

(A free translation of the original in Portuguese)

***Banco BMG S.A. (Bank) and
Banco BMG S.A. and
its subsidiaries
(Financial Conglomerate)***

***Summary of the Audit Committee Report
Parent company and consolidated
Interim financial statements
at September 30, 2018
and independent auditor's report***



Report on review of interim financial statements

To the Board of Directors and Shareholders
Banco BMG S.A.

Introduction

We have reviewed the accompanying balance sheet of Banco BMG S.A. ("Bank") as at September 30, 2018 and the related statement of income, changes in equity and cash flows for the nine-month period then ended, as well as the consolidated balance sheet for the Bank and its subsidiaries ("Financial Conglomerate") as at September 30, 2018 and the related consolidated statements of income, changes in equity and cash flows for the nine-month period then ended, and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation of these interim financial statements in accordance with accounting practices adopted in Brazil, applicable to financial institutions authorized to operate by the Brazilian Central Bank. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with Brazilian and International Standards on Reviews of Interim Financial Information (NBC TR 2410 - "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" and ISRE 2410 - "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", respectively). A review of interim information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Brazilian and International Standards on Auditing and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial statements referred to above do not present fairly, in all material respects, the financial position of Banco BMG S.A. and of Banco BMG S.A. and its subsidiaries as at September 30, 2018, and the bank financial performance for the nine-month period then ended and its cash flows for the nine-month period then ended, as well as the financial conglomerate financial performance for the nine-month period then ended and its cash flows for the nine-month period then ended, in accordance with accounting practices adopted in Brazil, applicable to institutions authorized to operate by the Brazilian Central Bank and presented as required by the Brazilian Central Bank.



Banco BMG S.A.

Other matters

Statements of value added

We have also reviewed the bank and financial conglomerate statements of value added for the nine-month period ended September 30, 2018. These statements are the responsibility of the Bank's management and their presentation in the interim financial statements is considered supplementary information under the standards issued by the Brazilian Central Bank. These statements have been subject to the same review procedures described above and, based on our review, we are not aware of any facts that would lead us to believe that these statements were not prepared, in all material respects, in relation to the interim financial statements taken as a whole.

São Paulo, October 18, 2018

A blue ink signature in cursive script, appearing to read 'PricewaterhouseCoopers', is written over the company name.

PricewaterhouseCoopers
Auditores Independentes
CRC 2SP000160/O-5

A blue ink signature in cursive script, appearing to read 'Edison Arisa Pereira', is written over the name.

Edison Arisa Pereira
Contador CRC 1SP127241/O-0

MANAGEMENT REPORT

The Management of Banco BMG S.A. and its subsidiaries ("BMG"), in accordance with the legal and statutory provisions applicable to financial institutions authorized to operate by the Central Bank of Brazil, is presenting the Intermediate Financial Statements for the period ended September 30, 2018 along with the independent auditors' report on the review of the Intermediate Financial Statements.

Banco BMG

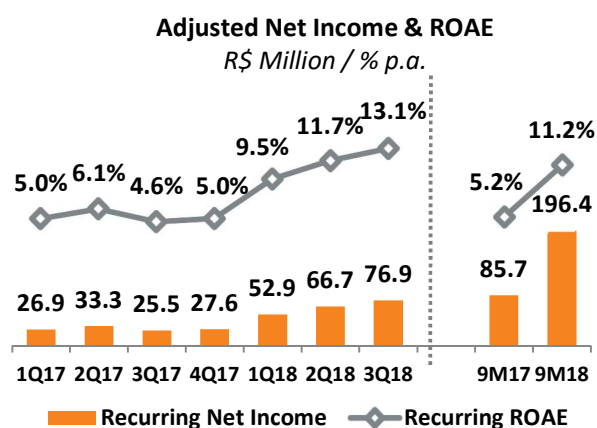
With 88 years of solid performance in the financial market, the Bank is notable for its sales force, operating excellence, technology and ability to adapt to the main market movements. Over the course of its history, BMG has built a brand recognized for its tradition, transparency and sound corporate governance practices.

Banco BMG currently has 3.6 million customers, offering to its individual clients: payroll deductible credit card (BMG Card), personal credit with account debit (Direct Debt Loan), both exclusive for retirees and pensioners of INSS and public servants, and personal digital credit (Lendico). To corporate clients, it offers financing, structured financial services, derivative instruments and guarantee insurance for medium and large companies (BMG Empresas and BMG Seguros). In addition, BMG provides investment products to both publics (BMG Invest).

Financial Performance

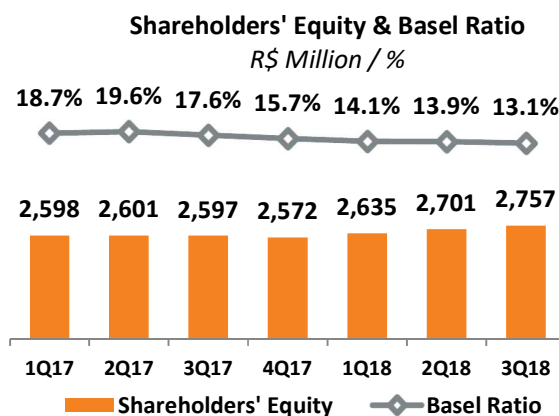
The net income in the first nine months of 2018 was R\$ 131.1 million with a Return on Average Equity (ROAE) was of 6.6% per year. In the first nine months of 2017 the net income was R\$ 20.4 million and the ROAE was 1.0%, demonstrating a strong evolution in the financial performance of the last 12 months.

In August 2011, Banco BMG acquired financial institutions, recording a goodwill in the amount of R\$1,450 million based on the expectation of future profitability. Excluding the effect of this goodwill, the net income for the first nine months of 2018 was R\$196.4 million and the Return on Average Equity (ROAE) was of 11.2% per year.



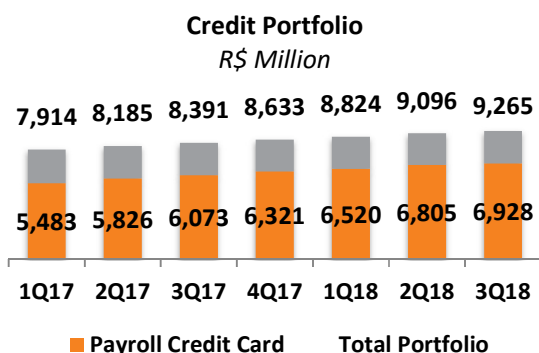
Consolidated Shareholders' Equity at September 30, 2018 amounted to R\$ 2,757 million.

