter S.A.

Consolidated statement of cash flow

For the years ended December 31, 2017, 2016 and 2015

(In thousands of Reais)

	12/31/2017	12/31/2016	12/31/2015
Cash flows from operating activities			
Net income for the year	**47,681**	**25,829**	**33,706**
Adjustments			
Depreciation and amortization	1,382	1,275	3,328
Impairment of financial assets	24,128	72,859	58,949
Expenses for provisions and contigent liabilities	8,641	8,159	5,612
Deferred income and social contribution taxes	3,826	(10,956)	(2,793)
Provisions for impairment	3,382	(354)	(16,728)
Income from exchange rate variation	639	(22)	-
(Increase)/ decrease in operating assets			
Derivative financial instruments	(3,763)	(326)	-
Loans and advances to financial institutions	(90,473)	902	10,828
Loans and advances to customers	(191,796)	(206,635)	(630,430)
Non-current assets held for sale	(134,814)	(66,768)	(28,430)
Other assets	4,172	(20,371)	17,883
Increase/ (decrease) in operating liabilities			
Liabilities with financial institutions	(373,126)	274,923	113,939
Liabilities with customers	457,053	74,232	111,138
Securities issued	212,438	288,093	397,189
Loans and onlending	(2,623)	(1,800)	8,375
Provisions	(5,714)	(3,992)	(2,890)
Other liabilities	60,312	26,837	23,115
Current taxes	400	(2,269)	1,374
Taxes paid on income	(4,908)	(18,135)	(14,204)
Net cash flow from operating activities	**16,837**	**441,481**	**89,961**
Cash flow from investment activities			
Purchase of property and equipment	(1,695)	(1,372)	(776)
Purchase of intangible assets	(958)	-	-
Purchase of financial assets available for sale	(111,268)	(177,760)	(42,878)
Disposal of financial assets available for sale	45,336	47,486	95,454
Cash flow (used in) from investment activities	**(68,585)**	**(131,646)**	**51,800**
Cash flow from financing activities			
Capital increase	62	4	104
Repurchase of treasury shares	(280)	(646)	(1,358)
Dividends and interest on equity paid	(7,274)	(7,361)	(3,325)
Net cash used in financing activities	**(7,492)**	**(8,003)**	**(4,579)**
Net increase in cash and cash equivalents	**(59,240)**	**301,832**	**137,182**
Cash and cash equivalents at the beginning of the year	532,141	230,287	93,105
Effect of exchange rate variation on cash and cash equivalents	(639)	22	-
Cash and cash equivalents at the end of the year	472,262	532,141	230,287
Transactions that do not affect cash			
Dividends and interest on equity declared but not paid	24,618	24,331	18,751
Dividends and interest on equity converted into capital increase	13,701	16,862	11,296
Non-current assets held for sale and received from customers as accord and satisfaction	(102,785)	(48,876)	(19,496)
Reconciliation of financing activities			
Capital balance at the beginning of the year	298,111	281,245	269,845
Capital increase	62	4	104
Dividends and interest on equity transferred to capital	13,701	16,862	11,296
Capital balance at the end of the year	311,874	298,111	281,245
Balance of treasury shares at the beginning of the year	(2,004)	(1,358)	-
Repurchase of treasury shares	(280)	(646)	(1,358)
Balance of treasury shares at the end of the year	(2,284)	(2,004)	(1,358)

The accompanying notes are an integral part of the Consolidated Financial Statements.

Notes to the consolidated financial statements

(In thousands of *Reais*)

1 Reporting entity

Banco Inter S.A. (the "Bank"), formerly known as Banco Intermedium S.A. started its operation in February 1995, mainly to provide loans and advances to customers and other permissible services by the Central Bank of Brazil. Under the law it may acquire interests in other companies. Through its subsidiaries, the Bank provides advice on financial and capital markets.

The Bank provides services to its customers that fulfill most of their daily banking needs through entirely digital platforms. The Bank's key products are Real Estate Loans, Personal Loans and Corporate Loans. The funding portfolio consists of a range of investment products such as Bank Credit Bills (CDB), Real Estate Credit Bills (LCI), Agribusiness Credit Bills (LCA), Financial Bills (LF), Term Deposit Operations with Special Guarantees (DPGE) and Onlending Transactions (FGTS).

On November 16, 2015, the Bank received authorization to offer cross border currency exchange operations, and started trading in the first half of 2016, after operational approval from the Central Bank of Brazil.

In June 2017, the Bank changed its corporate name from Bank Intermedium and its registered trademark to Banco Inter. This change reflects the expansion of its business and of the market in which it operates. The Bank also has subsidiaries in financial and non-financial areas, a securities distribution company and an insurance broker.

Intermedium Distribuidora de Títulos e Valores Mobiliários Ltda. started operating in 2013, principally to intermediate the placement of securities in the financial market. It was authorized to operate by the Central Bank of Brazil on October 9, 2013.

Inter Digital Corretora e Consultoria de Seguros Ltda. is a subsidiary incorporated in 2012 that operates as an insurance broker, mainly handling brokerage, intermediation, administration and prospecting in the area of insurance, and providing assistance services classified as supplementary to insurance activities. It provides insurance brokerage services for companies and individuals, and has a diversified portfolio of long-term products such as Guarantees, Healthcare, Group Life, Residential Property, Engineering Risks, Corporate Risks and others.

Intermedium Promotora de Vendas Ltda. is a subsidiary incorporated in 1995 that was engaged in sales promotion and advertising and incentives for products and services, by means of publicity and promotion at the point of sale. On June 13, 2017 the Bank decided to dissolve the operations of the subsidiary Intermedium Promotora de Vendas Ltda. and its cancellation registration was filed with the Brazil's Federal Tax Authority.

2 Basis of accounting

a. Statement of compliance

The consolidated financial statements of Banco Inter and its subsidiaries have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Board (IASB).

The consolidated financial statements were approved by the Board of Directors on February 21, 2018.

b. Functional and presentation currency

These consolidated financial statements are presented in Reais (R$), which is the Group´s functional currency. All amounts have been rounded to the nearest thousand, except where otherwise indicated.

c. Use of estimates and judgments

In preparing these consolidated financial statements, management has made judgment, estimates and assumptions that affect the application of the Group´s accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis.. Revisions to estimates are recognized prospectively.

Information about assumptions and estimates of uncertainties that have a significant risk of resulting in a material adjustment, including information about judgements, is included in the following notes:

- Loans and advances to customers (see Note 3 “e viii” and Note 11) - Impairment;
- Provisions (see Note 3 “k” and Note 22) - Key assumptions about the likelihood and magnitude of an outflow of resources;
- Non-current assets held for sale (see Note 3 “g” and Note 15) - Determination of fair value less selling costs for non-current assets held for sale, based on significant unobservable data;
- Deferred tax assets (see Note 3 “m” and Note 31) - Availability of future taxable profit; and
- Fair value of financial instruments, including derivate financial instruments (see Note 3 “e vii”, Note 7 and Note 9) - Determination of the fair value of financial instruments with significant non-observable inputs.

d. Basis of measurement

The consolidated financial statements have been prepared on a historic cost basis, adjusted to reflect the fair value of financial assets available-for-sale and financial assets and liabilities (including derivative instruments) measured at fair value through profit or loss.

3 Significant accounting policies

The Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements.

a. Basis of consolidation

The following table shows subsidiaries included in the consolidated financial statements:

		Shareholding (%) December 31		
Entity	**Area of activity**	**2017**	**2016**	**2015**
Inter Distribuidora de Títulos e Valores Mobiliários S.A.	Stockbroker	95%	95%	100%
Inter Digital Corretora e Consultoria de Seguros Ltda.	Insurance broker	74%	74%	75%
Intermedium Promotora de Vendas Ltda.	Sales promoter	-	100%	100%

(i) Subsidiaries

The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of the subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

In the individual financial statements of the parent company, when required, the financial information on the subsidiaries is recognized by the equity accounting method.

(ii) Non-controlling interests

The Group books non-controlling interests in shareholders' equity in the consolidated statement of financial position. When shares are purchased from non-controlling interests, the difference between the amount paid and the value of the shareholding acquired is registered in shareholders' equity. Gains or losses on sales to non-controlling interests are also registered in shareholders' equity.

Profits or losses attributable to non-controlling interests are shown as such in the consolidated statements of income.

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses (except for foreign currency transaction gains or losses), arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

b. Foreign currency

Transactions in foreign currency are translated into the respective functional currency of Group entities at the spot exchange rates at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. Non-monetary assets and liabilities that are measured at fair value in foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction. Foreign currency differences arising on translation are generally recognized in profit or loss.

c. Cash and cash equivalents

The balance of cash and cash equivalents consists of cash held and sight bank deposits (in Brazil and abroad) and other short-term highly liquid investments with original maturity dates not exceeding three months that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. See Note 8 - Cash and cash equivalents.

d. Repo transactions

Repo transactions are undertaken in the over-the-counter market for National Financial System (SFN) institutions. On selling securities, the Group undertakes to repurchase them on a specific date together with interest at a fixed rate. In return, the purchaser irrevocably undertakes to sell the security back to the Bank on the maturity date at a fixed price.

This applies also to deposits placed with other market institutions, in accordance with the specific rules for interbank deposits.

e. Financial assets and liabilities

(i) Financial assets

The Group classifies their financial assets into the following categories: measured at fair value through profit or loss, available-for-sale, and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at the time of initial recognition.

Measured at fair value through profit or loss

Financial assets are registered and initially valued at fair value, and any subsequent changes in fair value are immediately recognized in income. These assets can be subdivided into two separate classifications: financial assets designated at fair value through profit or loss; and financial assets for trading (at the time of their initial recognition).

- **Financial assets designated at fair value through profit or loss**
  The Group holds financial assets designated at fair value through profit or loss, which are securities classified as available-for-sale.

- **Financial assets held for trading (other than derivatives)**
  Financial assets for trading are assets held by the Bank and its subsidiaries for the purpose of short-term trading, or to be held as part of a portfolio managed as a whole to obtain a short-term profit or to take a position.

  Financial assets held for trading are initially recognized and valued at fair value in the statement of financial position, and transaction costs are passed directly to income for the period.

  Realized and unrealized gains and losses from changes in the fair value of non-derivative financial assets are recognized directly in the statement of profit or loss, under “Income from financial assets available-for-sale”. Interest received on financial assets held for trading is recognized in “Net interest income”. The Group has no financial assets held for trading on the dates presented in these financial statements.

Financial assets available-for-sale

Financial assets available-for-sale are non-derivative financial assets which management intends to hold for an indefinite period of time, and which can be sold in response to changes in interest rates, exchange rates or liquidity needs, or which are not classified as loans or receivables or as financial assets at fair value through profit or loss.

They are initially recognized at fair value, which is the value paid including transaction costs, and are subsequently measured at fair value, with gains and losses recognized in shareholders' equity, as other comprehensive income, with the exception of impairment losses and gains and losses on currency translation, until the financial asset is no longer recognized. If a financial asset available-for-sale is impaired, the accumulated loss recorded in other comprehensive income is recognized in the statement of profit or loss.

Earnings from financial assets available-for-sale are recognized in income by the effective interest rate method.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable repayment dates, which are not quoted on an active market, have not been designated as "available-for-sale" or "at fair value through profit or loss", and which the Bank and its subsidiaries have no intention to sell immediately or in the short term.

They are measured initially at fair value plus direct transaction costs, and are subsequently valued at amortized cost, using the effective interest rate method.

Loans and receivables are recognized in the consolidated statement of financial position as loans and advances to financial institutions or customers. Interest on loans is shown in income as "Interest income". In the case of impairment, the loss in value is treated as a reduction in the amortized cost of the loans and advances, and is recognized in the statement of profit or loss as "Impairment losses on loans and advances".

Financial assets held to maturity

These assets are initially measured at fair value plus any directly attributable transaction costs.

After their initial recognition, financial assets held to maturity are measured at amortized cost using the effective interest rate method. The Bank and its subsidiaries did not hold financial assets to maturity as of the base date of these financial statements.

(ii) Financial liabilities

The Bank and its subsidiaries classify their financial liabilities into the following categories: measured at fair value through profit or loss and measured at amortized cost.

Measured at fair value through profit or loss

These financial liabilities are registered and valued at fair value, and any subsequent changes in fair value are immediately recognized in income. These liabilities can be subdivided into two separate classifications: financial liabilities designated at fair value through profit or loss, and financial liabilities for trading.

- **Financial liabilities designated at fair value through profit or loss**
  The Bank and its subsidiaries hold no liabilities designated at fair value through profit or loss.

- **Financial liabilities for trading**
  The financial liabilities for trading recognized by the Bank and its subsidiaries are derivative financial instruments. For more details on the treatment of derivative assets, see Note 9 below.

Financial liabilities at amortized cost
These are financial liabilities which are not valued at fair value through profit or loss. They are initially registered at fair value and subsequently measured at amortized cost. Among other things, they include funds placed by financial institutions and customers and the proceeds of the issue of debt securities.

(iii) Derivative financial instruments and hedges

Derivative financial instruments are recorded according to the intentions of management on the acquisition date.

Derivative financial instruments are used to manage the Banks's and its subsidiaries own exposure or to meet the requirements of customers. Gains or losses in value are registered in "Income from Derivative Financial Instruments".

Derivative financial instruments acquired as protection against risks arising from exposure to variations in the market value of financial assets and liabilities are classified according to their nature as:

- **Market risk hedges:** gains and losses on financial instruments classified in this category, and on the related financial assets and liabilities hedged, are recorded in an income account;

- **Cash flow hedges:** in the case of financial instruments included in this category, the effective portion of increases or decreases in value is recorded, net of tax effects, in a specific account in shareholders' equity.

The Bank and its subsidiaries have to date not acquired any derivative financial instrument as a cash flow hedge.

The Bank and its subsidiaries, as described in Note 6, in accordance with their risk management policy, use derivative financial instruments, primarily swap contracts registered with B3 (Brasil, Bolsa, Balcão) and classified as market risk hedges. The objects of these hedges are loans and advances to customers recorded in the "loans and receivables" category.

The fair value of these financial instruments is calculated using average reference rates for transactions with a similar period to maturity on the statement of financial position date, published by B3.

The effectiveness of each hedge is measured from the start and throughout the life of the transaction.

A breakdown of the balances of derivative financial instruments held in equity accounts and memorandum accounts is given in Note 9.

(iv) Initial recognition and measurement

All financial instruments operated by the Bank and its subsidiaries are initially recognized at fair value. In the normal course of business, the fair value of a financial instrument on initial recognition is the transaction price, plus (for instruments subsequently not measured at fair value through profit or loss) incremental transaction costs that are directly attributable to their acquisition or issue.

(v) Write-off

Financial assets are written-off when the contractual rights to cash flows expire, when there is no expectation of future generation of cash flow, or when the rights to receive the contractual cash flows are transferred in a transaction in which all risks and benefits of financial asset ownership are substantially transferred. Financial liabilities are written-off when contractual obligations are discharged, canceled or expire. If any renegotiation or modification of the terms of an existing financial asset is such that the modified asset´s cash flows are substantially distinct from those of the original unmodified asset, then the original financial asset is written-off and the modified financial asset is recognized as a new financial asset and initially measured at fair value.

The Bank and its subsidiaries conducted credit assignment transactions in 2015 and 2016, with co-obligation, in which the recognized financial assets were transferred, however, given the “co-obligation assumed” the risks of the transferred assets were withheld. In these circumstances, the assigned operations remain recorded in the assets of the assignor institution and the funds received are recorded in assets matched against the financial liability arising from the obligation assumed. Revenues and expenses from such assignment are allocated to income over the remaining term of the respective operations.

Assets that are subject to credit assignment with co-obligation consist solely of bank credit note agreements.

The Bank and its subsidiaries write-off loans and advances to customers when these are not considered to be collectible.

(vi) Offsetting of financial instruments

The financial assets and liabilities are offset and the net value is presented in the statement of financial positions when the Bank and its subsidiaries hold a legal right to offset these amounts and have the intention to settle them on a net basis, or realize the asset and settle the liability simultaneously.

(vii) Determination of fair value

Fair value is the amount for which an asset may be exchanged, or a liability settled, between knowledgeable parties willing to conduct a transaction on an arm’s-length basis.

When available, the Bank and its subsidiaries determine the fair value of a financial instrument based on prices quoted on an active market for that instrument. A market is recognized as active if quoted prices are readily and regularly available and represent reliable and regular market transactions undertaken in a fair manner between independent parties.

For financial instruments that do not have prices quoted on active markets, fair value is determined using valuation techniques, which may include recent transaction prices undertaken between unrelated parties under fair market conditions, or reference to the fair value of similar instruments, or the discounted cash flow method or option pricing models. The valuation techniques used by the Bank and its subsidiaries use the maximum possible amount of verifiable data widely utilized by the market, relying as little as possible on specific internal estimates, and incorporate all factors that other market participants consider in determining a trading price which are consistent with widely recognized economic methodologies used by other market participants in pricing those instruments. The data used in valuation techniques reasonably represents market expectations and assessments of inherent risk and return factors of the valued financial instrument. The Bank's management and that of its subsidiaries consider valuation techniques used and test them using observable market transaction prices for the same instrument or based on other observable market data.

(viii) Impairment of financial assets

The recovery of assets is deemed questionable, and impairment losses are deemed incurred if: there is objective evidence of impairment as a result of one or more events occurring after the initial recognition of the asset; and if the loss event has an impact on future cash flows of the financial asset which can be reliably estimated.

Impairment is not always the result of one single event, and the combined effect of several events is common. Objective evidence about impairment of financial assets depends on events that are observed and interpreted by the Bank and its subsidiaries, such as:

- Financial difficulty of the debtor or debt issuer;
- Late payment of loan installments, which constitutes default and breach of contract;
- Evidence that the borrower or issuer will file for bankruptcy or will be subject to financial restructuring;
- Agreements entered into with the Bank and its subsidiaries aiming at reducing the probability of loss of a financial asset due to adverse financial conditions of the debtor;
- Absence of a market for the type of asset in question, leading to impairment;
- Observable data that may show a measurable reduction in future cash flows of financial assets that is not yet seen as default, due to changes in the financial conditions of a specific group of borrowers, local or national economic conditions that may lead to default.

The impairment of financial assets of the Bank and its subsidiaries is analyzed at each statement of financial position date, and the following criteria are used when there is evidence of potential loss:

Financial assets recorded at amortized cost

With regard to financial assets such as (i) amounts receivable from banks; and (b) loans, financing and receibables, the Bank will access:

- Individually, if there is objective evidence of impairment of financial assets that are individually relevant; or collectively, for financial assets that are not individually significant;

- If it is determined that there is no objective evidence regarding a financial asset that is assessed individually, the asset will be included in a group of financial assets with similar credit risk characteristics, and the Bank will assess the impairment of the group of assets collectively.

- Assets that are individually assessed for impairment, and for which an impairment loss is recognized, are not collectively assessed for impairment;

- For practical purposes, “individually significant assets” are those whose debit balance is equal to or higher than 1% of the Reference Equity (PR) of the Bank and its subsidiaries.

If there is objective evidence of impairment loss, the loss amount is estimated based on the amount recorded in assets. Future credit losses expected but not incurred are not recorded. The impairment of assets with late payment of installments, as well as assets with similar characteristics, may be recorded, depending on how the Bank and its subsidiaries handle loans and advances with collective characteristics. The asset amount is reduced using the provision for impairment loss, and offset against income.

In the case of debt renegotiation, interest revenues will continue to be appropriated considering the present value of the transaction and calculated based on the interest rate agreed. These revenues are recorded in “Interest revenues”. Impairment loss is proportionally increased to the extent that the appropriation of interest takes place.

Loans and their corresponding provisions are written off on the dates determined through the internal methods established by the Bank and its subsidiaries. If the amount estimated for loss impairment subsequently increases or diminishes due to an event that occurred after the impairment was recognized, the amount of the impairment loss previously recognized is increased or reduced in accordance with the adjustment made in the provision account.

In the case of recovery of assets (loan, financing or receivable) that have been offset, such recovery will be deducted from the provision amount to be recognized in profit or loss.

For purposes of collective assessment of impairment amounts recorded by the Bank and its subsidiaries, financial assets are grouped based on an internal credit assessment system that considers the risk and credit characteristics of assets, such as: (i) the type of asset; (ii) the type of guarantee; (iii) status of payments due; (iv) maturity of installments; and (v) renegotiation history.

Financial assets classified as available-for-sale

With regard to financial assets available-for-sale, on the date of the statement of financial position, the Bank and its subsidiaries assess whether there is objective evidence that an asset is below the recoverable value.

Debt instruments classified as available-for-sale are individually assessed regarding any objective evidende of impairment, based on the same criteria used for financial assets recorded at the amortized cost. However, the impairment amount recorded corresponds to the cumulative loss, which is measured as the difference between the amortized cost and the current fair value, less any impairment loss previously recognized in income for that asset.

Future interest revenues are based on the reduced amount recorded, being appropriated using the interest rate for discounting the future cash flow applied for measuring impairment loss. Interest revenues are recorded in “Interest revenues.” If, in a subsequent period, the fair value of a debt instrument increases, and this increase can be objectively related to a credit event occurring after an impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss itself.

f. Loans and advances to customers and financial institutions

Loans and advances to customers and financial institutions are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the Bank or its subsidiaries do not intend to sell immediately or in the near term. These are written-off when a customer pays its obligation, or when written-off as losses, when there is no expectation of generating future cash flow (default) or when assigned under a substantial transfer of all risks and benefits. Loans and advances to customers and financial institutions are initially recorded at fair value plus any incremental cost directly attributable and are subsequently measured at amortized cost using the effective interest rate method, less any loss from adjustment of recoverable value. For operations or portions of loans and advances that are designated as hedged items and whose hedging relationship qualifies for hedge accounting at fair value, the carrying amount of these transactions particularly with regard to the hedged risk is adjusted to fair value.

Reverse committed operations involving financial assets are recorded as loans and advances to financial institutions. The difference between the purchase and resale price is treated as interest and allocated exponentially over the term of the operation.

g. Non-current financial assets held for sale

The assets originally received as collateral and repossessed in collection actions or received as “payment in kind” are initially classified under “non-current assets held for sale” and are recorded on initial recognition at the lower of fair value (less the expected sale cost) and the carrying amount of loans or advances granted that are the subject of repossession. Non-current assets are classified as “held for sale” if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

These assets are generally measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held-for-sale or held-for-distribution and subsequent gains and losses on remeasurement are recognised in profit or loss.

h. Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

The cost includes expenses directly attributable to the acquisition of the asset. The cost of assets generated internally includes the direct cost of materials and labor as well as any other directly attributable costs that are required to make an asset operational.

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

If significant parts of an item of property or equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment.

The useful lives and residual values of assets are reviewed, and adjusted if necessary at every statement of financial position date or when applicable.

Any gain or loss on disposal of an item of property and equipment is recognized within other revenues in the statement of profit or loss.

(ii) Subsequent costs

Subsequent expenditure is capitalized only when it is probable that the future economic benefits of the expenditure will flow to the Bank and its subsidiaries, for more than a year, and its cost can be measured reliably. Ongoing repair and maintenance are expensed as incurred.

(iii) Depreciation

Depreciation is calculated to write off the cost of items of property and equipment items, less their estimated residual values, where applicable, using the straight-line method to write-off the cost of assets to their residual values over their estimated useful lives. Land is not depreciated.

The estimated useful lives of property and equipment are as follows:

Description	**Useful life Estimated**
Furniture and equipment	10 years
Data processing system	5 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

i. Impairment of non-financial assets

At each reporting date the Bank and its subsidiaries review the carrying amounts of non-financial assets (excluding investment properties and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (i.e., cash-generating units - CGUs).

The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less cost to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognized in prior periods are assessed at each reporting date to detect indications that the loss has decreased or no longer exists. A loss for impairment is reversed if there is a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's book value does not exceed the accounting value that would have been determined, net of depreciation and amortization, if no impairment had been recognized.

j. Deposits and securities issued

Deposits and debt securities issued are the main Bank's and its subsidiaries sources of debt funding to finance their operations.

Deposits and debt securities issued are initially measured at fair value plus transaction costs and subsequently measured at their amortized cost using the effective interest method.

k. Provisions

A provision is recognized if, as a result of a past event, the Group has a present, legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Provisions are determined by the discounting the expected future cash flows discounted at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

In setting up provisions, management takes into account the opinion of legal counsel, the nature of lawsuits, any similarity with previous lawsuits, the complexity and positioning of courts, whenever a loss is deemed as probable.

Contingent liabilities are:

(a) a possible obligation arising from past events and whose existence may only be confirmed by the occurrence of one or more uncertain future events not wholly within the entity's control; or

(b) a present obligation stemming from past events that is not recognized because:

(i) it is not probable that an outflow of resources embodying economic benefits shall be required in order to settle the obligation; or

(ii) the value of the obligation cannot be measured with sufficient certainty;

As regards the basis for the measurement of provisions, the entity shall seek, pursuant to IAS 37, a best estimate of the disbursement required to settle the present obligation at the statement of financial position date, considering:

- The risks and uncertainties involved;
- Where relevant, the financial effect produced by the discounted present value of future cash flows required to settle the obligation;
- Future events that may affect the amount required to settle the obligation.

Contingent assets are only posted to the Bank's books when there is collateral or final and unappealable favorable court decisions. Contingent assets where the chances of success are probable are only disclosed in the financial statements, when material.

l. Employee benefits

(i) Short-term employee benefits

Short-term employee benefit obligations are recognized as personnel expenses to the extent the corresponding service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result o past service provided by an employee and the obligation can be estimated reliably.

(ii) Share-based payment transactions

The grant-date fair value of share-based payment awards granted to employees is recognized as a personnel expense with a corresponding increase in equity, over the period in which employees become unconditionally entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

m. Income and social contribution taxes

Provisions are calculated by considering the relevant legislation for each charge for the effect of the calculation bases and their respective rates: Income tax (15% plus 10%), social contribution tax (15% up to August 2015 and 20% for the period between September 2015 and December 2018, pursuant Law No. 13.169/15, returning to the rate of 15% as from January 2019). The Bank and its subsidiaries also observe the accounting practice of setting up, as applicable, tax credits for income social contribution taxes on temporary differences and tax losses. Such tax credits are recognized for accounting purposes on the basis of realization of expectations, considering the technical studies and analyzes made by management.

Income and social contribution tax expenses comprise current and deferred income taxes:

(i) Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reportingdate. Current tax also includes any tax arising from dividends.

(ii) Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The tax benefit of tax loss carryforwards is recognized only when it is identified that future taxable profits shall be generated in sufficient amounts to be compensated.

Income and social contribution tax expenses are recognized in the statement of profit or loss, unless related to the valuation of financial instruments available-for-sale at fair value when these are recognized directly in the shareholders' equity.

n. Interest

Interest income and expenses are presented under the accounting headings of Interest income and interest expense in net interest income for all financial instruments utilizing the effective interest rate method.

The effective interest rate is the rate that discounts estimated future cash payments and receipts through the expected life of the financial assets and financial liabilities to the carrying amount of the financial asset or financial liability. The effective interest rate is established on initial recognition of financial assets and liabilities and is subsequently revised in the event of the renegotiation of loans and advances that result in changes in its estimated flow of payments.

To calculate the effective interest rate, future cash flows are estimated considering all contractual terms of financial instruments, but do not consider, future credit losses. The calculation of the effective interest rate includes all incremental charges directly attributable to loans, which include equalization rates and transaction costs that may be attributed directly.

With regard to financial instruments held for trading, the interest component of the changes in fair value is not separated and is classified under "Income from financial assets held for trading".

The adjustment resulting from any change in fair value of derivative financial instruments held for risk management that qualify for fair value hedge accounting are recorded as interest income or expenses, in net interest income, under the same account where the variation adjustments in the fair value of risk exposures of hedged interest rates are recorded.

o. Net income from services and commissions

Revenues and expenses from fees and commissions that are incremental and directly attributable to financial assets comprise the effective interest rate of loans and are allocated to income under headings Interest income or expenses over the terms of the transactions.

Other revenues from fees and commissions, including commissions, investment fund management fees and others are recognized as the related services are rendered.

Revenues and expenses from commissions and fees are recognized in the consolidated statement of profit or loss using criteria that vary in accordance with their nature. The main criteria are:

- Revenues and expenses from fees and commissions relating to financial assets and financial liabilities measured at fair value through profit or loss are recognized when paid.

- Revenues and expenses from fees and commissions resulting from transactions or services performed over a period of time, are deferred within the terms of these operations.

p. Shareholders' Equity

(i) Share Capital

Common and preferred shares are classified in shareholders' equity.

Additional costs directly attributable to the issue of new shares or options are stated in shareholders' equity as a deduction of the amount obtained, net of taxes.

(ii) Earnings per share

The Bank and its subsidiaries state basic earnings per share. Basic earnings per share is calculated by dividing the net earnings attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year, excluding the average number of shares acquired by the Bank and its subsidiaries and held in treasury. The diluted earnings per share differs from basic earnings per share as there are potential dilutive instruments as described in note 24.

(iii) Repurchase and remission of shares (treasury shares)

When shares recognized as shareholders' equity are repurchased, the amount of the consideration paid, which includes any directly attributable costs is recognized as a reduction to shareholders' equity. Repurchased shares are classified as treasury shares and are stated as a reduction to shareholders' equity. When treasury shares are sold or subsequently reissued, the amount received is recognized as an increase in shareholders' equity, and the gain or loss resulting from the transaction is stated as a capital reserve.

(iv) Dividends payable

The minimum mandatory dividend payment is made at percentages that may be uniform or variable in each quarter, but that should make up at least 25% (twenty five percent) of net income for each fiscal year. Interest on equity is embedded in minimum dividends.

For financial statement presentation purposes interest on equity paid or payable is eliminated from interest expenses and stated as a reduction to shareholders' equity, on distribution of dividends.

q. Operating segments

IFRS 8 requires the disclosure of financial information of an entity´s operating segments based on internal disclosures that are used by the chief operating decision maker to allocate resources and assess performance. The chief operating decision maker is responsible for allocating resources, assessing the performance of the operating segments and is responsible for making strategic decisions of the consolidated entities and acts as Management of the Bank and its subsidiaries, which is comprised of the Board of Directors and Executive Board.

A detailed disclosure of the results by segment is presented in Note 5.

4 New standards and interpretations not yet effective

Standards, amendments and interpretations of standards applicable to future periods

The following standards are effective for periods after the base date of these financial statements and have not been early adopted.

IFRS 9 - Financial Instruments: Recognition and measurement

IFRS 9 - Financial Instruments establishes requirements for recognizing and measuring financial assets, financial liabilities and some agreements to buy or sell non-financial items. This pronouncement replaces the IAS 39 - Financial Instruments: Recognition and Measurement.

(i) Classification - Financial Assets

IFRS 9 contains a new approach to the classification and measurement of financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 contains three major rating categories for financial assets: measured at amortized cost, at fair value through other comprehensive income and fair value through profit or loss. The standard eliminates the existing categories in IAS 39 for held to maturity, loans and receivables and available-for-sale.

Pursuant to IFRS 9, derivatives embedded in contracts where the host is a financial asset within the scope of that standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

(ii) Impairment of financial assets - Financial Assets

IFRS 9 substitutes the "incurred losses" model of IAS 39 with a prospective "expected credit losses" model. This shall require a significant judgment on how changes in economic factors affect expected credit losses, which shall be determined on the basis of weighted probabilities.

The new expected losses model applies to financial assets measured at amortized cost or at fair value through other comprehensive income, except for investments in equity instruments and contractual assets.

Pursuant to IFRS 9, provisions for expected losses are measured according to one of the following bases:

- expected credit losses for 12 months, i.e. credit losses resulting from potential default events within 12 months of the base date; and

Expected lifetime credit losses, i.e. credit losses that result from all possible default events over the expected lifetime of a financial instrument.

The measurement of expected lifetime credit losses applies if the credit risk of a financial asset on the date base has increased significantly since its initial recognition and the 12-month credit loss measurement applies if the risk has not increased significantly since its initial recognition. An entity may determine that the credit risk of a financial asset has not increased significantly if the asset has low credit risk on the base date. However, the measurement of lifetime expected credit losses always applies to accounts receivable and contractual assets without a significant financing component; the Bank and its subsidiaries opted to also apply this policy for accounts receivable and contractual assets with a significant financing component.

(iii) Estimated impact of the adoption of IFRS 9

In the second quarter of 2017, the Bank and its subsidiaries carried out a simulation of expected losses, based on IFRS 9 requirements, regarding each portfolio, considering the following variables ascertained on a historical basis: (a) probability of default - chances of an agreement going into default; (b) loss given default - percentage of the lost debit balance lost due to the agreement in default; (c) portfolio exposure - amount according to each range of delay between the agreements.

The Expected Loss in a year is obtained by multiplying these variables. For the real estate portfolio, the weighted LTV (loan-to-value) is used so as to consider the collateral provided in the agreements.

Preliminarily, the impacts were obtained based on the best estimate of Management of the Bank and its subsidiaries, while the calculations and internat controls sufficient for realization are constantly evaluated by taking into account the variables that can have a significant impact considering the business carried out by the Bank and its subsidiaries. Such variables, can be described as: (a) concentration of loans and advances to customers on real estate loans and financing; (b) low value of loans compared to the guarantees received, that is, low LTV compared to the market; and (c) evolution of the macroeconomic scenario, indicating that losses may be lower than those recorded in recent years.

The Management of the Bank and its subsidiaries highlights that the estimate is initial and preliminary, and that final calculations are still being prepared. Thus, their impact may differ from that expected based on the preliminary estimates.

Management understands that these factors are being considered to determine the method used for calculating the expected loss, and that they have direct impact on provision levels if compared to the levels indicated in these consolidated financial statements.

(iv) Disclosures

IFRS 9 shall require extensive new disclosures, particularly on hedge accounting, credit risk and expected credit losses. The evaluation of the Bank and its subsidiaries included a review to identify shortcomings in relation to information required in current processes and the Bank and its subsidiaries are in the process of implementing changes to its systems and controls to meet the new requirements.

(v) Transition

The changes in the accounting policies that resulted from adoption of IFRS9 will be generally applied on a retrospective basis, except for the following changes:

- The Bank and its subsidiaries will benefit from the exemption that allows it not to restate the comparative information from prior periods that results from changes in the classification and measurement of financial instruments (including expected credit losses). The differences in the book balances of financial assets and liabilities that result from adoption of IFRS9 will be recognized in retained earnings and reserves as of January 1, 2018.

  The following assessments should be made on the basis of the facts and circumstances existing on the date of initial adoption:

  Establishment of the business model within which a financial asset is held.

  Designation and revocation of previous designations of certain financial assets and liabilities measured at fair value through profit or loss.

  Designation of certain investments in equity instruments not held for trading at fair value through other comprehensive income.

IFRS 15 - Revenue from Contracts with Customers

Requires that recognition of revenue is undertaken in order to state the transfer of goods or services to a customer at the amount that reflects the Bank's expectation of what it shall receive in exchange for the rights of those goods or services. IFRS 15 replaces IAS 18, IAS11 and related interpretations (IFRICs 13,15 and 19). Effective as from January 1, 2018, with early adoption permitted by the IASB. The new requirements will not have a significant impact from the adoption of this change.

IFRS 16 - Leasing

The main changes in comparison with IAS 17 for lessors are: (i) there is no longer a classification for operational and financial leasing; and (ii) all commercial leases are activated and entered in liabilities, these shall recognize interest and liabilities in depreciation/ amortization, using the current financial leasing procedure. There are optional exemptions for short-term leases and leases of low-value items. The accounting records of the lessor remain similar to the current standard, classifying leases as financial or operational. IFRS16 replaces IAS17 and shall apply as from January 1, 2019 and the possible impacts of the adoption of this change are being assessed and shall be completed up to the date that the standard enters into force.

5 Operating segments

The segment information was prepared based on the criteria used by the chief operating decision maker to evaluate performance, in making decisions regarding the allocation of funds for investment and other purposes, considering the regulatory environment and the similarities between products and services.

The Bank's operations and those of its subsidiaries are basically divided into three segments: banking, securities and insurance brokerage.

The varied accounting information used by management in performance evaluation and decision-making is prepared in accordance with the laws, rules and accounting practices for recognition and measurement applicable to financial institutions in Brazil, as determined by the Central Bank of Brazil. The Bank and its subsidiaries present the results by segment in accordance with this regulation framework, given that these findings are reported to the chief operating decision-maker for the purposes of allocating resources to the segment and assessing its performance.

The accounting policies of the reportable operating segments differ from those described in the summary of significant accounting policies under IFRS mainly due to:

a. Recognition of Assets

Financial assets underlying sale or transfer transactions with substantial retention of risks and benefits, that is, transactions in which the seller or assignor retains substantially all the risks and rewards of ownership of the financial asset underlying the transaction, representing the totality of the Assignment portfolio, were duly recorded in accordance with paragraph 29 of IAS 39:

- the financial asset underlying the sale or transfer must remain totally recorded in assets;
- the amounts received in the transaction must be recorded in assets against liabilities related to the assumed obligation;

- revenues and expenses must be allocated in a segregated form to income for the year for the remaining term of the operation, but at least monthly.

b. Impairment Losses on Loans and Advances to Customers

Based on the accounting practices adopted in Brazil and applicable to financial institutions authorized to operate by the Central Bank of Brazil, impairment losses on loans and advances to customers are calculated in accordance with the criteria for classification of loans and advances to customers issued by CMN Resolution 2,682 / 99.