The capitalization ratio of risk-weighted assets (Basel Ratio) was 13.1%, composed exclusively of Principal Capital (Capital Level I).



The total portfolio ended September 30, 2018 with a balance of R\$ 9,265 million, representing an increase of 10.4% compared to the same period of 2017.

BMG's main product, the payroll credit card, posted a significant expansion of 14.1% in 12 months, reaching R\$ 6,928 million, of which Of the portfolio, 80.3% is concentrated in Social Security retirees and pensioners and federal public sector workers.



The funding balance totaled R\$ 12,489 million in 3Q18, representing an increase of 8.8% compared to the same period of the previous year. The main source of funding, the Time Deposit (CDB), represents 73.9% of the funding and grew 27.9% in the last 12 months.

On September 31, 2018, BMG's investments in subsidiaries totaled R\$ 129 million. In March 2018, BMG purchased 99.98% of Help Franchising Participações Ltda. from the controlling shareholders.

Regulation

BACEN Circular No. 3.068/01 - At the end of the quarter, BMG had no securities classified as "held to maturity".

Relationship with Independent Auditors

The adopted policy adheres to the principles that preserve the independence of the auditor, in accordance with internationally accepted criteria, ie, the auditor should not audit his or her own work and neither perform managerial functions at his client nor promote its interests. As established by CVM Instruction 381, we relate the services of PricewaterhouseCoopers Auditores Independentes, which the Bank contracted on September 30, 2018, not related to external auditing: (i) acquisition of technical letters; and (ii) due diligence. These contracts amounted to R\$ 216 thousand, representing approximately 7% of total external audit fees.

Corporate Governance

With experienced and professionalized management, Banco BMG opted voluntarily to implement high level corporate governance practices, which includes a Board of Directors - of which 38% of its members are independent, including the Chairman -, statutory and non-statutory Committees to support management, duly structured Compliance Processes and Internal Controls, a Code of Ethics, a Money Laundering Prevention Program (PLD), an independent Internal Audit Structure and a strategic and active Investor Relations department, among other initiatives.

Based on best risk management practices, the Bank has developed policies, systems and internal controls to mitigate and control possible losses arising from exposure to the risks to which its activities are exposed, with a set of appropriate processes and routines applied to its operating modalities. For more information on risk management, please access: www.bancobmg.com.br/ir.

Capital Management

The assessment of capital adequacy is made to ensure that the organization maintains a strong capital base to support its activities. It also considers a prospective vision, designed to anticipate possible changes in market conditions.

Acknowledgements

All these achievements reflect the firm commitment of the Shareholders and Management to continually strive to exceed expectations and always offer its clients high quality service and a healthy environment for its employees.

These gains have been possible thanks to our clients' support and trust and the dedicated efforts of our collaborators and partners/correspondents.

To them all, our deep appreciation.

BOARD OF DIRECTORS

São Paulo, October 18, 2018.



BANCO BMG S.A. (BANK) AND BANCO BMG S.A. AND ITS SUBSIDIARIES (FINANCIAL CONGLOMERATE)

**BALANCE SHEETS
FOR THE NINE- MONTH PERIOD ENDED SEPTEMBER 30**

All amounts in thousands of reais

(A free translation of the original in Portuguese)

	Note	Financial conglomerate		Bank	
		2018	2017	2018	2017
Assets					
Current assets		10,783,437	9,402,752	10,650,620	9,300,714
Cash and balances at banks		44,391	38,122	31,659	30,566
Short-term interbank investments	5	1,468,216	1,238,783	1,468,216	1,217,573
Marketable securities and derivatives	6 e 7	193,645	220,494	201,013	231,598
Interbank and interdepartmental accounts		144,312	19,737	143,695	19,125
Credit operations	8	7,393,131	6,392,458	7,331,842	6,340,088
Operations with characteristics of credit granting		7,879,048	6,850,085	7,814,548	6,795,559
Provision for impairment of credits		(485,917)	(457,627)	(482,706)	(455,471)
Leasing operations	8				
Private sector			46		
Provision for impairment of credits			(46)		
Other receivables	9	1,377,590	1,390,057	1,314,152	1,358,970
Other assets		162,152	103,101	160,043	102,794
Assets not in use	10(a)	55,398	26,819	55,289	26,512
Prepaid expenses	10(b)	106,754	76,282	104,754	76,282
Non-current assets		6,175,354	6,834,345	7,808,408	8,699,519
Long-term receivables		5,528,857	6,075,674	4,713,092	5,595,502
Interbank accounts	5	3,916	260,644	3,916	260,644
Marketable securities and derivatives	6 e 7	1,779,757	1,795,848	1,527,250	1,780,746
Credit operations	8	1,054,071	1,196,040	862,934	1,119,120
Operations with characteristics of credit granting		1,119,162	1,276,470	918,011	1,196,386
Provision for impairment of credits		(65,091)	(80,430)	(55,077)	(77,266)
Other receivables	9	2,624,465	2,654,066	2,252,344	2,265,916
Other assets		66,648	169,076	66,648	169,076
Prepaid expenses	10(b)	66,648	169,076	66,648	169,076
Permanent assets		646,497	758,671	3,095,316	3,104,017
Investments		129,526	108,699	3,000,916	3,021,658
Subsidiary and associated companies:					
Foreign	11			201,259	153,238
Local	11	128,910	108,082	2,799,041	2,867,803
Other investments		616	617	616	617
Property and equipment	12	94,361	75,157	94,361	75,157
Buildings		242,011	195,101	242,011	195,101
Accumulated depreciation		(147,650)	(119,944)	(147,650)	(119,944)
Property and equipment for leasing operations			6,387		6,387
Leased assets			6,387		6,387
Intangible assets		422,610	568,428	39	815
Goodwill on acquisition of subsidiaries	13	1,450,412	1,450,412		
Accumulated amortization of intangible assets	13	(1,027,841)	(882,799)		
Other		39	815	39	815
Total Assets		16,958,791	16,237,097	18,459,028	18,000,233

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



BANCO BMG S.A. (BANK) AND BANCO BMG S.A. AND ITS SUBSIDIARIES (FINANCIAL CONGLOMERATE)

**BALANCE SHEETS
FOR THE NINE- MONTH PERIOD ENDED SEPTEMBER 30**

All amounts in thousands of reais

(A free translation of the original in Portuguese)

	Note	Financial conglomerate		Bank	
		2018	2017	2018	2017
Liabilities and Equity					
Current liabilities		4,832,976	4,497,578	6,342,981	6,268,142
Deposits		2,990,674	1,791,144	4,519,782	3,514,773
Demand deposits		31,784	23,825	32,357	25,127
Interbank deposits	14(a)	847	19,400	1,529,398	1,773,537
Time deposits	14(b)	2,958,043	1,747,919	2,958,027	1,716,109
Funds obtained in the open market				7,000	33,009
Funds from acceptance and issue of securities	15	380,381	784,592	380,381	784,592
Interbank accounts		102,034	636	101,959	554
Borrowings and on endings	16	50,668	131,141	50,668	178,343
Local – Official Institutions		50,668	63,430	50,668	63,430
Foreign			67,711		114,913
Derivative financial instruments	7	47,464	236,463	47,464	236,463
Other current liabilities		1,261,755	1,553,602	1,235,727	1,520,408
Collection of taxes and similar		14,475	11,611	14,475	11,611
Social and statutory		737	15,668	737	15,668
Taxes and social contributions	17(a)	48,777	71,701	23,175	32,514
Negotiation and intermediation of securities		10,913	3,748	10,913	3,748
Sundry	17(b)	1,186,853	1,450,874	1,186,427	1,456,867
Non-current liabilities		9,368,702	9,141,988	9,358,968	9,134,593
Deposits	14	6,379,834	6,046,455	6,381,584	6,052,139
Interbank deposits	14(a)		776	1,750	6,460
Time deposits	14(b)	6,379,834	6,045,679	6,379,834	6,045,679
Funds from acceptance and issue of securities	15	222,881	289,140	222,881	289,140
Borrowings and onlendings	16	461,259	437,462	461,259	437,462
Local – Official Institutions			322		322
Local – Other institutions		461,259	437,140	461,259	437,140
Derivative financial instruments	7	101,900	392,042	101,900	392,042
Other liabilities		2,202,828	1,976,889	2,191,344	1,963,810
Taxes and social contributions	17(a)	39,685	50,663	39,446	48,399
Sundry	17(b)	2,163,143	1,926,226	2,151,898	1,915,411
Total Liabilities		14,201,678	13,639,566	15,701,949	15,402,735
Equity managed by the parent company		2,757,113	2,597,531	2,757,079	2,597,498
Non-controlling interests		34	33		
Equity	19	2,757,079	2,597,498	2,757,079	2,597,498
Capital - local residents		2,542,571	2,504,477	2,542,571	2,504,477
Revenue reserves		208,863	117,576	208,863	117,576
Carrying value adjustment		5,645	(24,555)	5,645	(24,555)
Total Liabilities and Equity		16,958,791	16,237,097	18,459,028	18,000,233

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



BANCO BMG S.A. (BANK) AND BANCO BMG S.A. AND ITS SUBSIDIARIES (FINANCIAL CONGLOMERATE)

**STATEMENT OF INCOME
FOR THE NINE- MONTH PERIOD ENDED SEPTEMBER 30**

All amounts in thousands of reais, unless otherwise stated

(A free translation of the original in Portuguese)

	Note	Financial Conglomerate		Bank	
		2018	2017	2018	2017
Income from financial intermediation		2,220,621	1,903,575	2,150,020	1,890,426
Credit operations	20(a)	2,077,896	1,653,499	2,014,734	1,649,464
Leasing operations	20(a)	(29)	110		
Marketable securities transactions	20(b)	142,754	249,966	135,286	240,962
Expenses on financial intermediation	20(c)	(928,393)	(1,002,179)	(1,000,500)	(1,123,656)
Funds obtained in the market		(1,094,661)	(738,063)	(1,166,768)	(859,540)
Loans, assignments and onlendings		(32,309)	(49,204)	(32,309)	(49,204)
Derivative financial instruments		198,577	(214,912)	198,577	(214,912)
Net income from financial intermediation before provision for impairment of credits		1,292,228	901,396	1,149,520	766,770
Provision for impairment of credits	8(f)	(384,768)	(315,312)	(370,347)	(309,722)
Credit operations recovered	8(f)	158,042	149,914	157,607	149,834
Net income from financial intermediation		1,065,502	735,998	936,780	606,882
Other operating income (expenses)		(829,300)	(741,486)	(735,792)	(666,286)
Income from services rendered	21	32,732	27,648	32,732	27,648
Personnel expenses	22(a)	(120,957)	(115,959)	(120,877)	(115,892)
Other administrative expenses	22(b)	(457,055)	(459,322)	(454,650)	(458,448)
Tax expenses	23	(72,495)	(54,749)	(67,940)	(47,727)
Equity in the earnings (loss) of subsidiary and associated companies	11	(288)	(4,717)	82,453	68,851
Other operating income	24	125,709	211,897	120,049	198,946
Other operating expenses	24	(336,946)	(346,284)	(327,559)	(339,664)
Operating loss		236,202	(5,488)	200,988	(59,404)
Non-operating income (expenses)	27	(7,193)	57,857	(7,127)	57,745
Profit (loss) before taxation and profit sharing		229,009	52,369	193,861	(1,659)
Income tax	25(c)	(22,268)	(27,563)	(8,650)	(6,128)
Social contribution	25(c)	(17,408)	(21,732)	(6,242)	(4,237)
Deferred income tax and social contribution	25(c)	(31,617)	37,846	(21,253)	52,941
Statutory profit sharing		(26,574)	(20,505)	(26,574)	(20,502)
Profit before non-controlling interest		131,142	20,415	131,142	20,415
Profit for the three-month		131,142	20,415	131,142	20,415
Profit per share – R\$				5,210.46	822.99
Additional Information					
Exclusion of non-recurring effects	27	65,269	65,269	65,269	65,269
Net income excluding non-recurring effects		196,411	85,684	196,411	85,684

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



BANCO BMG S.A. (BANK) AND BANCO BMG S.A. AND ITS SUBSIDIARIES (FINANCIAL CONGLOMERATE)

STATEMENT OF CHANGES IN EQUITY

All amounts in thousands of reais, unless otherwise stated

(A free translation of the original in Portuguese)