However, the IFRSs require a new provisioning model based on "incurred loss", as established in paragraph 58 of IAS 39. Thus, for the application of the standard, the Bank and its subsidiaries prepared a Policy that contemplates a new model of provisioning of credit risk based on the incurred loss, in order to provide more transparent evidence of losses in its loans and advances to customers.

This model makes the estimate in accordance with the nature of loans and advances, as follows: (a) personal credit and credit cards; (b) real estate credit; and (c) other operations with legal entities, this model being understood by Management as appropriate for the profile of the credit portfolio of the Bank and its subsidiaries.

Based on the parameters applied to analyze the objective evidence of loss, new calculations were made for loans and advances to customers of the Bank and its subsidiaries, and new impairment loss amounts were calculated, in accordance with the policy presented in note 3e(viii).

c. Assets not for use

Assets not for use are mainly the assets received by the Bank and its subsidiaries in the settlement of loans and advances to customers. Assets not for use are recorded in other assets at the time of the effective execution of the guarantee or when their physical possession is obtained, regardless of an execution process.

Assets not for use are initially recorded at the lower of (i) the fair value of the asset, less estimated costs for sale; or (ii) the carrying amount of the loan granted subject to recovery.

To the extent that the assets not for use meet the conditions necessary for their disposal in accordance with IFRS 5, they are reclassified to non-current assets held for sale.

IFRS 13 addresses the measurement of fair value under IFRS 5 as a non-recurring measurement, since it only occurs when the fair value of a non-current asset available-for-sale less costs to sell is lower than its net book value.

Based on these accounting practices, the Bank and its subsidiaries calculate the recoverable value of these assets.

d. Deferral of financial charges

The corporate accounting standards applied to financial institutions authorized to operate by the Central Bank of Brazil provide that certain charges related to certain financial assets are recognized in the statement of profit or loss at the time of origination of the transaction, other charges such as commissions paid to correspondents are recorded under "other assets - prepaid expenses” and recognized in the statement of profit or loss on a straight-line basis over the term of the respective operations under “expenses from services and commissions “.

Management income by segment

The measurement of management income by segment takes into account all revenues and expenses calculated by the companies that make up each segment, pursuant to the distribution stated below. There are no common revenues or expenses allocated between the segments for any distribution criteria.

Intersegment transactions are conducted under terms and rates compatible with those practiced with third parties, where applicable. These operations do not involve abnormal payment risks.

The Bank and its subsidiaries do not have customers accounting for more than 10% of their total net revenue.

e. Banking segment

The banking segment is responsible for the substantive portion of the Group’s income, and comprises a wide range of products and services such as deposits, loans and advances to customers and services, which are available to customers through various distribution channels in Brazil.

The banking segment’s operations include business with the retail, wholesale and government markets undertaken by a customer service network and teams, with business with micro-entrepreneurs and the informal sector conducted by correspondent banks.

f. Securities segment

This segment is essentially responsible for operations inherent to the acquisition, sale and custody of securities, portfolio administration, institution, and organization and administration of investment funds. Revenues are derived primarily from management commissions and fees charged to investors for such services.

g. Insurance brokerage segment

This segment offers products and services related to warranties, life, property and automobile insurance. Revenues from insurance brokerage commissions are recognized when it is probable that future economic benefits shall flow to the entity. Revenues include considerations received or receivable for the provision of services.

Management statement of profit or loss by segment

	12/31/2017			
	Banking	**Securities**	**Insurance Brokerage**	**Consolidated management data**
Revenue from financial intermediation				
Loans	444,775	-	-	444,775
Earnings from foreign exchange operations	639	-	-	639
Income from highly liquid interbank investments	59,596	59	-	59,655
Income from securities and derivative financial instruments	40,175	42	288	40,505
Sales of transfer of financial assets. (revenue)	627	-	-	627
	545,812	**101**	**288**	**546,201**
Expenses from financial intermediation				
Market funding operations	(272,539)	-	-	(272,539)
Borrowing and onlending obligations	(2,949)	-	-	(2,949)
Provision for doubtful debts	(50,673)	-	-	(50,673)
Sales of transfer of financial assets (expense)	(1,289)	-	-	(1,289)
	(327,450)	**-**	**-**	**(327,450)**
Gross income from financial intermediation	**218,362**	**101**	**288**	**218,751**
Other operating revenues (expenses)				
Service revenues	20,293	3,068	19,070	42,431
Personnel expenses	(77,975)	(1,338)	(12,908)	(92,221)
Other administrative expenses	(90,079)	(538)	(911)	(91,528)
Tax expenses	(14,662)	(309)	(1,181)	(16,152)
Equity pickup in subsidiaries	7,315	-	-	7,315
Other operating expenses	(14,388)	(11)	-	(14,399)
Other operating revenues	12,913	11	-	12,924
	(156,583)	**883**	**4,070**	**(151,630)**
Operating income	**61,779**	**984**	**4,358**	**67,121**
Non-operating income	(10,225)	-	-	(10,225)
Income before income taxes	**51,554**	**984**	**4,358**	**56,896**
Current income and social contribution taxes	1,066	(173)	(2,149)	(1,256)
Deferred income and social contribution taxes	(4,462)	(246)	-	(4,708)
	(3,396)	**(419)**	**(2,149)**	**(5,964)**
Income for the year	**48,158**	**565**	**2,209**	**50,932**
Total assets	3,580,884	3,767	5,331	3,589,982
Total liabilities	3,197,792	2,201	1,870	3,201,863
Total shareholders' equity	383,092	1,566	3,461	388,119

	12/31/2016			
	Banking	**Securities**	**Insurance Brokerage**	**Consolidated management data**
Revenue from financial intermediation				
Loans	489,398	-	-	489,398
Income from highly liquid interbank investments	51,805	16	-	51,821
Income from securities and derivative financial instruments	21,653	110	227	21,990
Sales of transfer of financial assets. (revenue)	4,236	-	-	4,236
	567,092	**126**	**227**	**567,445**
Expenses from financial intermediation				
Market funding operations	(313,196)	-	-	(313,196)
Borrowing and onlending obligations	(2,753)	-	-	(2,753)
Provision for doubtful debts	(85,656)	-	-	(85,656)
Sales of transfer of financial assets (expense)	(5,138)	-	-	(5,138)
	(406,743)	**-**	**-**	**(406,743)**
Gross income from financial intermediation	**160,349**	**126**	**227**	**160,702**
Other operating revenues (expenses)				
Service revenues	14,620	768	9,286	24,674
Personnel expenses	(62,702)	(1,123)	(6,326)	(70,151)
Other administrative expenses	(61,839)	(484)	(345)	(62,668)
Tax expenses	(15,482)	(81)	(514)	(16,077)
Equity pickup in subsidiaries	(2,454)	-	-	(2,454)
Other operating revenues	15,558	8	1	15,567
Other operating expenses	(11,397)	-	-	(11,397)
	(123,696)	**(912)**	**2,102**	**(122,506)**
Operating income	**36,653**	**(786)**	**2,329**	**38,196**
Non-operating income	(8,608)	-	-	(8,608)
Income before income taxes	**28,045**	**(786)**	**2,329**	**29,588**
Current income and social contribution taxes	(13,120)	-	(1,064)	(14,184)
Deferred income and social contribution taxes	10,539	330	-	10,869
	(2,581)	**330**	**(1,064)**	**(3,315)**
Income for the year	**25,464**	**(456)**	**1,265**	**26,273**
Total assets	3,185,372	2,247	1,926	3,189,545
Total liabilities	2,839,824	1,246	561	2,841,631
Total shareholders' equity	345,548	1,001	1,365	347,914

	12/31/2015			
	Banking	**Securities**	**Insurance Brokerage**	**Consolidated management data**
Revenue from financial intermediation				
Loans	366,903	-	-	366,903
Income from highly liquid interbank investments	26,809	10	-	26,819
Income from securities and derivative financial instruments	36,676	166	335	37,177
Sales of transfer of financial assets. (revenue)	16,224	-	-	16,224
	446,612	**176**	**335**	**447,123**
Expenses from financial intermediation				
Market funding operations	(218,724)	-	-	(218,724)
Borrowing and onlending obligations	(2,114)	-	-	(2,114)
Provision for doubtful debts	(65,772)	-	-	(65,722)
Sales of transfer of financial assets (expense)	(16,523)	-	-	(16,523)
	(303,133)	**-**	**-**	**(303,133)**
Gross income from financial intermediation	**143,479**	**176**	**335**	**143,990**
Other operating revenues (expenses)				
Service revenues	13,204	335	5,932	19,471
Personnel expenses	(57,612)	(626)	(1,526)	(59,764)
Other administrative expenses	(49,469)	(314)	(308)	(50,091)
Tax expenses	(15,903)	(41)	(458)	(16,402)
Equity pickup in subsidiaries	631	-	-	631
Other operating revenues	9,774	-	9	9,783
Other operating expenses	(14,957)	(1)	-	(14,958)
	(114,332)	**(647)**	**3,649**	**(111,330)**
Operating income	**29,147**	**(471)**	**3,984**	**32,660**
Non-operating income	(709)	-	-	(709)
Income before income taxes	**28,438**	**(471)**	**3,984**	**31,951**
Current income and social contribution taxes	(13,629)	-	(739)	(14,368)
Deferred income and social contribution taxes	9,582	169	-	9,751
	(4,047)	**169**	**(739)**	**(4,617)**
Income for the year	**24,391**	**(302)**	**3,245**	**27,334**
Total assets	2,523,477	1,524	4,445	2,529,446
Total liabilities	2,195,045	67	501	2,195,613
Total shareholders' equity	328,432	1,457	3,944	333,833

Reconciliation of management income by segment with consolidated results pursuant to the IFRS

	12/31/2017	12/31/2016	12/31/2015
Revenues			
Total revenue reported by segment	546.201	567.445	447.123
IFRS Reconciliation	(48.627)	10.505	43.589
Elimination of inter-segment revenue	(347)	(249)	(365)
Consolidated revenue	497.227	577.701	490.347
Income for the year			
Total income reported by segment	50.932	26.273	27.334
Elimination of inter-segment profits	(2.172)	(338)	(2.132)
IFRS Reconciliation	(1.079)	(106)	8.504
Consolidated income	47.681	25.829	33.706
Assets			
Total assets reported by segment	3.589.982	3.189.545	2.529.446
Elimination of inter-segment assets	(11.746)	(5.270)	(9.151)
IFRS Reconciliation	6.539	7.618	7.724
Total consolidated assets	3.584.775	3.191.893	2.528.019
Liabilities			
Total liabilities reported by segment	3.201.863	2.841.631	2.195.613
Elimination of inter-segment liabilities	(7.697)	(3.309)	(4.736)
Total consolidated liabilities	3.194.166	2.838.322	2.190.877
Shareholders' equity			
Total shareholders' equity reported by segment	388.119	347.914	333.833
Elimination of inter-segment shareholders' equity	(4.049)	(1.961)	(4.415)
IFRS Reconciliation	6.539	7.618	7.724
Total consolidated shareholders' equity	390.609	353.571	337.142

6 Financial risk management

The Bank and its subsidiaries' risk management addresses the credit, market, liquidity and operational risks. The management activities are carried out by specific and specialized structures such as policies, strategies and processes described in each of these risks.

This management structure allows the identification and measurement of possible impacts and solutions to ensure the continuity, longevity and quality of the Bank and its subsidiaries' business.

To ensure anticipation of possible changes due to scenarios and / or market conditions that result in the manifestation of identified risks, the Bank and its subsidiaries adopt a proactive and conservative approach to risk management, particularly considering the strategic objectives of Banco Inter and its subsidiaries, anticipating possible changes, and mitigating activities focusing on exposure, mapping its weaknesses through a survey of processes, respecting the limits of its policies and relevant legislation.

The model adopted by the Bank and its subsidiaries involves a department and committee structure:

- Segregation of function;
- A specific framework for risk management;
- Established management process;
- Decisions on various hierarchical levels;
- Clear standards and hierarchical structure; and
- Reference to best management practices.

Risk management practices adopted by the Bank and its subsidiaries are in line with the recommendations of Pillar III of the Basel Committee for both qualitative and quantitative aspects.

Governance and hierarchy structures, monitoring processes and other aspects of management support in optimizing resources and selecting the best business opportunities to maximize shareholder value, based on a methodology compatible with its size, offering support to measure align, coordinate and conclude on the effectiveness of its management.

The Bank and its subsidiaries also believe that the risk management of its operations and activities is essential to business success, providing valuation of the Bank and ensuring best results for own and third-party funds.

Accordingly, the institutional guideline is that risks be managed so that they fall within the limits and margins established by management.

a. Credit risk

The definition of credit risk comprises, among other factors:

- **Counterparty risk**: possibility of a failure, by a given counterparty, to honor obligations regarding the settlement of transactions involving the trading of financial assets, including those related to the settlement of derivative financial instruments.
- **Principal risk:** possibility of disbursements to honor sureties, guarantees, co-obligations, credit commitments, or other such operations of a similar nature.
- **Intermediation risk:** possibility of losses associated with a failure to comply with agreed financial obligations by an intermediary or a party to a covenant for loans and advances to customers.
- **Concentration risk:** possibility of loan losses arising from significant exposure to a borrower or counterparty, a risk factor, a group of borrowers or counterparties related through common characteristics.

The management of credit risk is performed based on best market practices and complies with bank oversight and regulation. It intends to identify, evaluate, control, mitigate and monitor risk exposure to contribute to safeguarding the Bank and its subsidiaries' solidity and solvency and ensure compliance with shareholder interests.

In order to ensure that the loan process is aligned with the strategic objectives, the Bank and its subsidiaries establish in their Credit Risk Policy:

- An evaluation of the ability to pay and likelihood of loss for each customer;
- The establishment of limits for transactions with individuals and corporate entities;
- A definition of how credit shall be released to the customer; and
- Monitoring and tracking of portfolios subject to credit risk.

The Bank and its subsidiaries have a structured process in order to maintain the diversification of its portfolio in relation to the concentration of the largest debtors by geographical region, segment and sector of activity.

Mitigation of exposure

To maintain exposure within the risk levels established by senior management, the Bank and its subsidiaries seek to add credit risk mitigating instruments. Accordingly, the following activities are adopted:

- Exposure to credit risk is mitigated by structuring guarantees, adjusting the level of risk to be incurred to the borrower's characteristics and operation at the time loans are granted and derivative transactions intended for hedging purposes;
- In addition, the monitoring of indicators is directly linked to the proposed mitigation alternatives whenever exposure to the behavior of the credit risk for a given unit, region, product or segment so requires;
- The implementation of credit risk mitigation measures occurs through product repositioning, involving guarantees, operational process or operation approval levels.

In addition to the activities described above, to pledge in guarantee, goods are subjected to technical assessment or valuation, the validity of which is up to twelve months. In the case of personal guarantee, an analysis of the financial and economic circumstances of the guarantor or warrantor, in addition to their direct or indirect responsibility and considers third party debt, particularly tax, social security and labor.

Credit standards guide operations in a clear and comprehensive manner covering, among other things, the classification, requirement, choice, assessment, formalization, control and reinforcement of guarantees, ensuring the adequacy and sufficiency of mitigating instruments throughout the cycle of an operation.

There were no changes in the risk exposures to which the Bank and its subsidiaries are subjet, compared to the previous years. Additionally, the Bank and its subsidiaries are improving internal risk management and mitigation aspects.

Measurement

The measurement of credit risk at the Bank and its subsidiaries is carried out considering the following:

- At the time that credit is granted, an assessment of a customer´s financial standing is undertaken through the application of qualitative and quantitative methods, ensuring the continuous collection of information including those in the market that support the adequacy of the level of risk during the course of the operation;
- The assessment is carried out from a counterparty´s perspective, considering information on the economic group and guarantors where applicable. Exposure to credit risk is also measured in extreme scenarios, using stress techniques and scenario analysis. The models used for allocating ratings to customers and operations are regularly reviewed to ensure adherence to the macroeconomic scenario and losses recognized;
- Control of credit risk also occurs through the monitoring on a monthly basis of the Credit Indicator Dashboard which is presented to the Risk and Capital Management Committee also on a monthly basis;
- The distribution of portfolios classified according to late payment is monitored in order to identify trends or changes in behavior of the loan portfolio before losses are posted, allowing the adoption of timely management measures when required;
- A loss realized reflects the level of risk of loans and advances to customers operations in stock and allows monitoring and control of the portfolio’s level of exposure under the classification, supporting the adoption of risk mitigation measures;
- The expected loss is the projection of the level of the loan portfolio risk. Its calculation is based on the historical behavior of late payment and the distribution of the portfolio by product and level of risk. It is a key input in the pricing process of loans and advances to customers;
- Further to the monitoring and measurement of indicators under normal conditions, simulations of changes are also undertaken in the business environment and the economic scenario in order to predict the impact of such changes at levels of exposure to risks, provisions and balance of these portfolios, in addition to support in the process of revising the exposure limits and the credit risk policy;

	12/31/2017		
	Low risk	**High risk**	**Total**
Loans and advances to customers			
Business credit	352,135	11,865	364,000
Real estate credit	1,256,039	74,611	1,330,650
Personal credit	760,063	41,530	801,593
Cards	61,243	178	61,421
Other credits with credit granting characteristics	41,529	2,534	44,063
	2,471,009	**130,718**	**2,601,727**
Loans and advances to financial institutions			
Deposits under repurchase transactions	1,216	-	1,216
Investments in interbank deposits	87,979	-	87,979
Interbank onlending	1,717	-	1,717
	90,912	**-**	**90,912**
Derivative financial instruments			
Swap	4,089	-	4,089
	4,089	**-**	**4,089**

	12/31/2016		
	Low risk	**High risk**	**Total**
Loans and advances to customers			
Business credit	244,797	23,641	268,438
Real estate credit	1,122,515	100,355	1,222,870
Personal credit	812,935	31,235	844,170
Cards	9,811	46	9,857
Other credits with credit granting characteristics	3,430	13,011	16,441
	2,193,488	**168,288**	**2,361,776**
Loans and advances to financial institutions			
Interbank onlending	439	-	439
	439	**-**	**439**
Derivative financial instruments			
Swap	326	-	326
	326	**-**	**326**

	12/31/2015		
	Low risk	**High risk**	**Total**
Loans and advances to customers			
Business credit	236,011	37,060	273,071
Real estate credit	927,036	42,973	970,009
Personal credit	851,999	21,897	873,896
Cards	142	-	142
Other credits with credit granting characteristics	19,725	3,131	22,856
	2,034,913	**105,061**	**2,139,974**
Loans and advances to financial institutions			
Investments in interbank deposits	1,104	-	1,104
Interbank onlending	237	-	237
	1,341	**-**	**1,341**

(i) Maximum exposure to credit risk

	12/31/2017	**12/31/2016**	**12/31/2015**
Credit risk exposure			
Cash and bank balances	472,262	532,141	230,287
Derivative financial instruments	4,089	326	-
Loans and advances to financial institutions	90,912	439	1,341
Loans and advances to customers, net of provision for losses	2,516,122	2,245,669	2,063,017
Financial assets available-for-sale	314,408	248,256	117,982
Subtotal	**3,397,793**	**3,026,831**	**2,412,627**
Guarantees and sureties pledged	215	99	-
Total credit risk exposure	**3,398,008**	**3,026,930**	**2,412,627**

Transactions are limited to the amount of R$15 million for legal entities and 1% of the Reference Equity for individuals. Loans and advances to customers that surpass these amounts must be approved by the Board of Directors. The LTV is assessed for products with real estate guarantees and, in general, the amount financed is lower than the value of the asset received as collateral. Other products are directly linked to payroll discounts.