	Capital	Unpaid capital	Revenue reserves		Carrying value adjustment	Retained earnings (accumulated deficit)	Total
			Legal	Other			
At December 31, 2016	2,504,477	93,328		7,048	(4,768)		2,600,085
Loss from previous years (Res. 4,512/16)						(3,215)	(3,215)
Market value adjustment					(19,787)		(19,787)
Profit for three-month period						20,415	20,415
Use of Net Profit:							
Reserves constitution		833	19,582			(20,415)	
Use of reserves			(3,215)			3,215	
At September 30, 2017	2,504,477	94,161	16,367	7,048	(24,555)		2,597,498
At December 31, 2017	2,504,477	71,827		7,048	(11,451)		2,571,901
Approval of capital increase	38,094						38,094
Market value adjustment					17,096		17,096
Profit for three-month period						131,142	131,142
Use of Net Profit:							
Reserves constitution		6,557	124,585			(131,142)	
Use of reserves				(1,154)			(1,154)
At September 30, 2018	2,542,571	78,384	124,585	5,894	5,645		2,757,079

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



BANCO BMG S.A. (BANK) AND BANCO BMG S.A. AND ITS SUBSIDIARIES (FINANCIAL CONGLOMERATE)

**STATEMENT OF CASH FLOWS
FOR THE NINE - MONTH PERIOD ENDED SEPTEMBER 30**

All amounts in thousands of reais

(A free translation of the original in Portuguese)

	Financial Conglomerate		Bank	
	2018	2017	2018	2017
Cash flows from operating activities				
Profit for the period	131,142	20,415	131,142	20,415
Adjustments to profit	1,014,366	449,357	906,761	355,532
Depreciation	13,693	12,009	13,693	12,009
Fixed asset write-off	9,676		9,676	
Provision for impairment of credits	384,768	315,312	370,347	309,722
Amortization	1,118	1,987	1,118	1,987
Deferred income tax and social contribution	31,617	(37,846)	21,253	(52,941)
Equity in the (earnings) loss of subsidiary and associated companies	288	4,717	(82,453)	(68,851)
Cash flow hedge mark-to-market	18,731	(20,475)	18,731	(20,475)
Foreign exchange variations of marketable securities	(13,218)	(91)	(13,218)	(91)
Foreign exchange variations of funding	430,728	18,560	430,728	18,560
Foreign exchange variations of borrowings and onlendings	8,047	1,395	8,047	1,395
Amortization of goodwill	108,781	108,781	108,781	108,781
Provision for contingencies	19,043	44,503	20,058	45,436
Excess/Deficit depreciation on leases	1,094	505		
Adjusted profit for the period	1,145,508	469,772	1,037,903	375,947
Changes in assets and liabilities				
(Increase) in short-term interbank investments	(1,300)	29,175	(1,300)	930,475
(Increase) Decrease in marketable securities	89,835	324,987	358,263	306,766
(Increase) in interbank and interdepartmental accounts	(133,060)	(2,799)	(133,036)	(3,309)
(Increase) Decrease in credit operations	(1,010,674)	(273,705)	(886,601)	(236,940)
(Increase) Decrease in leasing operations	(1,094)	(480)		
(Increase) in other receivables	(110,068)	(238,063)	(68,950)	(257,732)
(Increase) in other assets	49,699	43,464	49,850	43,708
Increase in deposits	1,005,812	2,140,025	737,887	1,370,145
(Decrease) in funds obtained in the open market	(8,550)	(300,198)	(28,547)	(278,194)
(Decrease) in funds from acceptance and issue of securities	(946,565)	(755,522)	(946,241)	(755,522)
(Decrease) in borrowings and onlendings	(36,566)	(3,674)	(86,338)	(17,339)
Increase in interbank accounts	101,961	542	101,961	555
(Decrease) in derivative financial instruments	(86,792)	(268,159)	(86,792)	(268,159)
(Decrease) in other liabilities	101,992	(185,981)	78,532	(260,446)
Cash from operations	160,138	979,384	126,591	949,955
Income tax and social contribution paid	(31,556)	(77,814)	(2,126)	(40,759)
Net cash (used in) provided by operating activities	128,582	901,570	124,465	909,196
Cash flows from investing activities				
Purchases of property and equipment	(42,714)	(19,712)	(42,714)	(19,712)
Sale of property and equipment	2,193	2,525	2,193	2,525
Capital increase in subsidiary	(14,997)	(9,551)	(14,997)	(9,551)
Purchase of subsidiary	(6,999)		(6,999)	
Increase of intangible assets	(651)		(651)	
Net cash (used in) investing activities	(63,168)	(26,738)	(63,168)	(26,738)
Increase in cash and cash equivalents	65,414	874,832	61,297	882,458
Cash and cash equivalents at the beginning of the period	1,440,215	375,664	1,431,600	360,482
Cash and cash equivalents at the end of the three-month period (Note 2.2 and Note 4)	1,505,629	1,250,496	1,492,897	1,242,940
Increase in cash and cash equivalents	65,414	874,832	61,297	882,458

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



BANCO BMG S.A. (BANK) AND BANCO BMG S.A. AND ITS SUBSIDIARIES (FINANCIAL CONGLOMERATE)

**STATEMENT OF VALUE ADDED
FOR THE NINE- MONTH PERIOD ENDED SEPTEMBER 30**

All amounts in thousands of reais

(A free translation of the original in Portuguese)