(ii) Description of collateral

The financial instruments subject to credit risk are subject to careful assessment of credit prior to being contracted and disbursement and is ongoing throughout the term of operations. Credit analyses are based on an understanding of customer operational characteristics, their borrowing capacity, considering cash flow, payment history, creditworthiness and consider alternatively, the guarantees that may support these operations.

Loans and advances to customers, as shown in Note 11, are mainly represented by the following operations:

- Working capital loans, personal loans and credit card are guaranteed by receivables promissory notes, sureties provided by their owners and occasionally by collateral;
- Real estate finance is backed by collateral;

The portfolio of financial assets available-for-sale consists mostly of federal government bonds, defined as minimal risk and shares in investment funds, generally guaranteed by promissory notes sureties.

Assets received as collateral for loans and advances to customers, when repossessed, are sold at public auctions, free of any charges or encumbrances, with disclosure in major newspapers, thus attracting the largest number of interested parties for purchase, in order to achieve highest possible sales price, considering the conservation status of the asset and market conditions. An asset is sold without mechanical or operational warranty.

Guarantees on real estate loans and financing

The tables below structure the credit exposure of real estate loan and advances exposure to retail customers by loan to value (LTV) classification. The LTV is calculated as the proportion of the gross value of the loan or the value of loans committed to the value of collateral. The gross amounts exclude any provision for impairment. The assessment for guarantee of real estate loans is based on the restated value of collateral, based on changes in real estate price indexes:

	12/31/2017	12/31/2016	12/31/2015
Less than 30%	247,173	226,990	203,818
31 - 50%	494,246	381,699	289,658
51 - 70%	429,299	402,552	291,797
71 - 90%	122,813	149,947	156,745
Over 90%	5,886	7,048	8,795
	1,299,417	**1,168,236**	**950,813**

Percentage of coverage for assets received in guarantee

Assets	**% of coverage**
Loans and advances to customers	
Business credit	100%
Personal credit	100%
Loans and advances to financial institutions	
Interbank onlending	100%
Derivative financial instruments	
Swap	100%

(iii) *Concentration of the portfolio of loans and advances to customers:*

The concentration of the Bank´s portfolio of loans and advances to customers and those of its subsidiaries is as follows:

Analysis of the breakdown of loans and advances to customers by sector:

	12/31/2017		**12/31/2016**		**12/31/2015**	
	Balance	**%**	**Balance**	**%**	**Balance**	**%**
Private sector						
- Real Estate	1,330,650	51.14%	1,222,870	51.78%	970,009	45.43%
- Individuals	801,593	30.81%	844,170	35.74%	873,896	40.84%
- Business	364,000	13.99%	268,438	11.37%	273,071	12.76%
- Other credits with credit granting characteristics	105,484	4.05%	26,298	1.11%	22,998	1.07%
Total portfolio	**2,601,727**	**100.00%**	**2,361,776**	**100.00%**	**2,139,974**	**100.00%**

The concentration of the Bank´s portfolio of loans and advances to customers and those of its subsidiaries is as follows:

	12/31/2017		**12/31/2016**		**12/31/2015**	
	Balance	**% of Loans and advances to customers**	**Balance**	**% of Loans and advances to customers**	**Balance**	**of Loans and advances to customers**
Largest debtor	26,217	1.01%	19,809	0.84%	9,704	0.45%
Total 20 largest debtors	158,230	6.08%	124,846	5.29%	100,859	4.71%
Total 50 largest debtors	258,487	9.94%	195,906	8.29%	183,404	8.57%
Total 100 largest debtors	356,899	13.72%	276,300	11.70%	274,866	12.84%
Other debtors	1,801,894	69.26%	1,744,915	73.88%	1,571,141	73.43%
Total portfolio	**2,601,727**	**100.00%**	**2,361,776**	**100.00%**	**2,139,974**	**100.00%**

Breakdown of loans and advances to customers by maturity is as follows:

	12/31/2017		
	Falling due	**Overdue**	**Total**
Installments falling due			
- Falling due in up to 180 days	376,117	-	376,117
- Falling due from 181 to 360 days	376,009	-	376,009
- Falling due in over 360 days	1,799,036	-	1,799,036
Total falling due	**2,551,162**	**-**	**2,551,162**
Overdue installments			
- Overdue as from 15 days	-	50,565	50,565
Total overdue	**-**	**50,565**	**50,565**
Total portfolio	**2,551,162**	**50,565**	**2,601,727**

	31/12/2016		
	Falling due	**Overdue**	**Total**
Installments falling due			
- Falling due in up to 180 days	286,161	-	286,161
- Falling due from 181 to 360 days	469,210	-	469,210
- Falling due in over 360 days	1,540,349	-	1,540,349
Total falling due	**2,295,720**	**-**	**2,295,720**
Overdue installments			
- Overdue as from 15 days	-	66,056	66,056
Total overdue	**-**	**66,056**	**66,056**
Total portfolio	**2,295,720**	**66,056**	**2,361,776**

	12/31/2015		
	Falling due	**Overdue**	**Total**
Installments falling due			
- Falling due in up to 180 days	297,841	-	297,841
- Falling due from 181 to 360 days	451,948	-	451,948
- Falling due in over 360 days	1,348,188	-	1,348,188
Total falling due	**2,097,977**	**-**	**2,097,977**
Overdue installments			
- Overdue from 15 days	-	41,997	41,997
Total overdue	**-**	**41,997**	**41,997**
Total portfolio	**2,097,977**	**41,997**	**2,139,974**

The provision for loans and advances to customers considers the classification of the portfolio as follows:

- not overdue and not subject to impairment losses;
- overdue but not subject to impairment losses;
- subject to impairment losses.

	12/31/2017	12/31/2016	12/31/2015
Not overdue and not subject to impairment losses;	2,511,849	2,241,978	2,059,734
Overdue but not subject to impairment losses;	4,273	3,691	3,283
Subject to impairment losses.	85,605	116,107	76,957
Total loans and advances to customers	**2,601,727**	**2,361,776**	**2,139,974**
Impairment loss	(85,605)	(116,107)	(76,957)
Total, net	**2,516,122**	**2,245,669**	**2,063,017**

b. Liquidity risk

Liquidity risk is the possibility that the Bank and its subsidiaries are not able to efficiently meet their expected or unexpected obligations, current and future, including those resulting from binding guarantees, without affecting its daily operations and without incurring significant losses and the possibility of the Bank and its subsidiaries may not be able to negotiate the market price of a position due to their sheer size in relation to the volume normally transacted or due to any discontinuity in the market.

The liquidity risk management structure is segregated and acts proactively to prevent any situations to which the Bank and its subsidiaries may be submitted in relation to their liquidity.

The process of monitoring liquidity risk encompasses the entire flow of receipts and payments for the Bank and its subsidiaries so that mitigating actions risk can be realized.

This monitoring is carried out mainly by the Assets and Liabilities Committee and the Risk and Capital Management Committee. Liquidity risk information available at the following systems is discussed in these committees:

- Top 10 investors;
- Mismatch between assets and liabilities;
- Net capital raised;
- Liquidity limits;
- Projection of maturity;
- Stress tests based on internally defined scenarios;
- Liquidity contingency plans;
- Monitoring of asset and liability concentrations;
- Monitoring of short term liquidity and funding renewal rates;
- Reports with information on positions held by the Bank Inter and its subsidiaries; and

This information consolidates data and seeks to tailor Banco Inter and its subsidiaries' requirements regarding the effective management of liquidity risk exposure.

There were no changes in the risk exposures to which the Bank and its subsidiaries are subject, compared to the previous year. Additionally, the Bank and its subsidiaries are improving internal risk management and mitigation aspects.

(i) Contingency plan

The Bank and its subsidiaries have a contingency plan for liquidity risk management, structured for various scenarios which is constantly evolving. This plan includes, among other measures, the monitoring and continuous evaluation of cash flows and liquidity of assets and analysis of stress scenarios and definition of the minimum levels of liquidity for these scenarios.

Liquidity risk management constitutes a vital activity for the Bank and its subsidiaries, due to their role in the financial and capital markets, and the established Liquidity Contingency Plan contains the responsibilities and procedures to deal with the following extreme situations:

- Possibility that the Bank and its subsidiaries are not able to effectively honor their expected and unexpected obligations, current and future, including those stemming from binding guarantees;
- Possibility that the Bank and its subsidiaries are unable to negotiate market prices for a position, due to the volume transacted or due to any discontinuity in the market.

The responsibilities of the Liquidity Risk Management Framework are distributed between different committees and levels: Board of Directors, Asset and Liability Committee (ALC), Treasury Committee, Director responsible for Risk Management, Superintendent of Compliance, Risk Management and Internal Controls and Risk Coordination. These consider the internal and external factors affecting the liquidity of the Bank and its subsidiaries, and a detailed daily monitoring of incoming and outgoing movements of loans and advances to customers, term deposits, LCA, LCI and demand deposits is carried out. Term deposits are analyzed according to the concentration, maturities, renewals, repurchases or new funding.

The liquidity risk database comprises Assets, Liabilities, Securities and Derivatives products of the Bank and its subsidiaries. These products are generated from the source systems for each product. The liquidity coverage ratio (LCR) generates short, medium and long-term liquidity ratio analysis, particularly highlighting funds according to their liquidity to withstand acute financial stress scenarios, calculated based on the ratio between liquid assets and net outflows during each period. The LCR is comprised information that shall lead to calculation of amounts regarding the state of cash flows in relation to a standardized stress scenario for a period of 30 days the findings are interpreted as follows:

Interpretation of LCR with regard to the minimum	**Situation**
LCR below 3.00 times	Critical
LCR above 2.99 and below 5.00 times	Satisfactory
LCR above 4.99 and below 8.00 times	Comfortable
LCR over 7.99	Excess liquidity

(iv) Analysis of financial instruments by remaining contractual term

The table below illustrates in a management and consolidated format the financial data of all the members of the corporate entities that comprise the Group the projected future realizable value related to financial assets and liabilities, as used by management.

		12/31/2017			
	Note	**Up to 3 months**	**3 months to 1 year**	**Above 1 year**	**Total**
Financial assets					
Cash and cash equivalents	**8**	472,262	-	-	472,262
Derivative financial instruments	**9**	-	2,914	1,175	4,089
Financial assets available-for-sale	**12**	65,749	43,855	204,804	314,408
Loans and advances to financial institutions	**10**	90,912	-	-	90,912
Loans and advances to customers	**11**	426,682	376,009	1,799,036	2,601,727
Other assets	**16**	-	75,332	13,387	88,719
Total financial assets		**1,055,605**	**498,110**	**2,018,402**	**3,572,117**
Financial liabilities					
Term deposits	**17**	(354,446)	(349,817)	(911,145)	(1,615,408)
Securities issued	**19**	(534,020)	(288,670)	(588,489)	(1,411,179)
Loans and onlending	**20**	(678)	(698)	(33,442)	(34,818)
Other liabilities	**23**	-	(111,651)	(1,010)	(112,661)
Total financial liabilities		**(889,144)**	**(750,836)**	**(1,534,086)**	**(3,174,066)**

		12/31/2016			
	Note	**Up to 3 months**	**3 months to 1 year**	**Above 1 year**	**Total**
Financial assets					
Cash and cash equivalents	**8**	532,141	-	-	532,141
Derivative financial instruments	**9**	-	98	228	326
Financial assets available-for-sale	**12**	42,150	14,605	191,501	248,256
Loans and advances to financial institutions	**10**	439	-	-	439
Loans and advances to customers	**11**	352,217	469,210	1,540,349	2,361,776
Other assets	**16**	-	72,389	20,603	92,992
Total financial assets		**926,947**	**556,302**	**1,752,681**	**3,235,930**
Financial liabilities					
Liabilities with financial institutions	**17**	(44,392)	(73,744)	(553,386)	(671,522)
Liabilities with customers	**18**	(102,625)	(206,327)	(551,007)	(859,959)
Securities issued	**19**	(371,301)	(267,585)	(559,855)	(1,198,741)
Loans and onlending	**20**	(751)	(3,759)	(32,931)	(37,441)
Other liabilities	**23**	-	(52,334)	(1,552)	(53,886)
Total financial liabilities		**(519,069)**	**(603,749)**	**(1,698,731)**	**(2,821,549)**

		12/31/2015			
	Note	**Up to 3 months**	**3 months to 1 year**	**Above 1 year**	**Total**
Financial assets					
Cash and cash equivalents	**8**	230.287	-	-	230.287
Financial assets available-for-sale	**12**	25.041	29.617	63.324	117.982
Loans and advances to financial institutions	**10**	1.341	-	-	1.341
Loans and advances to customers	**11**	339.838	451.948	1.348.188	2.139.974
Other assets	**16**	-	44.473	25.622	70.095
Total financial assets		**596.507**	**526.038**	**1.437.134**	**2.559.679**
Financial liabilities					
Liabilities with financial institutions	**17**	(58.071)	(57.211)	(281.317)	(396.599)
Liabilities with customers	**18**	(141.289)	(197.590)	(446.848)	(785.727)
Securities issued	**19**	(374.046)	(275.897)	(260.705)	(910.648)
Loans and onlending	**20**	(674)	(674)	(37.893)	(39.241)
Other liabilities	**23**	-	(43.787)	-	(43.787)
Total financial liabilities		**(574.080)**	**(575.159)**	**(1.026.763)**	**(2.176.002)**

The information stated above evidences the ability of Banco Inter and its subsidiaries to settle their short and long-term liabilities, given the higher financial asset amounts. Management monitors liabilities based on their history, and it does not expect them to be significantly advanced.

Term Deposit Operations with Special Guarantees (DPGEs) ended 2017 with a balance of R$63.6 million, down 43.2% year-on-year, when it totaled R$112.0 million. This decrease was primarily the result of the strategic change, given the high exposure that the DPGE instrument presents. The increase in the deposit portfolio can be attributed to diversification of the funding mix, especially through the issuance of LCIs and the wider distribution of the depositor base as well as the increase in the average ticket of individual customers, driven by digital accounts' customer base growth.

c. Market risk

Market risk is the possibility of losses resulting from fluctuations in market value positions held by the Bank and its subsidiaries, including the risks posed by transactions subject to foreign exchange, interest rates, stock prices and the price of commodities.

The Market Risk Policy is analyzed and monitored by the Assets and Liabilities Committee and the Risk and Capital Management Committee. Reports relating to market risk available in the system are analyzed by these Committees. These are:

- VaR;
- VaR by risk factor;
- Stress test; and
- Backtest.

These reports allow the analytical evaluation of the information, and are constantly improving, seeking to provide an overview that is more consistent with the current needs of Banco Inter and its subsidiaries and that adds to Market Risk decision and positions. These reports are also evaluated and monitored by the Compliance, Risk Management and Internal Controls Departments.

There were no chages in the risk exposures to which the Bank and its subsidiaries are subject, compared to the previous year. Additionally, the Bank and its subsidiaries are improving internal risk management and mitigation aspects.

Measurement

Up to (and including) August 2015, the methodology for calculating VaR was the parametric model with a 99% confidence level (CL) and time horizon (TH) of one (01) days scaled for 252 days. The VaR was calculated using the LUNA System from the supplier MAPS S.A.

The Bank and its subsidiaries identified matters regarding the construction of temporary IGP-M coupon rate structures and volatility calculations and correlations for the IGP-M coupon. In orderf to improve the measurement of market risk, the Bank and its subsidiaries without changing its system, the Group used nonparametric model instead of the parametric model. Accordingly, in September and October 2015, the Bank and its subsidiaries began to use a non-parametric model with a 95% confidence level (CL) and time horizon (TH) of 252 days for the VaR calculation.

As from November 2015 up to the requested base date, the Bank and its subsidiaries adopted the non-parametric VaR calculation with a 99% confidence level (CL) and time horizon (TH) of 252 days.

In April 2016, a decision was made to replace the Luna system with the Basel and Market system from company, Élin Duxus Consulting Ltda. The implementation of the new system took into account the supply of the data, the calculation of curves and returns in the format proposed by the Consultancy. Therefore, we decided to return the VAR calculation to a parametric model with a 99% confidence level (CL) and time horizon (TH) of one (01) days scaled up to for 21 days for calculation of RBAN which the model we consider up to the present date.

(i) VaR of the portfolio of the Group:

The supervision and monitoring of limits are undertaken based on the evaluation results for the amounts subject to market risks, with the application of the Value at Risk (VaR) methodology which is determined by the Compliance, Risk Management and Internal Controls Department as well as monitored and analyzed by the Risk and Capital Management Committee.

Hedge operations of the Bank and its subsidiaries are segregated by risk factors identified after the implementation of the Value at Risk methodology. In addition, other metrics are used to define the need to hedge the portfolios. These are:

- GAP analysis (mismatch between assets and liabilities of the expected cash flow);
- Stress scenarios; and
- Sensitivity measurements (PV01). (Already discussed in the previous section)

(ii) *Sensitivity analysis of interest rate risk*

The Bank and its subsidiaries adopt the methodology of monitoring the risk of its portfolio, through interest rate indices rather than of using the portfolio type methodology, using interest rate shock that may impact the consolidated portfolio of the Bank and its subsidiaries. This procedure allows the Group to make inferences on the risk of the positions when compared to current levels of market prices and their historical behavior.

In order to estimate the effect of variations of a given risk factor on regulatory capital (RC), the Bank and its subsidiaries run sensitivity tests to assess the number of base points required to deliver a 5, 10% and 20% decrease in regulatory capital. From the result of the sensitivity test, Banco Inter and its subsidiaries estimate the impact of an increase or decrease in the order of 1, 25 or 50 base points in the risk factors that are sensitive (interest rate curve, IGP-M coupon and IPCA).

Sensibility Test at 12/31/2017

Risk factor		**IGP-M**	**IPCA**	**FIXED**	**Total Portfolio**
RC with ordinary MtM (*)	**318,379**				
Shock by base points					
-50 bps	Scenario 3	325,397	322,191	327,109	337,950
-25 bps	Scenario 2	321,861	320,259	322,724	328,091
-1 bps	Scenario 1	318,517	318,453	318,552	318,764
+1 bps	Scenario 1	318,241	318,305	318,206	317,993
+25 bps	Scenario 2	314,950	316,550	314,073	308,810
+50 bps	Scenario 3	311,572	314,771	309,806	299,381

Sensibility Test at 12/31/2016

Risk factor		**IGP-M**	**IPCA**	**FIXED**	**Total Portfolio**
RC with ordinary MtM(*)	**382,780**				
Shock by base points					
-50 bps	Scenario 3	390,850	380,091	394,178	399,568
-25 bps	Scenario 2	386,783	381,432	388,451	391,110
-1 bps	Scenario 1	382,939	382,726	383,006	383,111
+1 bps	Scenario 1	382,621	382,834	382,554	382,450
+25 bps	Scenario 2	378,841	384,137	377,164	374,576
+50 bps	Scenario 3	374,964	385,500	371,601	366,496

(*) The amounts shown in the table above refer to the RC of the Bank and its subsidiaries, which is affected by the proposed shocks. These shocks affect the MtM (Marking to Market) of the positions of assets and liabilities of the Bank and its subsidiaries, while MtM variations affect the RC. Shocks are defined by the regulatory authority and the Senior Management of the Bank and its subsidiaries.

The statement below contains the sensitivity analysis for assets classified in the portfolios indexed to rates of greater exposure for the Bank and its subsidiaries, namely IGP-M, IPCA rate and PRE (fixed rate).

Gains and maximum losses expected on the 1st and 99th percentile, were calculated from a series of 252 returns, calculated based on the VaR calculation of the portfolio using parametric methodology with 99% confidence level and one-day time horizon scaled to twenty-one days.

	Percentile 12/31/2017			
Risk factor	**1 to 1**	**99 to 1**	**1 - 5 year(s)**	**99 - 5 year(s)**
Euro Coupon	54	(38)	63	-
Euro	(1,210)	(56)	(2,349)	833
IGP-M Index Number	(5,522)	3,876	(59,785)	3,730
IGP-M coupon	3,245	(17,170)	24,764	(30,166)
IPCA index number	615	6	6,087	33
IPCA coupon	3,060	(1,837)	17,278	(12,110)
Fixed	6,354	(25,475)	13,192	(84,177)
TR coupon	5	(53)	17	(89)
USD	(155)	17	(899)	492

	Percentile 12/31/2016			
Risk factor	**1 to 1**	**99 to 1**	**1 - 5 year(s)**	**99 - 5 year(s)**
IGP-M Index Number	(19,802)	(339)	(84,198)	(1,045)
IGP-M coupon	9,058	(13,322)	47,129	(15,788)
IPCA index number	22,136	102	103,439	429
IPCA coupon	(1,061)	2,209	(29,501)	6,135
PRE(fixed)	3,074	(109,379)	80,979	(108,601)
TR coupon	1	(34)	68	(34)
USD	(85)	554	(1,017)	518

	Percentile 12/31/2015	
Risk Factor	**1st Percentile**	**99th Percentile**
IGP-M coupon	(117,052)	124,492
PRE(fixed)	(85,613)	89,217
Factors with exposure below 5%	6,435	(7,991)

	Percentile 12/31/2015	
Risk Factor	**1st Percentile**	**99th Percentile**
IGP-M coupon	(117,052)	124,492
PRE(fixed)	(85,613)	89,217
Factors with exposure below 5%	6,435	(7,991)

The following tables state the value of exposures in question considering the Bank and its subsidiaries, described in Note 1, and sensitivity tests for three possible stress scenarios: Number of base points required to reduce regulatory capital by 5%, 10% and 20%.

	Changes in Equity % 12/31/2017		
Risk Factor	**5%**	**10%**	**20%**
IGP-M coupon	1.59%	3.19%	7.17%
IPCA coupon	2.93%	7.32%	-
PRE(fixed)	1.42%	2.84%	6.03%

	Changes in Equity % 12/31/2016		
Risk Factor	**5%**	**10%**	**20%**
IGP-M coupon	1.38%	2.92%	6.57%
IPCA coupon	(3.35%)	-	-
PRE(fixed)	0.73%	1.50%	3.08%

	Changes in Equity % 12/31/2015		
Risk Factor	**5%**	**10%**	**20%**
IGP-M coupon	41%	84%	173%
PRE(fixed)	-	162%	334%

d. Operational Risk:

The Operational Risk Management aims to identify, assess and monitor risks.

Policy

Operational risk is defined as the risk of loss arising from failure, weakness or inadequacy in internal processes, human behavior, systems, or from internal events.

The Bank and its subsidiaries are aligned with the definitions established by Resolution 3. 380/2006 CMN, and operate proactively in the identification and mitigation of operational risks involved in its activities.

We believe that the adoption of best practices in operational risk management, it is not a differential, but a vital and essential condition for the sustainability of growth for any business, especially those operating in the financial market.

Accordingly, the Bank and its subsidiaries remain committed to the formalization of processes, definition of strategies and risk management policies in order to ensure the sound financial health of customers and maintain its liquidity.

Operational risk events include:

- internal fraud;
- external fraud;
- labor claims and weaknesses in workplace safety;
- improper practices related to customers, products and services;
- Damage to own physical assets or in use by the Bank and its subsidiaries;
- The interruption of business activities;
- Failures in information technology systems; and

- Failure in execution, compliance with deadlines and management activities.

The Bank and its subsidiaries address the management of its risks based on a methodology consistent with its size, which provides support to measure, align, coordinate and conclude on the effectiveness of internal controls and risk management.

Operational risk management ensures compliance with established standards, and is seen as an opportunity to improve the quality of processes and controls.

In addition, it aims to minimize the operational risks that are fundamental to its nature, and the complexity of its products, services, activities, processes and systems.

For the purposes of operational risk minimum capital allocation (RWAopad portion), the Bank and its subsidiaries adopted the Basic Indicator (BIA) methodology for its management.

Phases of management process

Qualitative assessment
The qualitative assessment utilizes scales containing measures for probability and impact, taking into account the vulnerabilities and threats which combined determine the degree of risk exposure to each event over the assets and funds of the Bank and its subsidiaries.

Verification is performed by face-to-face monitoring, interviews and workshops with the managers and employees from all operational areas, business partners and business units.

The identified risks are properly categorized pursuant to article. 2, section 2 of Resolution 3. 380/06 of the National Monetary Council and organized by risk factors.

Quantitative assessment
The quantitative assessment of operational risk considers the establishment of an internal base with various sources of information as of fundamental importance.

At levels of operational losses, it is important to assign a detailed description thereof and in order to maintain a consistent and managerially useful database.

We also emphasize that the quantitative assessment information from external sources deemed reliable and relevant to the businesses of the Bank and its subsidiaries can also be used.

Monitoring
An effective risk management process requires a communication and review structure to ensure the correct, effective and timely identification and assessment of risks. In addition, it also seeks to ensure that the controls and responses to these risks are implemented.

At the Bank and its subsidiaries, control tests and regular audits intended to verify compliance with applicable policies and standards are performed.

The process of monitoring and review intends to verify that:

- The measures adopted have achieved the desired results;

- The procedures adopted and the information gathered to perform the evaluation was adequate;
- Higher levels of knowledge may have contributed to make better decisions; and
- There is an effective possibility of obtaining information for future assessments.

7 Capital management and solvency indices

This note presents information about the Bank´s exposure to financial risks and that of its subsidiaries and capital management.

For additional information on the Bank´s risk management structure and that of its subsidiaries, see Note 6.

The Bank and its subsidiaries have a Capital Management Structure in place comprising a continuous monitoring and control of capital process maintained by the Group, an assessment of the need for capital to cover the risks to which it is subject and planning of goals and capital requirements, considering the strategic objectives.

The Capital Management Structure covers the Intermedium Distribuidora de Títulos e Valores Mobiliários, also considering the possible impacts from the risks associated with other members of the consolidated companies. This structure is consistent with the nature of its operations, the complexity of products and services offered, and the extent of its exposure to risk.

In order to ensure the effectiveness of Capital Management, the structural organization includes also shared performance of responsibilities and controls, in which all concerned shall monitor compliance with processes, establishing and practicing internal controls and action plans to minimize risks and remedy weaknesses.

In accordance with the Institutional Capital Management Policy, capital comprises an indispensable component for business decision making, and its competitive differentiation management factor and evaluation of risk-return relationship, where, with the new requirements resulting from Basel III recommendations, the efficient use of capital becomes the focus of management in an environment where the most fundamental factor is the ability of the Bank and its subsidiaries to profit from it.

The Bank and its subsidiaries consider that the main objectives of capital management are:

- Efficient use of capital through the business allocation considering the binomial risk versus return.
- The optimization of capital allocated to business segments and more profitable products.
- Capital target projections to meet the strategic objectives defined in the Strategic and Marketing Planning.
- Integrated Risk Management.
- Ensure its liquidity in the financial market, by adopting the best management practices and mitigation of risks, in compliance with Basel III requirements.

The Institutional Capital Management Policy also presents the mechanisms and procedures that comprise capital management, maintaining capital compatible with the risks incurred by the Bank and its subsidiaries. It is integrated into strategies and business of each institution of the Group in order to align all existing processes and practices with the prevailing policies.

Capital management enables the Banco Inter and its subsidiaries to carry out a consistent assessment of the capital required to support projected growth, and to adopt a forward-looking approach, anticipating the need for capital arising from potential changes in market conditions.

In this context, the Bank and its subsidiaries manage the capital structure also in order to meet the minimum regulatory capital requirements. At the regulatory level, it is important to highlight that the Basel Accord has a mandatory parameter for international financial institutions for the ratio of regulatory capital, better known in Brazil as *Patrimônio de Referência* under applicable law.

The Bank and its subsidiaries use mechanisms that enable identification and assessment of significant risks incurred, including those that are not covered in the Minimum Required Reference Equity (PRMR) regarding Pillar I risks. Our policies and strategies, as well as the capital plan, enable maintenance of capital within levels that are compatible with the risks incurred by the Bank and its subsidiaries. Stress tests are run regularly, and their impact is analyzed from the point of view of capital. The Management's capital adequacy reports are informed to intervening and strategic areas and committees, subsidizing the decision-making process of the Senior Management.

The Basel Index was calculated in accordance with the criteria established in CMN Resolutions 4.192/2013 and 4.193/2013, which provide for calculation of the Reference Equity (PR) and the Minimum Required Reference Equity (PRMR) against Risk-Weighted Assets (RWA).

Please note that, as from October 1, 2013, a set of rulings regarding implementation of the recommendations of the Basel Committee on Banking Supervision relating to the capital structure of financial institutions, known as "Basel III", became effective in Brazil. The new norms adopted address the following matters:

(i) New method for calculating regulatory capital, which will continue to be divided in Tiers I and II. Tier I includes the Core Capital (less Prudential Adjustments) and Supplementary Capital.

(ii) New method for calculating capital maintenance requirement, which includes minimum PR, Tier I and Core Capital requirements, and introduction of Additional Core Capital.

The consolidation scope used as the base for checking operational limits was also changed to consider only the Bank and its subsidiaries, from October 1, 2013 to December 31, 2014, and the Prudential Conglomerate, as defined in CMN Resolution 4.280/2013, as from January 1, 2015.

All references to PR and the Required Reference Equity (PRE) or PRMR of dates prior to October 1, 2013, refer to the Basel II method, and they were calculated based on the criteria established in CMN Resolutions 3.444/2007 and 3.490/2007 respectively.

Details on Margins with Respect to Rwa

Name of Account	**12/31/2017**	**12/31/2016**	**12/31/2015**
Regulatory Capital For Comparison With Rwa	387,735	350,739	332,083
Regulatory Capital (Pr)	387,735	350,739	332,083
Risk-Weighted Assets (Rwa)	2,239,888	1,856,016	1,617,490
Rwa For Credit Risk In Standardized Approach - Rwacpad	1,786,295	1,515,024	1,355,119
Rwa To Market Risk	108,301	11,074	-
Rwa For Operational Risk Under Standardized Approach - Rwa_{cpad}	345,292	329,919	262,371
Margin On Regulatory Capital Required	180,545	167,457	154,159
Minimum Required For Regulatory Capital (Pre)	207,190	183,282	177,924
Margin On Tier 1 Regulatory Capital Required	253,342	239,378	235,034
Tier 1 Regulatory Capital For Comparison With Rwa	387,735	350,739	332,083
Tier 1 Regulatory Capital	387,735	350,739	332,083
Minimum Tier 1 Regulatory Capital Required For The Rwa	134,393	111,361	97,049
Margin On Core Capital Required	286,940	267,218	259,296
Core Capital For Comparison To Rwa	387,735	350,739	332,083
Core Capital - Cp	387,735	350,739	332,083
Minimum Core Capital Required For The Rwa	100,795	83,521	72,787
Margin On Pr Considering Rban	136,424	136,689	153,812
Minimum Required Regulatory Capital For Rwa And Rban	223,313	214,050	178,271
Amount Corresponding To Rban	16,123	30,768	347.43
Minimum Core Capital Required For Maintenance Of Instruments Eligible For Supplementary Capital	114,794	95,121	82,896
Minimum Core Capital Required For Maintenance Of Instruments Eligible For Level Ii	100,795	83,521	72,787
Minimum Capital Buffer Required For The Rwa	27,999	11,600	-
Status for verification of capital buffer	180,545	136,689	153,812
Core capital conservation buffer (Acpconservação)	27,999	11,600	-
Non-Banking Public Rwa	657,198	-	-
Margin On Capital Buffer	152,547	125,089	153,812
Percentage Of Limitation	**0%**	**0%**	**100%**
Basel Index	**17.31%**	**18.90%**	**20.53%**

a. Classes of financial assets and liabilities

Balances of financial assets and liabilities are classified based on categories defined in Note 3. and in accordance with the amounts shown below:

	Fair value - Hedging Instrument	**Available-for-sale**	**Loans and receivables Amortized - Cost**	**Financial liabilities at amortized cost**	**Total**
As of December 31, 2017:					
Financial assets					
Cash and cash equivalents	-	-	472,262	-	472,262
Derivative financial instruments	4,089	-	-	-	4,089
Loans and advances to financial institutions	-	-	90,912	-	90,912
Loans and advances to customers, net of provision for losses	-	-	2,516,122	-	2,516,122
Financial assets available-for-sale	-	314,408	-	-	314,408
Other Assets	-	-	88,719	-	88,719
Total financial assets	**4,089**	**314,408**	**3,168,015**	**-**	**3,486,512**
Financial liabilities					
Liabilities with financial institutions	-	-	-	298,396	298,396
Liabilities with customers	-	-	-	1,317,012	1,317,012
Securities issued	-	-	-	1,411,179	1,411,179
Loans and onlending	-	-	-	34,818	34,818
Other liabilities	-	-	-	112,661	112,661
Total financial liabilities	**-**	**-**	**-**	**3,174,066**	**3,174,066**

	Fair value - Hedging Instrument	Available-for-sale	Loans and receivables Amortized - Cost	Financial liabilities at amortized cost	Total
As of December 31, 2016:					
Financial assets					
Cash and cash equivalents	-	-	532,141	-	532,141
Derivative financial instruments	326	-	-	-	326
Loans and advances to financial institutions	-	-	439	-	439
Loans and advances to customers, net of provision for losses	-	-	2,245,669	-	2,245,669
Financial assets available-for-sale	-	248,256	-	-	248,256
Other assets	-	-	92,992	-	92,992
Total financial assets	**326**	**248,584**	**2,871,241**	**-**	**3,119,823**
Financial liabilities					
Liabilities with financial institutions	-	-	-	671,522	671,522
Liabilities with customers	-	-	-	859,959	859,959
Securities issued	-	-	-	1,198,741	1,198,741
Loans and onlending	-	-	-	37,441	37,441
Other liabilities	-	-	-	53,886	53,886
Total financial liabilities	**-**	**-**	**-**	**2,821,549**	**2,821,549**
As of December 31, 2015:					
Financial assets					
Cash and cash equivalents	-	-	230,287	-	230,287
Loans and advances to financial institutions	-	-	1,341	-	1,341
Loans and advances to customers, net of provision for losses	-	-	2,063,017	-	2,063,017
Financial assets available-for-sale	-	117,982	-	-	117,982
Other assets	-	-	70,095	-	70,095
Total financial assets	**-**	**117,982**	**2,364,740**	**-**	**2,482,722**
Financial liabilities					
Liabilities with financial institutions	-	-	-	396,599	396,599
Liabilities with customers	-	-	-	785,727	785,727
Securities issued	-	-	-	910,648	910,648
Loans and onlending	-	-	-	39,241	39,241
Other liabilities	-	-	-	43,787	43,787
Total financial liabilities	**-**	**-**	**-**	**2,176,002**	**2,176,002**

The following table sets forth the breakdown of financial assets and liabilities by category as defined in IAS39 and by class of operation that corresponds to accounting headings in the statement of financial position. Criterion for valuation of financial instruments:

Breakdown of loans and advances to customers per type and maturity

	12/31/2017				
		Falling due			
	Overdue	Up to 3 months	3 months to 1 year	Above 1 year	Total
Working capital	10,199	75,190	84,822	193,789	364,000
Payroll loan	22,096	162,100	188,124	429,273	801,593
Real estate loan	7,685	17,178	40,093	392,022	456,978
Real estate financing	9,294	28,249	63,456	772,673	873,672
Card	-	61,421	-	-	61,421
Other loan-like receivables	1,291	23,297	8,196	11,279	44,063
Total	**50,565**	**367,435**	**384,691**	**1,799,036**	**2,601,727**

	12/31/2016				
		Falling due			
	Overdue	**Up to 3 months**	**3 months to 1 year**	**Above 1 year**	**Total**
Overdraft facilities	6	2,264	7,249	-	9,519
Working capital	2,189	121,170	80,546	55,014	258,919
Credit linked to assignment	-	-	3,666	8,675	12,341
Payroll loan	19,390	84,551	205,354	534,875	844,170
Real estate loan	12,943	28,082	57,590	310,823	409,438
Real estate financing	18,788	40,025	113,403	628,875	801,091
Card	-	9,857	-	-	9,857
Other loan-like receivables	12,740	212	1,402	2,087	16,441
Total	**66,056**	**286,161**	**469,210**	**1,540,349**	**2,361,776**

	12/31/2015				
		Falling due			
	Overdue	**Up to 3 months**	**3 months to 1 year**	**Above 1 year**	**Total**
Overdraft facilities	-	1,981	8,276	2,625	12,882
Working capital	20,267	125,348	84,665	29,909	260,189
Credit linked to assignment	-	-	14,304	12,958	27,262
Payroll loan	7,533	112,559	205,234	548,570	873,896
Real estate loan	5,935	21,293	58,412	238,931	324,571
Real estate financing	7,676	34,904	71,814	503,782	618,176
Card	-	142	-	-	142
Other loan-like receivables	586	1,614	9,243	11,413	22,856
Total	**41,997**	**297,841**	**451,948**	**1,348,188**	**2,139,974**

Breakdown of securities available-for-sale per maturity, in comparison with their fair value

	12/31/2017					
	Up to 3 months	**From 3 months to1 year**	**From 1 to 3 years**	**Above 3 years**	**Book Balance**	**Amount for comparison**
Securities - available-for-sale						
Public debt securities						
- Treasury bills	3,992	43,855	46,229	157,471	251,547	251,547
- Investment fund shares	61,757	-	-	-	61,757	61,757
Subtotal	**65,749**	**43,855**	**46,229**	**157,471**	**313,304**	**313,304**
- Shares in Câmara Interbancária de Pagamento	-	-	-	1,104	1,104	1,104
Total investment securities	**65,749**	**43,855**	**46,229**	**158,575**	**314,408**	**314,408**

	12/31/2016					
	Up to 3 months	**From 3 months to1 year**	**From 1 to 3 years**	**Above 3 years**	**Book Balance**	**Amount for comparison**
Securities - available-for-sale						
Public debt securities						
- Treasury Bills	-	14,605	43,504	146,893	205,002	205,002
- Investment fund shares	35,311	-	-	-	35,311	35,311
- Real estate portfolio securitization	6,839	-	-	-	6,839	6,839
Subtotal	**42,150**	**14,605**	**43,504**	**146,893**	**247,152**	**247,152**
- Shares in Câmara Interbancária de Pagamento	-	-	-	1,104	1,104	1,104
Total investment securities	**42,150**	**14,605**	**43,504**	**147,997**	**248,256**	**248,256**

	12/31/2015					
	Up to 3 months	**From 3 months to 1 year**	**From 1 to 3 years**	**Above 3 years**	**Book Balance**	**Amount for comparison**
Securities - available-for-sales						
Public debt securities						
- Treasury bills	-	29,617	12,10	45,826	88,253	88,253
- Investment fund shares	25,041	-	-	-	25,041	25,041
- Real estate portfolio securitization	-	-	4,688	-	4,688	4,688
Sub-total	25,041	**29,617**	**17,498**	**45,826**	**117,982**	**117,982**
Total investment securities	**25,041**	**29,617**	**17,498**	**45,826**	**117,982**	**117,982**

The following table shows the breakdown of financial assets and liabilities according to the technique used for measurement, as defined in IAS 39 and described in topic 3.b of these financial statements.