	Financial conglomerate		Bank	
	2018	2017	2018	2017
1 – Income	2,145,143	2,035,579	2,082,934	2,014,877
1.1 Financial intermediation	2,220,621	1,903,575	2,150,020	1,890,426
1.2 Services rendered	32,732	27,648	32,732	27,648
1.3 Provision for impairment of credits	(384,768)	(315,312)	(370,347)	(309,722)
1.4 Credit operations recovered	158,042	149,914	157,607	149,834
1.5 Other operating income	125,709	211,897	120,049	198,946
1.6 Non-operating	(7,193)	57,857	(7,127)	57,745
2 - Expenses	1,265,339	1,348,463	1,328,059	1,463,320
2.1 Expenses on financial intermediation	928,393	1,002,179	1,000,500	1,123,656
2.2 Other operating expenses	336,946	346,284	327,559	339,664
3 - Materials and services purchased from third parties	325,608	327,382	322,128	326,527
3.1 Materials, energy and other	51,188	40,738	49,530	40,333
3.2 Third-party services	60,350	94,446	60,349	94,398
3.3 Others	214,070	192,198	212,249	191,796
3.3.1 Communication expenses	19,551	25,386	19,551	25,386
3.3.2 Promotions and public relations	30,765	44,607	30,621	44,528
3.3.3 Data processing	33,526	26,480	33,522	26,479
3.3.4 Specialist technical services	118,812	83,134	117,162	82,829
3.3.5 Bank fees	8,618	10,270	8,595	10,254
3.3.6 Transport	2,798	2,321	2,798	2,320
4 - Gross value added (1 - 2 - 3)	554,196	359,734	432,747	225,030
5 - Depreciation and amortization	122,498	122,777	123,592	122,777
6 - Net value added generated by the entity (4 - 5)	431,698	236,957	309,155	102,253
7 - Value added received as transfer	(288)	(4,717)	82,453	68,851
7.1 Equity in the earnings (loss) of subsidiary and associated companies	(288)	(4,717)	82,453	68,851
8 - Value added to be distributed (6 + 7)	431,410	232,240	391,608	171,104
9 - Distribution of value added	431,410	232,319	391,608	171,104
9.1 Personnel	147,531	136,464	147,451	136,394
9.1.1 Direct remuneration	99,884	88,416	99,841	88,378
9.1.2 Benefits	21,339	18,304	21,316	18,285
9.1.3 Social charges	26,308	29,744	26,294	29,731
9.2 Taxes, contributions and fees	143,788	66,198	104,085	5,151
9.2.1 Federal	141,636	62,691	101,938	1,651
9.2.2 State	125	115	125	115
9.2.3 Municipal	2,027	3,392	2,022	3,385
9.3 Third-party capital remuneration	8,949	9,163	8,930	9,144
9.3.1 Rents	8,949	9,163	8,930	9,144
9.4 Remuneration of stockholders' capital	131,142	20,415	131,142	20,415
9.4.1 Profit for the three-month period	131,142	20,415	131,142	20,415

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

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BANCO



BANCO BMG S.A. (BANK) AND BANCO BMG S.A. AND ITS SUBSIDIARIES (FINANCIAL CONGLOMERATE)

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1 Operations

The operations of Banco BMG S.A. ("BMG" or "Bank") are conducted in the context of a group of financial institutions that operate together in the financial market, and certain operations have the co-participation or intermediation of institutions of the BMG Financial Conglomerate. BMG is authorized to operate as a multiple service bank with commercial and credit, financing and investment portfolios. The benefits of the services rendered between the institutions of the Financial Conglomerate and the operating and administrative costs are absorbed together or individually, as is most practical and reasonable in the circumstances, and as considered adequate by management of the financial institutions.

2 Presentation of the interim financial statements and significant accounting practices

2.1. Presentation of the interim financial statements

The interim financial statements were prepared in accordance with accounting practices adopted in Brazil, applied to financial institutions authorized to operate by the Brazilian Central Bank (BACEN), and consider the accounting guidelines established by Law 6404/76 and the changes introduced by Laws 11638/07 and 11941/09 for recording operations, as well as the standards and instructions of the National Monetary Council (CMN) and the Brazilian Central Bank. They disclose all (and only) the applicable significant information related to the interim financial statements, which is consistent with the information utilized by management in the performance of its duties.

These interim financial statements were finalized and approved for issue by the Bank's Board of Directors on Aug 8, 2018.

The Brazilian Accounting Pronouncements Committee (CPC) issued pronouncements with a view to achieving international convergence of accounting practices. However, not all of these accounting practices have been approved to date by the Brazilian Central Bank. Accordingly, in the preparation of these interim financial statements, BMG adopted the following pronouncements, already approved by the Central Bank.

Resolution CMN no. 4144/12 - Basic Conceptual Pronouncement (R1)
Resolution CMN no. 3566/08 - CPC 01 (R1) - Impairment of Assets
Resolution CMN no. 3604/08 - CPC 03 (R2) - Statement of Cash Flows
Resolution CMN no. 3750/09 - CPC 05 (R1) - Related-party Disclosures
Resolution CMN no. 3989/11 - CPC 10 (R1) - Share-based Payments
Resolution CMN no. 4007/11 - CPC 23 - Accounting Policies, Changes in Accounting Estimates and Errors
Resolution CMN no. 3973/11 - CPC 24 - Subsequent Events
Resolution CMN no. 3823/09 - CPC 25 - Provisions, Contingent Liabilities and Contingent Assets
Resolution CMN no. 4424/15 - CPC 33 (R1) - Employee Benefits

Some amounts included in this Report have been subject to rounding adjustments.

Accordingly, amounts shown as totals in some tables may not be the arithmetic sum of the amounts that precede them.

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2.2 Description of significant accounting practices

(a) Functional and presentation currency

The financial statements are presented in Brazilian reais, which is BMG's functional currency. The foreign subsidiary's operations (Note 11) are, in fact, an extension of the activities carried out in Brazil. Therefore, its assets, liabilities and income and expenses are stated in conformity with the accounting practices adopted in Brazil and are converted into reais, based on the foreign currency exchange rates. Gains and losses on conversion are recorded in the statement of income for the period.

(b) Determination of the results of operations

The results of operations are determined on the accrual basis of accounting and are adjusted by income tax and social contribution on net income due on taxable income, and, when applicable, by deferred income tax and social contribution that will be recoverable or payable in future periods.

(c) Cash and cash equivalents

Cash and cash equivalents, according to BACEN Resolution 3604/08, include cash, bank deposits, high liquidity short-term investments, without a significant risk of changes value and limits, maturing in 90 days or less at the acquisition date. These are utilized by the Bank to manage its short-term obligations (See Note 4).

(d) Interbank accounts

Unrestricted purchase and sale commitments are adjusted to market value. Other assets are stated at acquisition cost, plus accrued income up to the balance sheet date, net of a provision for losses, when applicable.

(e) Marketable securities

In accordance with BACEN Circular 3068/01 and subsequent regulations, marketable securities are classified into three specific categories based on management's intention of negotiation, in accordance with the following accounting criteria:

(i) Trading securities - securities purchased in order to be frequently and actively traded. They are recorded at market value and the realized and unrealized gains and losses are recognized in the statement of income.

(ii) Securities available for sale - securities to be used as part of the strategy to manage the risk of interest rate variations, which can be traded because of these variations, changes in payment conditions or for other reasons. These securities are recorded at market value, with the accrued income being recognized in the statement of income, and the unrealized gains and losses arising from market value variations, net of tax effects, when applicable, recognized in a specific account in equity, "Adjustment to market value - Securities available for sale", until realization by sale.

Gains and losses, when realized, are recognized in the statement of income after being specifically identified at the trading date, with a corresponding entry to the specific account in equity, net of tax effects.

(iii) Securities to be held until maturity - securities that the Bank intends and has the financial capacity to hold until maturity, which are recorded at cost of purchase, plus accrued income. Financial capacity is defined according to cash flow projections which do not consider the possibility of the early redemption of these securities.

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Decreases in the market value of securities available for sale and those held to maturity to below their respective costs, for reasons not considered to be temporary, are reflected in the statement of income as realized losses, when applicable.

Management determines guidelines for the classification of marketable securities within the categories established by BACEN Circular 3068/01. The classifications of the securities in the portfolio, as well as of those acquired in the period, are periodically and systematically reviewed in accordance with these guidelines. As established in article 5 of BACEN Circular 3068, the reevaluation of the classification of marketable securities can only be recognized in the six-monthly balance sheets. Moreover, in the event of a transfer from the "held-to-maturity" category to others, the transfer can only be made due to isolated, unusual, non-necessary and unexpected reasons which have occurred after the classification date.

(f) Derivative financial instruments

In accordance with BACEN Circular 3082/02 and subsequent regulations, derivative financial instruments are classified at the date of purchase according to the intention of management to utilize them as hedge instruments or not.

Transactions that utilize derivative financial instruments, which are carried out at customers' requests, for own account, or that do not meet the hedging criteria defined in the Circular (mainly derivatives used to manage the overall risk exposure), are recorded at market value, and the realized and unrealized gains and losses recognized directly in the statement of income.

The transactions that utilize derivative financial instruments destined for hedging purposes are classified as market or cash flow hedges, in accordance with the criteria defined in BACEN Circular 3082/02. In these cases, the items hedged are also adjusted to market value, with a corresponding entry for these adjustments (derivative and respective item hedged) to: (i) the appropriate income or expense account for the period, in the case of a market risk hedge; and (ii) a separate account in equity, for the effective portion of a cash flow hedge, net of tax effects.

(g) Credit operations and provision for impairment of credits

The credit operations are stated at realizable values, including, when applicable, accrued income calculated on a daily pro rata basis, in accordance with the variation in the index or interest rate contracted. The income on overdue accounts is recorded up to the 59th day and, after the 60th day, is no longer appropriated and is only recognized in the income when the installments are effectively received, as determined by article 9 of BACEN Resolution 2682/99.

As defined in the COSIF (The Chart of Legal Accounts for Financial Institutions), credit operations are presented net of unearned income, which is appropriated to income on a pro rata basis.

The provision for impairment of credits is recorded based on criteria defined by BACEN Resolution 2682/99, and on management's analysis of outstanding operations, taking into consideration the value of guarantees, past loss experience and the portfolio risks.

(h) Credit assignments

Resolution CMN 3533/2008 (postponed by Resolutions CMN 3673/08 and 3895/10), established the procedures for the classification and disclosure of sales or transfers of financial assets. In accordance with this resolution, the maintenance or write-off of the financial asset is related to the substantial retention of the risks and rewards in the sale or transfer transaction. The credit assignment operations in which a substantial retention of risks and rewards are retained by BMG remain recorded in assets in their totality. The amounts received in the operation are recorded in assets with a corresponding entry in liabilities related to the

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assumed obligation. The income and expenses are appropriated and recorded separately in the statement of income over the remaining period of the transactions.

(i) Other current assets and other long-term receivables

These assets are stated at realizable values including, when applicable, accrued income calculated on a daily pro rata basis, less the related unearned income.

(j) Other assets - prepaid expenses

Prepaid expenses correspond to commissions on credit operations and due to correspondents, as well as commissions on foreign borrowings, and are amortized over the period of the corresponding contracts.

Prepaid expenses include the investment of resources, the benefits of which will occur in future periods, and are recorded in the statement of income on the accrual basis.

The costs incurred for the corresponding assets, which will generate income in subsequent periods, are appropriated to the statement of income based on the terms and amounts of the expected benefits and written off directly to expenses when the corresponding assets and rights no longer comprise the Bank's assets or when future benefits are no longer expected.

According to BACEN Circular Letter 3,738/14, as from 2015, the Conglomerate uses the option of deferral of commission expenses for the origination of credit card operations. The amounts recorded as assets for deferral will be amortized either on a straight-line basis or immediately if there is a settlement or write-off of the originating credit transaction (see Note 10(b)).

(k) Investments

Investments in subsidiaries with shareholdings exceeding 50% or those over which there is significant influence are recorded on the equity method of accounting (see percentage ownership in Note 11). The other investments are recorded at cost and are adjusted to market value through the establishment of provisions, in accordance with current rules.

(l) Property and equipment

As provided for in CMN Resolution No. 4.535, dated 11/24/2016, represent own tangible assets and improvements made in third-party real estate, provided they are used in the performance of the company's activities for a period of more than one year and must be recognized at cost and adjusted for impairment. They are stated at acquisition cost, less accumulated depreciation and allowance for impairment losses, when applicable.

Depreciation is calculated on the straight-line method at the following annual rates that consider the useful lives of these assets: property in use - 4%; machinery, equipment, furniture and fixtures, installations and communication systems - 10% and vehicles and data processing equipment - 20%.

(m) Intangible assets

The intangible assets are comprised of non-monetary items, without physical substance and separately identifiable. They are formed through business combinations, acquisition of software licenses and other intangible assets. These assets are recognized at cost. The cost of an intangible asset acquired in a business combination is its fair value at the date of acquisition. Assets with a useful life are amortized over their economic useful lives. Intangible assets without a determined useful life are not amortized.

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The book value of intangible assets with indefinite useful lives, such as goodwill or intangible assets not yet available for use, are tested for impairment annually. Intangible assets subject to amortization are valued at the end of each reporting period if there is any indication that an asset may have suffered a devaluation. A loss through reduction in recoverable value (impairment) is recognized if the carrying amount exceeds the recoverable amount.

i. Goodwill

Goodwill originates in the process of acquisition of subsidiaries. It represents the excess of the acquisition cost over the book value of identifiable assets and liabilities acquired from a subsidiary on the date of acquisition. Goodwill arising on the acquisition of subsidiaries is recognized in "Investments" on the individual financial statements. The goodwill arising from the acquisition of subsidiaries and consolidated and subsequently incorporated companies is recognized in "Intangible Assets" on the consolidated financial statements.