	Fair value			
	Level 1	**Level II**	**Level III**	
	Market prices quoted in active markets	**valuation technique based on observable data**	**Data not available on active markets**	**Total**
As of December 31, 2017:				
Financial assets				
Cash and cash equivalents	472,262	-	-	472,262
Derivative financial instruments	-	4,089	-	4,089
Loans and advances to financial institutions	-	90,912	-	90,912
Loans and advances to customers, net of provision for losses	-	-	2,516,122	2,516,122
Financial assets available-for-sale	314,408	-	-	314,408
Total financial assets	**786,670**	**95,001**	**2,516,122**	**3,397,793**

	Fair value			
	Level 1 Market prices quoted in active markets	**Level II valuation technique based on observable data**	**Level III Data not available on active markets**	**Total**
Financial liabilities				
Liabilities with financial institutions	10,149	-	288,247	298,396
Liabilities with customers	-	-	1,317,012	1,317,012
Securities issued	-	-	1,411,179	1,411,179
Loans and onlending	-	-	34,818	34,818
Total financial liabilities	**10,149**	**-**	**3,051,256**	**3,061,405**
As of December 31, 2016:				
Financial assets				
Cash and cash equivalents	532,141	-	-	532,141
Derivative financial instruments	-	326	-	326
Loans and advances to financial institutions	-	439	-	439
Loans and advances to customers, net of provision for losses	-	-	2,245,669	2,245,669
Financial assets available-for-sale	248,256	-	-	248,256
Total financial assets	**780,397**	**765**	**2,245,669**	**3,026,831**
Financial liabilities				
Liabilities with financial institutions	5,133	-	666,389	671,522
Liabilities with customers	-	-	859,959	859,959
Securities issued	-	-	1,198,741	1,198,741
Loans and onlending	-	-	37,441	37,441
Total financial liabilities	**5,133**	**-**	**2,762,530**	**2,767,663**
As of December 31, 2015:				
Financial Assets				
Cash and cash equivalents				
Derivative financial instruments	230,287	-	-	230,287
Loans and advances to financial institutions	-	1,341	-	1,341
Loans and advances to customers, net of provision for losses	-	-	2,063,017	2,063,017
Financial assets available-for-sale	117,982	-	-	117,982
Total financial assets	**348,269**	**1,341**	**2,063,017**	**2,412,627**
Financial liabilities				
Liabilities with financial institutions	1,765	-	394,834	396,599
Liabilities with customers	-	-	785,727	785,727
Securities issued	-	-	910,648	910,648
Loans and onlending	-	-	39,241	39,241
Total financial liabilities	**1,765**	**-**	**2,130,450**	**2,132,215**

IAS 39 states that the fair value calculation for a financial asset or liability may provide for the use of three approaches to the type of information used for valuation which are known as fair value hierarchy levels, namely:

- **Level I -** prices traded in active markets for identical assets or liabilities;

- **Level II -** data other than those quoted on the market (level I) that can price rights and obligations, directly or indirectly, for example, valuation-derived techniques using observable market data; and

- **Level III -** pricing data is obtained using valuation techniques that include variables for the asset or liability, but, largely, are not based on observable market data.

  The methodology used for the measurement of financial assets and liabilities classified as "Level II" (derivative financial instruments and hedged loans) is the discount to present value of future cash flows of these operations, using the usual market rates disclosed by B3 for similar assets.

  The fair value of interbank deposits is estimated by discounting the estimated cash flows and adopting the market interest rates.

  For loans and receivables, the estimated fair value related to fixed rates is calculated by discounting the principal cash flows and interest scheduled to maturity, adopting discount rates which approximate to our interest rates for new agreements in similar operations. The fair value of floating rates on loans and receivables was considered to approximate its carrying value.

  Financial liabilities at Amortized Cost: The fair value of demand and term deposits is equal to the amount payable on the reporting date, i.e., it is equal to the carrying amount.

  During 2017, 2016 and 2015 there were no changes in the measurement of financial assets and liabilities that would imply the reclassification of assets and liabilities between the different levels of the fair value hierarchy.

b. Fair value of financial instruments

The carrying amount and the estimated fair value of financial assets and liabilities is as follows:

	12/31/2017		12/31/2016		12/31/2015	
	Book Value	**Fair value**	**Book value**	**Fair value**	**Book Value**	**Fair Value**
Financial assets						
Cash and cash equivalents	472,262	472,262	532,141	532,141	230,287	230,287
Derivative financial instruments	4,089	4,089	326	326	-	-
Loans and advances to financial institutions	90,912	90,912	439	439	1,341	1,341
Loans and advances to customers	2,601,727	2,988,344	2,361,776	2,642,991	2,139,974	2,457,817
Financial assets available-for-sale	314,408	314,408	248,256	248,256	117,982	117,982
Total financial assets	**3,397,793**	**3,870,015**	**3,026,831**	**3,424,153**	**2,412,627**	**2,806,509**
Financial liabilities						
Liabilities with financial institutions	298,396	298,396	671,522	671,522	396,599	396,599
Liabilities with customers	1,317,012	1,317,012	859,959	859,959	785,727	785,727
Securities issued	1,411,179	1,411,179	1,198,741	1,198,741	910,648	910,648
Loans and onlending	34,818	34,818	37,441	37,441	39,241	39,241
Total financial liabilities	**3,061,405**	**3,061,405**	**2,767,663**	**2,767,663**	**2,132,215**	**2,132,215**

8 Cash and cash equivalents

	12/31/2017	12/31/2016	12/31/2015
Cash and cash equivalents in national currency	52,269	933	605
Cash and cash equivalents in foreign currency	2,924	2,158	-
Highly liquid interbank investments (90 days)	417,069	529,050	229,682
Total cash and cash equivalents	**472,262**	**532,141**	**230,287**

a. Highly liquid interbank investments

	12/31/2017	12/31/2016	12/31/2015
Banked position			
- Financial Treasury Bills (LFT)	-	151,147	2,002
- National Treasury Bills (LTN)	370,514	312,669	60,310
- National Treasury Notes (NTN)	31,001	10,003	166,999
Investments in interbank deposits			
- CDI - Banco Ficsa S.A.	5,163	-	-
- CDI - Banco Fidis S.A.	5,191	-	-
- CDI - Banco Bonsucesso S.A.	5,198	-	-
- CDI - Banco Itaú S.A.	2	-	-
- CDI - Banco BTG Pactual S.A.	-	15,064	-
- CDI - Parana Banco SA	-	5,021	-
- CDI - Banco Votorantim S/A	-	35,146	-
- CDI - Banco do Brasil S.A.	-	-	371
Total short-term interbank investments	**417,069**	**529,050**	**229,682**

9 Derivative financial instruments

The Bank and its subsidiaries carry out transactions involving derivative financial instruments recorded in equity accounts that are intended to meet its own needs in managing its overall exposure. These transactions involve futures swap derivative operations, and the risk management policy is based on the use of derivative financial instruments mainly in order to mitigate the risks arising from operations carried out by the Bank and its subsidiaries.

Securities classified as available-for-sale and derivative financial instruments are shown in the statement of financial position at their estimated fair value. Fair value is normally based on market prices of the securities themselves or of assets and liabilities with similar characteristics. If market prices are not available, fair values are based on prices quoted by market operators, pricing models, discounted cash flow or similar techniques, and in such cases the definition of fair value may require significant judgment or estimates on the part of management.

Part of the real estate loan portfolio of the Bank and its subsidiaries is indexed to the General Market Price Index (IGP-M) of the Getúlio Vargas Foundation. Most of its funding comes from LCIs indexed to the DI (Interbank Deposit) rate. To protect Banco Inter and its subsidiaries against variations in the IGP-M, management has opted to carry out swap transactions with inverted legs for its asset and liability portfolios. The Bank and its subsidiaries have entered into derivatives transactions in which it has to pay a margin over the IGP-M and will receive a certain percentage of changes in the DI on a fixed date.

These transactions were carried out on B3, which controls them and calls for a collateral margin. As at December 31, 2017, the Bank and its subsidiaries had four (04) active swap contracts, each of them for a notional amount of fifty million *Reais* (R$50,000), registered with BM&FBovespa under numbers 60421336, 60421337, 60421338 and 60421339, maturing on September 5, 2017, May 7, 2018, November 5, 2018 and January 2, 2019, respectively. A swap transaction is an exchange of risks between two parties, under an agreement for the exchange of the risk of an asset (creditor) position or a liability (debtor) position, on a fixed date and under certain conditions. Standard swap transactions are registered with B3 and require the deposit of a collateral margin, which the exchange may alter at any time.

Derivative instruments are used to hedge the risk of a mismatch between indexers of the asset and liability portfolios, specifically between interest rates and changes in price indices, and are recognized at fair value in income for the year. Fair value is the value which, according to market conditions, would be received for the assets or paid in settling the liabilities, and is calculated at the market rates ruling on the exchange.

The swap transactions carried out by the Bank and its subsidiaries are classified as hedge accounting ("Fair Value Hedge"), to protect against exposure to changes in the fair value of the recognized asset or identified portions of such assets attributable to a particular risk that may affect the outcome.

Agreements of the real estate portfolio are hedged by the instruments detailed above, from which the spread is discounted, the hedge being solely performed for the portfolio specific risk.

a. Derivative financial instruments

	12/31/2017		12/31/2016		12/31/2015	
	Assets	**Liabilities**	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Derivative financial instruments for fair value hedge	4,089	-	326	-	-	-
Total	**4,089**	**-**	**326**	**-**	**-**	**-**

b. Derivative financial instruments

Trading

	2017					
		Cost value		**Market value**		
	Notional value	**Group**	**Counterparty**	**Group**	**Counterparty**	**Notional value (Payable) receivable**
CDI x IGP-M						
60421337	50,000	60,179	57,693	60,179	58,871	1,308
60421338	50,000	60,179	57,317	60,179	58,573	1,606
60421339	50,000	60,179	57,298	60,179	59,004	1,175
Total	**150,000**	**180,537**	**172,308**	**180,537**	**176,448**	**4,089**

	2016					
		Cost value		Market value		
	Notional value	Group	Counterparty	Group	Counterparty	Notional value (Payable) receivable
CDI x IGP-M						
60421336	50,000	54,911	54,675	54,791	54,693	98
60421337	50,000	54,911	54,578	54,689	54,830	(141)
60421338	50,000	54,911	54,420	54,610	54,457	153
60421339	50,000	54,911	54,390	54,586	54,370	216
Total	**200,000**	**219,644**	**218,063**	**218,676**	**218,350**	**326**

In the year ended December 31, 2017, revenues from derivatives transactions in the amount of R$10,071 were included in "Income from securities and derivative financial instruments" (2016: R$326).

The following receivables (assets) and payables (liabilities) were recorded in equity accounts under the heading "derivative financial instruments."

	12/31/2017			12/31/2016			12/31/2015
	Assets - Balance Receivable			Assets - Balance Receivable			Assets
	Trading	Fair value hedge	Total	Trading	Fair value hedge	Total	Total
Swap	-	4,089	4,089	-	326	326	-
Total	**-**	**4,089**	**4,089**	**-**	**326**	**326**	**-**

The balance of derivative financial instruments payable/receivable were distributed according to the following maturities:

	12/31/2017				
	Up to 3 months	3 months to 1 year	1 year To 3 years	Above 3 years	Total
Swap	-	2,914	1,175	-	4,089
Total	**-**	**2,914**	**1,175**	**-**	**4,089**

	12/31/2016				
	Up to 3 months	3 months to 1 year	1 year To 3 years	Above 3 years	Total
Swap	-	98	228	-	326
Total	**-**	**98**	**228**	**-**	**326**

The following results were determined under "income from derivative financial instruments":

	12/31/2017			12/31/2016			12/31/2015
	Trading	**Fair value hedge**	**Total**	**Trading**	**Fair value hedge**	**Total**	**Total**
Swap	-	4,089	4,089	-	326	326	-
Total	**-**	**4,089**	**4,089**	**-**	**326**	**326**	**-**

c. Hedge accounting

The Bank and its subsidiaries conducted fair value hedge operations regarding exposure to fixed interest rate and exchange variation represented by installments of loans and advances to customers, made in accordance with IAS 39. Financial Instruments: Recognition and Measurement.

c.1 Fair value hedge for exposure to fixed interest rate represented by installments of loans and advances to customers

With regard to the risk of fixed interest rate represented by credit portions and exchange variation represented by foreign currency loan, the Bank and its subsidiaries have adopted the practice to protect themselves, in line with risk management policies, taking into account the prevailing borrowing rates. The hedging strategy adopted aims to hedge the spread of its loans and advances to customers. These hedge operations are performed in accordance with IAS 39 - Financial Instruments Recognition and Measurement, which requires regular assessment of hedge effectiveness and recording of the fair value of both the derivative financial instrument and the hedged item, considering it is a market-risk hedge.

d. Associated Risks:

The main risk factors of the derivatives of Banco Inter and its subsidiaries are related to foreign exchange fluctuations and the results obtained are adequate for asset protection purposes.

Risk management is controlled and supervised independently from departments generating risk exposure. Its evaluation and measurement are carried out on a daily based on statistical data and indices, using tools such as V@R and nonparametric analysis of sensitivity to stress scenarios.

10 Loans and advances to financial institutions

a. Breakdown of loans and advances to financial institutions

	12/31/2017	12/31/2016	12/31/2015
Deposits under repurchase transactions	1,216	-	-
Investments in interbank deposits	87,979	-	1,104
Interbank onlending	1,717	439	237
Total	**90,912**	**439**	**1,341**

b. Analysis of changes in impairment losses:

In an ongoing continuous process of credit analysis for the loans and advances to financial institutions portfolio, neither the Bank nor its subsidiaries detected the need for a provision for impairment losses.

11 Loans and advances to customers

a. Breakdown of balance loans and advances to customers

	12/31/2017	12/31/2016	12/31/2015
Loans and factoring	1,622,571	1,522,046	1,471,538
Financing	873,672	801,091	618,176
Card	61,421	9,857	142
Other loan-like receivables	44,063	16,441	22,856
Credit operations related to assignment	-	12,341	27,262
Total loans and advances to customers	**2,601,727**	**2,361,776**	**2,139,974**
(-) Loans and factoring	(57,005)	(62,999)	(54,256)
(-) Financing	(25,690)	(39,369)	(13,129)
(-) Card	(451)	(68)	(1)
(-) Other receivables	(2,459)	(12,928)	(8,529)
(-) Credit operations related to assignment	-	(743)	(1,042)
Total provision for impairment losses	**(85,605)**	**(116,107)**	**(76,957)**
Total loans and advances to customers, net of provision for losses	**2,516,122**	**2,245,669**	**2,063,017**

	12/31/2017		
	Gross balance	**Impairment loss**	**Book balance**
Loans and real estate financing	1,330,650	(43,038)	1,287,612
Personal Loan	801,593	(30,216)	771,377
Corporate loans	364,000	(9,441)	354,559
Card	61,421	(451)	60,970
Other loan-like receivables	44,063	(2,459)	41,604
Total	**2,601,727**	**(85,605)**	**2,516,122**

	12/31/2016		
	Gross balance	**Impairment loss**	**Book balance**
Loans and real estate financing	1,222,870	(54,644)	1,168,226
Personal Loan	844,170	(22,079)	822,091
Corporate loans	268,438	(26,388)	242,050
Card	9,857	(68)	9,789
Other loan-like receivables	16,441	(12,928)	3,513
Total	**2,361,776**	**(116,107)**	**2,245,669**

	12/31/2015		
	Gross balance	**Impairment**	**Book balance**
Real estate loans and financing	970,009	(19,571)	950,438
Personal loans	873,896	(17,377)	856,519
Loans to legal entities	273,071	(31,479)	241,592
Card	142	(1)	141
Other loan-like receivables characteristics	22,856	(8,529)	14,327
Total	**2,139,974**	**(76,957)**	**2,063,017**

b. Analysis of changes in provisions for impairment losses

Changes in provision for impairment losses are as follows:

Mass	**12/31/2017**	**12/31/2016**	**12/31/2015**
Balance at the beginning of the period	**(114,294)**	**(75,691)**	**(47,368)**
Impairment loss recognised	(74,442)	(96,702)	(72,312)
Reversal of provision	23,769	11,046	14,124
Written-off as loss	79,754	47,053	29,865
Balance at the end of the period	**(85,213)**	**(114,294)**	**(75,691)**

Significant items	**12/31/2017**	**12/31/2016**	**12/31/2015**
Balance at the beginning of the period	**(1,813)**	**(1,266)**	**-**
Impairment loss recognised	-	(547)	(1,266)
Reversal of provision	1,421	-	-
Balance at the end of the period	**(392)**	**(1,813)**	**(1,266)**