Goodwill based on estimated future profitability was determined in acquisitions of equity participations, substantiated by the future profitability of these investments. This goodwill was determined based on the difference between the acquisition amount and the stockholders equity of the related subsidiaries at the date of acquisition, as required by the standards of Cosif and are substantiated by the estimated future profitability, based on forecasted results of the investee. They are amortized in accordance with the time period of the forecasts that substantiated it, or based on their disposal or loss. They are annually tested for impairment.

(n) Impairment of non-financial assets

Impairment losses are recognized in the statements of income if there is evidence that the assets are recorded at a non-recoverable amount. This procedure is performed annually.

(o) Current and non-current liabilities

These liabilities are stated at known or estimated amounts including, when applicable, accrued charges calculated on a daily pro rata basis, net of the related unexpired expenses.

(p) Income tax and social contribution on net income

The provision for income tax is recorded at 15% of taxable income, plus a surcharge of 10%. The provision for social contribution on net income is recorded at 20% up to December 2018, in conformity with Law 13,169/15. Deferred tax assets on temporary differences and tax losses are recorded at the related income tax and social contribution rates.

Tax credits are reviewed at each balance sheet date, also considering the applicable legislation on the date they are recorded. These tax credits will be realized upon the effective utilization and/or reversal of the amounts on which they have been based.

Deferred income tax and social contribution are recognized using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the interim financial statements. Deferred income tax and social contribution are determined using tax rates that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

The deferred income tax and social contribution tax assets are recognized in the proportion of the probability that future taxable profit may be available against which the temporary differences might be used.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

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(q) Operations in foreign currency

Assets and liabilities in foreign currency are translated into local currency (Brazilian reais) at the exchange rate on the balance sheet date. At September 30, 2018, the US\$/R\$ exchange rate was US\$ 1.00 = R\$4.0033 (30/09/2017 - US\$ 1.00 = R\$3.1680).

(r) Contingent assets and liabilities and legal obligations - tax and social security

These are valued, recognized and disclosed based on the provisions established in CMN Resolution 3823, of December 16, 2009, and BACEN Circular Letter 3429, of February 11, 2010.

Contingent assets – these are not accounted for, except when management has total control over the situation or when there are real guarantees or favorable judicial decisions in respect of which there can be no further appeals, thereby characterizing the gain as virtually certain, and with the confirmation of recovery by receipt or offset. The contingent assets for which the expectations of success are probable are disclosed in the explanatory notes (Note 18).

Contingent liabilities – these are recognized in the interim financial statements when the risk of loss in a legal or administrative action is considered to be probable, with a probable outflow of resources to settle the obligations, based on the opinions of the legal advisors and management, similarities with previous processes and the complexity of the processes, and when the amounts involved can be measured with reasonable assurance. In addition to the situations mentioned above, the historical factor of probable litigations was included in the probable loss calculation, taking into consideration the Bank's decisions and experience between the occurrence of the event and the judicial notification. Contingent liabilities, which are classified as possible losses, are not provisioned and are disclosed in the notes to the financial statements when the amounts involved are significant. Contingent liabilities in respect of which losses are considered to be remote are neither recorded nor disclosed (Note 18).

Legal obligations - tax and social security - relate to legal actions contesting the legality and constitutionality of the obligations, and are fully recognized in the interim financial statements regardless of the evaluations concerning favorable outcomes in the legal actions (Note 18).

(s) Remuneration plan - Directors

Banco BMG implemented, as from 2012, a remuneration plan specific for management, which includes rules for the payment of fixed and variable remuneration in line with the Bank's risk management policy and best market practices, in compliance with CMN Resolution 3921/10. The fixed remuneration amount is approved annually at the Annual General Meeting. The right to variable remuneration is subject to the achievement of the Conglomerate strategic goals, the individual goals and the goals of the management's operational areas.

(t) Consolidation principles - Financial Conglomerate

The interim financial statements of the Financial Conglomerate have been prepared in accordance with the consolidation rules and regulations of the Brazilian Central Bank. Accordingly, intercompany investments, account balances and income and expenses have been eliminated, and the minority interest in the profit and equity has been separately disclosed. The interim financial statements include those of Banco BMG S.A., the overseas subsidiary BMG Bank (Cayman) Ltd., and the local subsidiaries BMG Leasing S.A. - Arrendamento Mercantil, Banco Cifra S.A., Cifra Financeira S.A., and Banco BCV S.A..

In the preparation of the consolidated interim financial statements, the leasing operations are classified based on the financial method, at the present value of the future lease installment payments and with the prepaid residual values recorded as a reduction of the lease receivables.

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Goodwill calculated on the acquisition of investments in subsidiaries is disclosed in Note 13 - Intangible Assets.

The financial statements of the company headquartered overseas, BMG Bank (Cayman) Ltd., whose functional currency is the Brazilian real, are originally prepared in accordance with accounting practices adopted in Brazil and BACEN standards.



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(u) Consolidation

To assist in the analysis of the consolidated interim financial statements, the balance sheets at September 30, 2018 and 2017 of the companies of the Financial Conglomerate are summarized as follows:

Assets	Banco BMG	Leasing	Cayman	Banco Cifra	Banco BCV	Cifra FI	Eliminations	Financial Conglomerate	
	2018	2018	2018	2018	2018	2018	2018	2018	2017
Current assets	10,650,620	118,458	117,136	589,833	950,597	17,482	1,660,689	10,783,437	9,402,752
Cash and balances at banks	31,659	512	12,129	61	190	644	804	44,391	38,122
Interbank Investments	1,468,216	4,643		575,047	942,133	13,728	1,535,551	1,468,216	1,238,783
Marketable securities and derivatives	201,013	91,274	8,125				106,767	193,645	220,494
Interbank accounts	143,695			58	559			144,312	19,737
Credit operations	7,331,842		61,289					7,393,131	6,392,458
Other receivables	1,314,152	21,897	35,562	14,652	7,246	1,648	17,567	1,377,590	1,390,057
Other assets	160,043	132	31	15	469	1,462		162,152	103,101
Non-current assets	7,808,408	244,881	191,137	129,784	251,714		2,450,570	6,175,354	6,834,345
Long-term receivables	4,713,092	244,881	191,137	129,784	251,714		1,751	5,528,857	6,075,674
Interbank Investments	3,916	1,750					1,750	3,916	260,644
Marketable securities	1,527,250	227,663			24,844			1,779,757	1,795,848
Credit operations	862,934		191,137					1,054,071	1,196,040
Leasing operations									
Other receivables	2,252,344	15,468		129,784	226,870		1	2,624,465	2,654,066
Other assets	66,648							66,648	169,076
Permanent assets	3,095,316						2,448,819	646,497	758,671
Total Assets	18,459,028	363,339	308,273	719,617	1,202,311	17,482	4,111,259	16,958,791	16,237,097