Total	**12/31/2017**	**12/31/2016**	**12/31/2015**
Balance at the beginning of the period	**(116,107)**	**(76,957)**	**(47,368)**
Impairment loss recognised	(74,442)	(97,249)	(73,578)
Reversal of provision	25,190	11,046	14,124
Effect on income	**(49,252)**	**(86,203)**	**(59,454)**
Written-off as loss	79,754	47,053	29,865
Balance at the end of the period	**(85,605)**	**(116,107)**	**(76,957)**
Recovery of loans written-off	**25,124**	**13,344**	**505**
Total net effect on income	**(24,128)**	**(72,859)**	**(58,849)**

c. Sale or transfer of financial assets:

The Bank and its subsidiaries engaged in transactions of sale or transfer of financial assets in which the credit risk of the financial assets transferred was retained by means of co-obligation clauses. For this reason, these credits continue to be recorded in the accounts, and are represented by the following information:

12/31/2017		**12/31/2016**	**12/31/2015**
Securitization	-	12,341	16,713
Total	-	12,341	16,713

12 Financial assets available-for-sale

a. Breakdown of securities available-for-sale:

	12/31/2017	12/31/2016	12/31/2015
Securities available-for-sale - Free			
Government bonds			
- Financial Treasury Bills (LFT)	251,547	205,002	88,253
- Investment fund shares	61,757	35,311	25,041
- Securitization of the real estate portfolio	-	6,839	4,688
Subtotal	**313,304**	**247,152**	**117,982**
Shares in Câmara Interbancária de Pagamentos (i)	**313,303**	**247,152**	**-**
Subtotal	1,104	1,104	-
	1,104	**1,104**	**-**
Total	**314,408**	**248,256**	**117,982**

(i) Shares in Câmara Interbancária de Pagamentos

In the year 2016, the Bank and its subsidiaries acquired five (5) shares of Câmara Interbancária de Pagamentos for a total acquisition price of R$1,104.

b. Earnings from financial assets available-for-sale

	12/31/2017	12/31/2016	12/31/2015
Earnings from investment securities - available-for-sale	29,546	21,431	26,955
Total	**29,546**	**21,431**	**26,955**

13 Property and equipment

a. Breakdown of property and equipment

		12/31/2017			12/31/2016			12/31/2015		
	Annual Depreciation rate	Cost	Accumulated depreciation	Residual value	Cost	Accumulated depreciation	Residual value	Cost	Accumulated depreciation	Residual value
Property and equipment										
Furniture and equipment	10%	5,820	(2,084)	3,736	4,653	(1,613)	3,040	3,757	(1,226)	2,531
Data processing systems	20%	7,123	(5,324)	1,799	6,612	(4,430)	2,182	6,136	(3,542)	2,594
Total Property and equipment		**12,943**	**(7,408)**	**5,535**	**11,265**	**(6,043)**	**5,222**	**9,893**	**(4,768)**	**5,125**

b. Changes in property and equipment

	Balance at 12/31/2015	Additions	Write-offs	Balance at 12/31/2016	Additions	Write-offs	Balance at 12/31/2017
Property and equipment - historical cost							
Furniture and equipment	3,757	896	-	4,653	1,183	(16)	5,820
Data processing systems	6,136	483	(7)	6,612	643	(132)	7,123
Total property and equipment - historical cost	**9,893**	**1,379**	**(7)**	**11,265**	**1,826**	**(148)**	**12,943**
Property and equipment - accumulated depreciation							
Furniture and equipment	(1,226)	(386)	-	(1,613)	(472)	-	(2,084)
Data processing systems	(3,542)	(892)	3	(4,430)	(893)	-	(5,324)
Total property and equipment - accumulated depreciation	**(4,768)**	**(1,278)**	**3**	**(6,043)**	**(1,365)**	**-**	**(7,408)**
Total property and equipment - residual value	**5,125**	**101**	**(4)**	**5,222**	**461**	**(148)**	**5,535**

The Group do not have assets pledged as collateral.

14 Intangible assets

a. Breakdown of intangible assets

		12/31/2017			12/31/2016			12/31/2015		
	Annual rate of amortization	**Historical cost**	**Accumulated Amortization**	**Residual value**	**Historic cost**	**Accumulated Amortization**	**Residual value**	**Historic Cost**	**Accumulated Amortization**	**Residual Value**
Intangible assets										
Other intangible assets	20%	975	(17)	958	-	-	-	3,256	(3,256)	-
Total intangible assets	-	**975**	**(17)**	**958**	**-**	**-**	**-**	**3,256**	**(3,256)**	**-**

b. Changes in intangible assets

	Balance at 12/31/2015	Additions	Write-offs	Balance at 01/01/2016	Additions	Write-offs	Balance at 12/31/2017
Intangible assets - historical cost							
Other intangible assets	-	-	-	-	975	-	975
Total intangible assets - historical cost	**-**	**-**	**-**	**-**	**975**	**-**	**975**
Intangible assets - accumulated amortization							
Other intangible assets	-	-	-	-	(17)	-	(17)
Total intangible assets - accumulated depreciation	**-**	**-**	**-**	**-**	**(17)**	**-**	**(17)**
Total assets - residual value	**-**	**-**	**-**	**-**	**958**	**-**	**958**

Intangible assets at December 31, 2015 referred to Software being implemented in the Group. In 2016, this project was discontinued, and this is the reason for the write-off of the balances.

15 Non-current assets held for sale

	12/31/2017	12/31/2016	12/31/2015
Goods received by repossession or payment in kind:			
- Real Estate	59,980	30,742	17,208
- Assets under special regime	2,599	2,704	519
Total	**62,579**	**33,446**	**17,727**

The balance of non-current assets held for sale acquired in exchange for credit recovery, consists of assets originally received as collateral for loans and advances to customers, which were repossessed. Non-current assets held for sale are considered to be those for sale at auctions, which usually occur within one year. Therefore, non-current assets held for sale include the carrying amount of these items intended for sale, the sale in its present condition is highly probable and expected within one year.

The increase in the balance of Non-current assets held for sale resulted from successful procedures to repossess properties upon settlement of loans and advances to customers carried out by the Bank and its subsidiaries. This is also explained by the increase in the balance of real estate loans and the economic crisis in Brazil in the past three years.

16 Other assets

	12/31/2017	12/31/2016	12/31/2015
Prepaid Expenses (b)	48,446	57,264	61,523
Receivables from settlements with financial institutions (b)	31,516	26,558	6,709
Sundry debtors (a)	3,397	2,290	650
Judicial deposits	1,815	1,808	432
Advances to third parties	893	839	778
Recoverable income tax	-	3,953	3
Other	2,652	280	-
Total	**88,719**	**92,992**	**70,095**

(a) Refers to repurchase of loans in the amount of R$205 (2016: R$381) (2015: R$0), withholding of balance of assignment R$0 (2016: R$94) (2015: R$639) and other amounts R$3,192 (2016:1,815) (2015: R$11).

(b) Refers to financial assets valued at amortized cost.

17 Liabilities with financial institutions

The financial liabilities under "Funds from financial institutions" are initially measured at fair value and subsequently at amortized cost, using the effective interest rate method.

a. Changes in liabilities with financial institutions

	12/31/2017	12/31/2016	12/31/2015
Term deposits	296,711	651,742	315,524
Interbank onlending	1,009	8,592	54,690
Interbranch accounts	676	14	-
Liabilities from sale of financial assets	-	11,174	26,385
Total liabilities with financial institutions	**298,396**	**671,522**	**396,599**

18 Liabilities with customers

The financial liabilities under "Funds from financial institutions" are initially measured at fair value and subsequently at amortized cost, using the effective interest rate method.

a. Breakdown of liabilities with customers:

	12/31/2017	12/31/2016	12/31/2015
Liabilities with customers			
Demand deposits	231,377	43,454	21,228
Term deposits	1,029,347	773,823	716,173
Creditors for funds to be released	56,288	42,682	48,003
Total liabilities with customers	**1,317,012**	**859,959**	**785,727**

19 Securities issued

a. Breakdown of securities issued:

	12/31/2017	12/31/2016	12/31/2015
Agribusiness Credit Bills (LCA)	27,264	12,617	4,248
Financial Bills	11,903	5,133	-
Real Estate Notes (LCI)	1,372,012	1,180,991	904,635
Total issued securities	**1,411,179**	**1,198,741**	**910,648**

The securities issued have contractual maturities that vary from transaction to transaction. This information reflects the transaction that at the date of these consolidated financial statements had the longest term.

20 Loans and onlending

Breakdown of loans and onlending:

	12/31/2017	12/31/2016	12/31/2015
Obligations for onlending - CEF	34,818	37,441	39,241
Total loans and onlending	**34,818**	**37,441**	**39,241**

21 Current taxes

	12/31/2017	12/31/2016	12/31/2015
Provision for income and social contribution taxes	2.044	2.610	4,481
Tax on Financial Transactions (IOF)	867	972	720
PIS/COFINS	1,564	903	1,485
INSS/FGTS	1,581	1.282	1,154
Other taxes	303	192	388
Total current taxes	**6,359**	**5,959**	**8,228**

22 Provisions for contingent liabilities

a. Contingent assets

The Bank and its subsidiaries figure as defendants in judicial proceedings seeking to recover defaulting customers loans. They mostly involve executions of judicial and extrajudicial instrument (Bank Credit Notes) issued in working capital and factoring transactions. Even in cases where there is a request for judicial restructuring or bankruptcy of debtors, the Group starts a lawsuit and maintains execution against guarantors. Finally, in operations where there are property liens, the Bank and its subsidiaries take the ownership of such property if there is customer default (extrajudicial procedure pursuant to Law No. 9.514/97).

b. Contingent assets and liabilities and legal obligations

The Bank and its subsidiaries, in the normal course of business, are involved in tax, social security, labor and civil proceedings. The respective provisions were made taking into account legislation, the opinion of legal counsel, the nature and complexity of the cases, case law, past loss experience and other criteria to allow an estimate in the most adequate manner possible.

The Bank's management and that of its subsidiaries, pursuant to IAS37 and as described in Note 3 "k", sets up provisions to cover the outflow of funds estimated for settlement of cases and legal obligations, when it is assessed that it is probable that financial funds shall be required to settle the obligations and that those amounts can be estimated with sufficient certainty.

(i) Labor claims:

These are claims filed by employees and former employees, in order to obtain indemnification. Contingencies are related to proceedings where alleged labor rights are contested such as overtime and wage parity.

(ii) Civil proceedings

These are claims that, for the most part, intend to seek material and moral damages relating to the products of the Bank and its subsidiaries, such as the payroll loan product, and declaratory and remedial actions, compliance with the limit of 30% discount on borrower's paychecks, presentation of documents and adjustment actions.

c. Changes in provisions

	Tax	Labor	Civil	Total
Balance as at 01/01/2015	**682**	**1,689**	**1,554**	**3,925**
(+) Supplement/restatement of provision	55	745	5,644	6,444
(-) Write-off for payment	-	(690)	(2,200)	(2,890)
(-) Reversal of provision	-	-	(832)	(832)
Balance as at 12/31/2015	**737**	**1,744**	**4,166**	**6,647**
(+) Supplement/ restatement of provision	61	2,096	6,222	8,379
(-) Write-off for payment	-	(803)	(3,189)	(3,992)
(-) Reversal of provision	-	(220)	-	(220)
Balance as at 12/31/2016	**798**	**2,817**	**7,199**	**10,814**
(+) Supplement/ restatement of provision	55	1,582	7,059	8,696
(-) Write-off for payment	-	(1,409)	(4,305)	(5,714)
(-) Reversal of provision	-	(55)	-	(55)
Balance as at 12/31/2017	**853**	**2,935**	**9,953**	**13,741**

d. Contingent liabilities with possible loss

d.1 Contingent liabilities classified as possible loss

d.1.1 Income and social contribution taxes

(i) This includes the provision for the legal challenge regarding the extinction of the monetary adjustment of the statement of financial position, in accordance with Law 9.249/95, resulting from the full use (deduction) of the outstanding balance of monetary adjustment in the year 1996 upon ascertainment of IRPJ and CSLL taxes, in the amount of R$853. The related court deposit in the same amount was recorded in long-term receivables.

(ii) On August 30, 2013, a tax assessment was drawn up for recording of tax credits regarding IRPJ and CSLL taxes for the years 2008 and 2009, plus fine of 150% and default interest, as well as a one-off fine of 50% on estimated IRPJ and CSLL amounts. See below the updated amounts in December 2017:

Principal of R$10,300, fine of R$19,891, interest of R$18,514 - Total: R$48,705.

The tax assessments were drawn up to disallow the expenses incurred with provision of services. Based on the facts discussed and the arguments given by the Bank’s attorneys, we are considering a possible outcome, but with lower probability of loss for the Bank.

d.1.2 COFINS

(i) Based on a decision rendered by the Federal Supreme Court dated December 19, 2005, the Bank and its subsidiaries are entitled to pay the COFINS tax based on revenues from the provision of services. From 1999 to 2006, Banco Inter and its subsidiaries made court deposits and/or paid the obligations. In 2006, based on a favorable decision rendered by the Federal Supreme Court and the express approval by the Brazilian Federal Revenue Service, Banco Inter and its subsidiaries suspended the payment of the court deposit. Also, the credits on the payment of taxes was approved without qualifications by the Brazilian Federal Revenue Service on May 11, 2006.

(ii) On July 2, going against the final and unappeallable decision of the Federal Supreme Court, as explained in item (i) above, the Brazilian Federal Revenue Service filed an administrative proceeding charging the amounts of court deposits regarding the COFINS tax, the payment of which had been suspended by the Bank as per Writ of Mandamus No. 1999.38.00.016025, and the amounts were updated for December 2017: principal R$1,255, fine R$251, interest R$2,363 — Total R$3,869.On October 5, 2010, an injunction was granted determining the processing of the defense filed in the case records of the Administrative Proceeding, with a hierarchic appeal, and suspension of the obligation to pay the tax credit.

(iii) On July 14, 2010, the Brazilian Federal Revenue Service filed an administrative proceeding charging the amounts of the requests for reimbursement/offsetting of the amounts overpaid regarding the COFINS tax, which had been suspended by the Bank in accordance with Writ of Mandamus No. 1999.38.00.016025, and the amounts were updated for December 2017: principal R$3,496, fine R$699, interest R$4,149 — Total R$8,344.

After the filing of a Statement of Dissatisfaction, the Administrative Board of Tax Appeals determined the suspension of the administrative proceeding until judgment by the Federal Supreme Court.

(iv) On November 11, 2010, tax assessments were drawn up for recording of tax credits regarding PIS and COFINS taxes, plus an *ex-oficio* fine of 75% and default interest for the period from March 2006 to December 2008. The payments of the contributions in question were deemed insufficient.

- **COFINS:** Principal of R$10,026, interest and charges of R$13,116 — Total: R$23,142.

After the filing of a Statement of Dissatisfaction, the Administrative Board of Tax Appeals determined the suspension of the administrative proceeding until judgment by the Federal Supreme Court.

(v) On December 15, 2014, a tax assessment was drawn up for recording of a tax credit regarding the COFINS tax for the period from January 2010 to December 2011, plus fine of 75% and default interest.

Principal of R$11,212, fine of R$8,409, interest of R$10,834- Total: R$30,455.

The tax assessment was drawn up on the grounds that the payments made by Banco Inter and its subsidiaries regarding the contribution in question would be insufficient. Based on the arguments given by the attorneys, we are considering a possible outcome, but with lower probability of loss.

(vi) On October 9, 2015, the Bank was notified regarding a decision that denied the right to offset debits against credits arising from payments considered undue by the Bank, and made for purposes of the COFINS tax (January and February 2014).

We are waiting a response to the Statement of Dissatisfaction filed on November 3, 2015.

Principal of R$1,367, fine of R$273, interest of R$576 — Total R$2,216.

(vii) On January 24, 2017, the Bank and its subsidiaries received a tax assessment requiring setting up of a tax credit for an isolated fine of 50% on the amount of the debit the offset of which was not approved in the case records of administrative proceeding No. 10680.723654/2015-41.

Isolated fine in the amount of R$688, interest in the amount of R$55 - Total R$743

(viii) On April 5, 2017, the Bank and its subsidiaries received a tax assessment requiring setting up of a tax credit for COFINS, plus an official fine of 75% and late-payment interest, on the grounds that in the calendar year 2013, the Bank and its subsidiaries had underpaid said contribution, due to not having included “financial income” in the tax calculation base..

Principal in the amount of R$8,804, fine in the amount of R$6,603, interest in the amount of R$4,687 — Total R$20,094. We are awaiting the case records to be remitted to the Administrative Council of Tax Appeals - CARF - for trial of the voluntary appeal filed.

d.2 Other contingent liabilities classified as possible loss

The Bank and its subsidiaries monitor all proceedings in which it is a plaintiff or defendant and, supported by the opinion of its legal advisors, the proceedings are classified based on the expectation of loss. Thus, contingent proceedings classified as having a possible or remote risk of loss were not recognized, while proceedings not relating to tax liabilities and classified as having a possible risk of loss were estimated by the legal advisors in the amount of R$50,308 on December 31, 2017 (2016: R$20,487) (2015: R$14,220).

e. Financial guarantees

The commitments under sureties provided and controlled in memorandum accounts are as follows:

	12/31/2017	12/31/2016	12/31/2015
Guarantees given	215	99	-
Total financial guarantees	**215**	**99**	**-**

The Bank's management and that of its subsidiaries does not consider it necessary to set up a provision for financial guarantees on the grounds that its analysis indicates an outflow of funds to settle these commitments is not likely.

23 Other liabilities

Financial liabilities valued at amortized cost, as follows:

	12/31/2017	12/31/2016	12/31/2015
Amounts to be transferred and sundry payments	100,383	49,928	38,843
Dividends and bonuses payable	7,224	3,820	4,796
Foreign exchange trading	2,984	-	-
Other	2,070	138	148
Total other liabilities	**112,661**	**53,886**	**43,787**

24 Equity

a. Breakdown of capital

	Number of shares			
Description	**Total**	**Common shares**	**Preferred shares**	**Balance in R $ thousand Capital**
Closing balance - 12/31/2015	**11,850,994**	**6,030,415**	**5,820,579**	**281,245**
Capital increase	2,831	-	2,831	16,866
Closing balance - 12/31/2016	**11,853,825**	**6,030,415**	**5,823,410**	**298,111**
Capital increase	44,231	-	44,231	13,763
Closing balance - 12/31/2017	**11,898,056**	**6,030,415**	**5,867,641**	**311,874**

b. Profit reserves

- Legal reserve

The legal reserve is recorded at 5% of net income for each fiscal year in accordance with article 193 of Law No. 6. 404/76, up to a limit of 20% of capital.

- Earnings retention reserve

This is intended for investments provided for in the capital budget, according to proposals to be approved in advance at the General Meeting.

c. Equity valuation adjustments

Equity valuation adjustments are comprised primarily by accumulated net change in the fair value of securities recorded in the category “available-for-sale”, until the assets are retired or impaired, the balances of which, at December 31, 2017, 2016 and 2015, were R$166 (positive), R$355 (negative), and R$118 (negative), respectively.

d. Dividends and interest on equity

Under the law, shareholders are entitled to dividends of at least 25% of annual net income, adjusted in accordance with Corporate Law

Interest on equity is calculated based on the equity accounts and limited to the variation of the long-term interest rate (TJLP), subject to the existence of profits computed before its deduction or retained earnings and profit reserves, equal to or greater than twice its value. Dividends are calculated on net income, as determined in the financial statements prepared in accordance with accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank of Brazil.

The capital remuneration policy adopted by the Bank and its subsidiaries aims to distribute interest on equity at the maximum amount calculated in accordance with current legislation, which is computed, net of withholding income tax, in the calculation of mandatory dividends for the year pursuant to its Bylaws.

In 2017, R$24,618 (2016 R$24,331) (2015: R$18,751) was approved as dividends and interest on equity.

The amounts distributed were calculated based on the results obtained in accordance with corporate accounting standards applicable to financial institutions authorized to operate by the Central Bank of Brazil, and in compliance with the Corporate Law No. 6.404/1976.

e. Earnings per share

(i) *Basic earnings per share*

Basic earnings per share are as follows:

Description	Common shares	Preferred shares	12/31/2017	12/31/2016	12/31/2015
Average and final number of shares	6,030,415	5,837,210	11,898,056	11,853,825	11,850,994
Number of shares, including those equivalent to common shares	6,030,415	5,837,210	11,898,056	11,853,825	11,850,994
Basic earnings assigned (in R$ thousand)			23,862	12,900	16,739
Basic earnings per common share (in R$ thousand)			3.9569	3.1392	16,739
Basic earnings per preferred share (in R$ thousand)			3.9568	2.1393	2.7757

Basic earnings per share are presented based on two classes of shares, namely: common and preferred, and computed by dividing net income/attributable to the parent company by the weighted average of each class of shares outstanding in the year.

The amount of earnings per share was determined under the assumption that all earnings were distributed and computed in accordance with the requirements of IAS 33 - Earnings per share.

(ii) *Diluted earnings per share*

The calculation of diluted earnings per share was based on the net income attributed to holders of preferred shares, and on the weighted average of preferred shares outstanding after the adjustments for all potential dilutive preferred shares.

Description	Note	12/31/2017	12/31/2016	12/31/2015
Weighted average of common shares (basic)		5,867,641	5,823,410	5,820,579
Weighted average of preferred shares (basic)		5,867,641	5,823,410	5,820,579
Effect of stock options upon exercise	**32**	191,710	261,288	194,607
Weighted average of preferred shares (diluted)		6,059,351	6,084,698	6,015,186
Diluted earnings per common share (in R$ thousands)		3.9569	2.1392	2.7758
Diluted earnings per preferred share (in R$ thousand)		3.8316	2.0474	2.6859

f. Treasury shares

In 2017, the management of the Bank and its subsidiaries opted to buy back 6,690 shares, closing the year with 107,090 preferred shares in treasury (2016: 100,400) (2015: 50,332). The balance of treasury shares at December 31, 2017 is R$2,284 (2016: R$2,004) (2015: R$1,358).

25 Net Interest Income

	12/31/2017	12/31/2016	12/31/2015
Interest income			
Income from interbank investments	59,596	51,805	26,809
Loans and advances to financial institutions	627	4,236	16,224
Loans and advances to customers	436,365	521,660	437,447
Income from foreign exchange trading	639	-	-
Total Interest income	**497,227**	**577,701**	**480,480**
Interest expense			
Securities issued	(272,192)	(312,947)	(218,359)
Loans and on lending	(2,949)	(2,753)	(2,114)
Sales of transfer of financial assets	(1,289)	(5,138)	(16,523)
Total Interest expense	**(276,430)**	**(320,838)**	**(236,996)**
Net interest income	**220,797**	**256,863**	**243,484**

26 Net Income from services and commissions

	12/31/2017	12/31/2016	12/31/2015
Revenues from services and commissions			
Earnings from Bank Charges	10,658	8,734	8,096
Commissions and intermediation	19,270	9,451	5,934
Administration of third-party funds (*)	2,826	528	331
Foreign exchange and securities brokerage	42	75	2
Earnings from credit card	4,510	1,010	713
Management and structuring fees	3,910	3,124	2,380
Other services	1,215	1,752	2,015
Total revenues from services and commissions	**42,431**	**24,674**	**19,471**
Expenses from services and commissions			
Commissions and intermediation	(17,200)	(43,079)	(59,133)
Total expenses from services and commissions	**(17,200)**	**(43,079)**	**(59,133)**
Net interest from services and commissions	**25,231**	**(18,405)**	**(39,662)**

(*) Revenues from the administration of third-party funds are related to fees received by the Bank and its subsidiaries in fiduciary activities, in which it maintains or invests assets in favor of its customers.

27 Other revenues

	31/12/2017	31/12/2016	31/12/2015
Recovery of charges	8,502	12,409	8,715
Income from portability	808	801	460
Income from securities and loans receivable	2,084	-	-
Others	1,530	2,357	608
Total	**12,924**	**15,567**	**9,783**

28 Impairment losses on financial assets

	12/31/2017	12/31/2016	12/31/2015
Impairment losses on loans and advances to customers	(74,442)	(97,249)	(73,578)
Subtotal	**(74,442)**	**(97,249)**	**(73,578)**
Reversal of provision	25,190	11,046	14,124
Recovery of credits written off (i)	25,124	13,344	505
Total impairment losses on financial assets	**(24,128)**	**(72,859)**	**(58,949)**

(i) Balance reclassified from Interest Revenues, in accordance with the policy presented in Note 3e(viii).

29 Personnel Expenses

	12/31/2017	12/31/2016	12/31/2015
Salaries	(33,573)	(28,618)	(26,362)
Compensation of the Officers and Directors	(9,058)	(7,423)	(6,389)
Payroll and social security charges	(14,009)	(11,517)	(11,223)
Profit sharing	(10,277)	(8,055)	(3,363)
Vacation and 13th salary expenses	(5,370)	(4,379)	(3,780)
Benefits	(11,746)	(8,945)	(7,725)
Others	(1,347)	(1,214)	(922)
Total	**(85,380)**	**(70,151)**	**(59,764)**

30 Other administrative revenues (expenses)

	12/31/2017	12/31/2016	12/31/2015
Data Processing /IT related expenses	(22,376)	(22,800)	(13,261)
Taxes	(16,152)	(16,077)	(16,402)
Rents, condominium and maintenance of property	(4,471)	(6,451)	(6,187)
Third-party services	(18,502)	(13,891)	(11,384)
Provisions for contingencies	(8,641)	(8,159)	(5,612)
Provision for losses on non-current assets held for sale	(2,896)	(2,173)	(2,772)
Advertising publicity, publications and public relations	(16,183)	(5,774)	(4,067)
Communications	(5,038)	(3,544)	(2,742)
Bank Charges	(9,168)	(4,138)	(3,467)
Notarial and court expenses	(1,462)	-	-
Discounts given	(6,455)	(4,465)	(4,758)
Portability	(850)	(981)	(1,956)
Gains (Losses) from sale of securities and assets	(3,304)	(3,084)	(992)
Utilities	(775)	(775)	(664)
Credit agency (Serasa) charges	(1,381)	(854)	(1,034)
Travel expenses	(1,790)	(1,457)	(1,203)
Other administrative expenses	(16,072)	(7,817)	(6,604)
Total	**(135,516)**	**(102,440)**	**(83,105)**

31 Current and deferred income and social contribution taxes

See policy in note 3 "m".

a. Amounts recognized in income for the year

	12/31/2017	12/31/2016	12/31/2015
Current income and social contribution tax expense			
Current Year Expense	(1,256)	(14,184)	(14,368)
Deferred income and social contribution tax expense			
Provision for impairment of loans and advances	(8,468)	8,791	13,247
Provision for contingencies	1,629	1,848	(3,890)
Adjustment to market value of financial assets	-	(100)	225
Tax loss	2,131	330	169
Deferred income and social contribution tax expenses - adjustments from adoption of IFRS			
Provision for impairment losses on loans and advances			
Provision for losses on non-current assets held for sale	(640)	246	570
Deferral of commissions	1,303	978	(8,775)
	219	(1,137)	1,247
Total tax expense	**(5,082)**	**(3,228)**	**(11,575)**

b. Statement of calculation of charges

	12/31/2017		12/31/2016		12/31/2015	
	Income Tax	Social Contribution	Income Tax	Social Contribution	Income Tax	Social Contribution
TAXABLE INCOME CALCULATION						
Income before income and social contribution taxes	52,763	52,763	29,057	29,057	45,281	45,281
Net additions (exclusions):						
Interest on shareholders' equity	(24,618)	(24,618)	(24,331)	(24,331)	(17,720)	(17,720)
Net PDD	(27,584)	(27,584)	21,658	21,658	16,147	16,147
Tax loss	-	-	-	-	(13,129)	(13,129)
Result of hedging operations	(7,541)	(7,541)	-	-	-	-
Other, net	1,696	1,696	3,584	3,584	2,739	2,739
Basis of calculation Taxable Income (Tax loss)	**(5,284)**	**(5,284)**	**29,968**	**29,968**	**33,318**	**33,318**
PRESUMED INCOME CALCULATION						
Revenue from services	19,070	19,070	9,286	9,286	5,932	5,932
Presumed income (32%)	6,102	6,102	2,972	2,972	1,898	1,898
Other income	289	289	289	289	335	335
Basis of calculation of Presumed Income	**6,391**	**6,391**	**3,261**	**3,261**	**2,233**	**2,233**
Effective rate - taxable income (15% IR/ 20% CSLL)	(581)	(485)	4,485	5,944	4,797	5,677
Effective rate - presumed income (15% IR/ 9% CSLL)	1,747	575	489	293	335	201
Additional rate (10% IR)	-	-	2,973	-	3,358	-
Deferred IRPJ and CSLL	1,737	2,089	(6,076)	(4,880)	(147)	(2,646)
Total	**2,903**	**2,179**	**1,871**	**1,357**	**8,343**	**3,232**
Effective rate	**6%**	**4%**	**6%**	**5%**	**18%**	**7%**
Current income and social contribution taxes	**-**	**(1,256)**	**-**	**(14,184)**	**-**	**(14,368)**
Deferred income and social contribution taxes	**-**	**(3,826)**	**-**	**10,956**	**-**	**2,793**

c. Changes in the balances of deferred assets

	Balance as of 12/31/2016	Provision	Realization	Balance as of 12/31/2017
Recomposition of deferred assets				
Provision for impairment of loans and advances	34,373	(10,266)	1,798	25,905
Provision for contingencies	4,506	(433)	2,061	6,134
Adjustment to market value of financial assets	124	-	-	124
Tax loss	633	(6,481)	8,228	2,380
Recomposition of deferred assets with adjustments from the adoption of IFRS				
Provision for impairment losses on loans and advances	816	-	(640)	176
Provision for losses on non-current assets held for sale	2,862	(1,870)	3,173	4,165
Deferral of commissions	(9,912)	(1,207)	1,426	(9,693)
Total tax credits on temporary differences	**33,402**	**(20,257)**	**16,046**	**29,191**

	Balance as of 12/31/2015	Provision	Realization	Balance as of 12/31/2016
Recomposition of deferred assets				
Provision for impairment of loans and advances	25,582	(2,129)	10,920	34,373
Provision for contingencies	2,659	(371)	2,218	4,506
Adjustment to market value of financial assets	225	(350)	249	124
Other	300	-	333	633
Recomposition of deferred assets with adjustments from the adoption of IFRS				
Provision for impairment losses on loans and advances	570	246	-	816
Provision for losses on non-current assets held for sale	1,884	(471)	1,449	2,862
Deferral of commissions	(8,775)	(1,481)	343	(9,912)
Total tax credits on temporary differences	**22,445**	**(4,556)**	**15,512**	**33,402**

d. Forecast for realization of deferred tax assets

	2017					
	Deferred Credits		**Income Tax**		**Social Contribution**	
Period	**Credit Value**	**Present Value**	**Credit Value**	**Present Value**	**Credit Value**	**Present Value**
2018	65,480	50,182	14,735	10,911	11,787	8,748
2019	5,931	5,931	1,483	1,483	1,186	1,186
	71,411	**56,113**	**16,218**	**12,394**	**12,973**	**9,934**

The accounting records of these tax credits are based on the expectation of generation of future taxable income and supported by technical studies and results projections.

It is estimated that the realization of these tax credits and the social contribution to be offset will occur in the next two years as follows:

	1st Year	2nd Year
% of realization of the tax credit	92%	8%

32 Share-based payment

Over the years, two plans for the granting of stock options to key management personnel were held at the Bank and its subsidiaries. The first occurred in 2012, and granted the beneficiaries the right to purchase shares in three tranches relating respectively to 2012, 2013 and 2014. The second occurred in 2016, granting the beneficiaries one tranche of options.

The exercise price of the options granted in the plans is equivalent to the book value per share at the close of the year prior to the grant.

The rules for exercising and terminating the options are part of the plan's regulations and are filed at the headquarters of the Bank and its subsidiaries.

The main characteristics of the Plans are described below:

Plan	Approval	Options	Vesting	Average Price of Exercise	Participants	Final date of Exercise
2	02/24/2012	283,245	Up to 5 years	R$15.75	Officers, managers and key employees	21/31/2019 12/31/2020 12/31/2021
3	09/30/2016	98,000	Up to 5 years	R$27.71	Officers, managers and key employees	12/31/2023

The changes in the options of each plan for the years ended in 2015, 2016 and 2017 and additional information are shown below:

		Changes in 2015 (Shares)				
Plan	**Qty Employees**	**Initial Balance**	**Granted**	**Expired/ Canceled**	**Exercised**	**Final Balance**
2	21	271,913	-	70,649	6,657	194,607
	-	271,913	-	70,649	6,657	194,607
Wghtd. Aver. Price of Shares	-	R$ 15.57		R$ 15.67	R$ 7.24	R$ 15.82
	-					

		Changes in 2016 (Shares)				
Plan	**Qty Employees**	**Initial Balance**	**Granted**	**Expired/ Canceled**	**Exercised**	**Final Balance**
2	21	194,607	-	25,408	5,911	163,288
3	20	-	98	-	-	98
	-	194,607	98	25,408	5,911	261,288
Wghtd. Aver. Price of Shares	-	R$ 15.82	R$ 27.71	R$ 15.75	R$ 9.90	R$ 20.44

		Changes in 2017 (Shares)				
Plan	**Qty Employees**	**Initial Balance**	**Granted**	**Expired/ Canceled**	**Exercised**	**Final Balance**
2	17	163,288	-	15,18	50,148	97,960
3	20	98,000	-	3,800	250	93,750
	-	261,288	-	18,980	50,938	191,710
Wghtd. Aver. Price of Shares	-	R$ 20.62	-	R$ 23.45	R$ 2.49	R$ 24.86

		Other Information			
Plan	**No. of Exercisable Shares**	**Premium Cost in the Exercise**	**Premium Cost to be Recognized**	**Remaining Period of the Remuneration Cost (in years)**	**Remaining Contractual Life (in years)**
2	16,722	632,836,62	454,906,78	2	3.5
3	4,650	33,173,00	604,561,00	4	6
2017	21,372	666,009,62	1,059,467,78	3.1	4.9
2016	14,279	78,931,25	1,757,275,55	3	4.5
2015	9,930	54,461,48	2,019,914,77	4	5.5

The estimated impact related to the value of the premiums of the options granted to employees in the financial statements based on their fair value. The fair values of the programs were estimated based on the Black & Scholes option valuation model, considering the following assumptions:

	Program			
	2 (2012)	**2(2013)**	**2(2014)**	**3(2016)**
Exercise Price	1	22.13	22.13	27.70
Risk free rate	10.19%	11.05%	11.15%	11.68%
Duration of the Exercise (years)	7	7	7	7
Expected Annualized Volatility	35.06%	35.06%	35.06%	60.33%
Option Fair Value at Grant date /Share	10.99	5.27	5.91	6.77

33 Third-Party Funds Management

Banco Inter S.A, established its subsidiary Intermedium Distribuidora de Valores e Valores Mobiliários (IDTVM) with the purpose to expand customer and investor service through the Management, Distribution and Custody of Securities Funds.

IDTVM has management, distribution and custody totaling R$2,665 million (2016: R$1,900 million) (2015: R$1,410 million).

34 Related Party transactions

Always in accordance with the prevailing legal provisions and with IAS 24, related party transactions are performed, as shown below:

	12/31/2017		12/31/2016		12/31/2015	
Parent company	**Assets (liabilities)**	**Revenue (expenses)**	**Assets (liabilities)**	**Revenue (expenses)**	**Assets (liabilities)**	**Revenue (expenses)**
Liabilities with customers	(90,682)	(6,396)	(1,869)	(1,788)	(27)	(624)
Subsidiaries						
Liabilities with customers	(6,674)	(347)	(942)	(227)	(3,851)	(378)
Key management personnel (2)						
Liabilities with customers	(3,336)	(812)	(8,864)	(2,079)	(8,383)	(934)
Other related parties (1)						
Loans and advances to customers	-	-	6,839	1,118	4,687	905
Liabilities with customers and financial institutions	(227,630)	(21,977)	(204,462)	(26,115)	(193,770)	(21,764)

All transactions between the Bank, its subsidiaries and related parties are carried out at prices, terms and rates compatible with those practiced by the market, prevailing at the dates of the operations.

1. Performed with individuals and/or legal entities, excluding parent companies and subsidiaries.

2. Compensation of key management personnel:

At the Annual General Meeting of Shareholders, the compensation is established for the members of the Board of Directors and Officers.

The Bank and its subsidiaries do not have post-employment benefits, long-term benefits and benefits on termination of employment contracts for key management personnel.

Under current legislation, the Bank and its subsidiaries may not grant loans or advances to:

- Officers and members of advisory or administrative, fiscal and similar boards, as well as their respective spouses and relatives up to the second degree;
- Individuals or legal entities that participate in their capital, with more than 10%;
- Legal entities that participate with more than 10% of the Bank and its subsidiaries, any officers or managers of the Group, as well as their spouses and their relatives up to the second degree.

Accordingly, no loans or advances to any subsidiary, members of the Board of Directors or of the Executive Board and their family members are made by the Bank and its subsidiaries

35 Other Information

Provisional Measure 675 of 05/22/2015 was converted into Law 13,169, published on 10/07/2015, and increased the rate for Social Contribution on Net Income (CSLL) in the financial and insurance sectors from 15% to 20% in the period from September 1, 2015 to December 31, 2018.

36 Subsequent events

The election of the fiscal council, of council member Leonardo Guimarães Corrêa, and council member Guilherme Ximenes de Almeida is being analyzed by the Central Bank.