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Liabilities	Banco BMG 2018	Leasing 2018	Cayman 2018	Banco Cifra 2018	Banco BCV 2018	Cifra FI 2018	Eliminations 2018	Financial Conglomerate 2018	2017
Current liabilities	6,342,981	11,680	107,014	9,657	19,122	3,213	1,660,691	4,832,976	4,497,578
Deposits	4,519,782		107,014				1,636,122	2,990,674	1,791,144
Funds obtained in the open market	7,000						7,000		
Funds from acceptance and issue of securities	380,381							380,381	784,592
Interbank accounts	101,959			56	21		2	102,034	636
Borrowings and onlendings	50,668							50,668	131,141
Derivative financial instruments	47,464							47,464	236,463
Other liabilities	1,235,727	11,680		9,601	19,101	3,213	17,567	1,261,755	1,553,602
Non-current liabilities	9,358,968	11,485					1,751	9,368,702	9,141,988
Deposits	6,381,584						1,750	6,379,834	6,046,455
Funds from acceptance and issue of securities	222,881							222,881	289,140
Borrowings and onlendings	461,259							461,259	437,462
Derivative financial instruments	101,900							101,900	392,042
Other liabilities	2,191,344	11,485					1	2,202,828	1,976,889
Minority interest								34	33
Equity	2,757,079	340,174	201,259	709,960	1,183,189	14,269	2,448,817	2,757,079	2,597,498
Total Liabilities and Equity	18,459,028	363,339	308,273	719,617	1,202,311	17,482	4,111,259	16,958,791	16,237,097

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3 Capital requirements and investment limits

(a) Basel investment indexes

In accordance with CMN Resolution No. 4,193/13 and subsequent regulations, financial institutions are obliged to maintain equity compatible with the degree of risk of their assets, weighted by factors that vary from 0% to 1,250% and a minimum index of equity in relation to the risk-weighted assets of:

- I - 11%, from October 1, 2013 to December 31, 2015;
- II - 9.875%, from January 1, 2016 to December 31, 2016;
- III - 9.25%, from January 1, 2017 to December 31, 2017;
- IV - 8.625%, from January 1, 2018 to December 31, 2018; and
- V - 8%, as from January 1, 2019.

For Level I

- I - 5.5%, from October 1, 2013 to December 31, 2014; and
- II - 6%, as from January 1, 2015.

The Basel Index and the requirements for equity can be presented as follows:

	Basel III	
	Prudential Conglomerate	
	2018	2017
Reference equity - level I Capital	1,408,228	1,134,562
– Equity (1)	2,783,119	2,646,587
– Prudential adjustments – CMN Resolution 4192/13 (2)	(1,374,891)	(1,512,025)
Reference equity - level II		521,543
– Subordinated debts		521,543
Reference equity - PR (level I + level II) (a)	1,408,228	1,656,105
Risk-weighted assets – RWA (b)	10,755,631	9,406,277
Capital allocation:		
– Credit risk	10,079,075	8,741,445
– Market risk	17,235	48,371
– Operational risk	659,321	616,461
Margin of capital allocation (a / b)	13.09%	17.61%
Tier I capital	13.09%	12.06%
Main Capital	13.09%	12.06%
Tier II capital		5.55%
– Capital for coverage of risk of the operations subject to variation of interest rates not classified in the trading portfolio, according to BACEN Resolution 3464 "RBAN" portion	25,933	33,904
Asset investment index	16.01%	18.35%
Excess capital in relation to asset investment	478,639	524,080

1) Equity of the Prudential Conglomerate, as provided in Item II, of Art. 3 of Resolution 4,192, of March 1, 2013.

2) According to the Deduction Schedule established by Article 11 of Resolution 4192/2013, the prudential adjustments started to be deducted by 100% for Main Capital calculation purposes.



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4 Cash and cash equivalents

	Financial Conglomerate		Bank	
	2018	2017	2018	2017
Cash and balances at banks	44,391	38,122	31,659	30,566
Short-term interbank investments (i)	1,461,238	1,212,374	1,461,238	1,212,374
Total	1,505,629	1,250,496	1,492,897	1,242,940

(i) Includes only operations with maturity dates equal to or less than 90 days on the effective date of the investment, and which have an immaterial risk of change in fair value.

The balance of interbank investments considered as cash and cash equivalents is also presented in Note 5.

5 Interbank investments

	Financial Conglomerate and Bank		Bank	
	2018	2017	2018	2017
Funded position				
National Treasury Bills – LTN	1,438,435	12,004	1,438,435	12,004
National Treasury Notes – NTN	22,803	1,200,370	22,803	1,200,370
Open market investments	1,461,238	1,212,374	1,461,238	1,212,374
Interbank deposits	10,894	287,053	10,894	265,843
Total	1,472,132	1,499,427	1,472,132	1,478,217
Current	1,468,216	1,238,783	1,468,216	1,217,573
Non-current	3,916	260,644	3,916	260,644

(i) Matched short-term interbank investments as of June 2018 began to be classified in the short term. The comparative information is being presented on the same basis.



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6 Marketable securities and derivatives

(a) Marketable securities can be summarized as follows:

	Financial conglomerate		Bank	
	2018	2017	2018	2017
Fixed rate notes				
<u>Free</u>				
Federal Public Securities				
- Financial Treasury Bills – LFT	875,519	1,097,652	549,532	1,051,560
- National Treasury Bills – LTN	6,205		6,205	
- National Treasury Notes – NTN	625,698		625,698	
- Quotas in equity investment funds	4,886	5,002	4,886	5,002
Private Securities				
- Debenture		186,406		186,406
- Shares		2,589		2,589
- Securities issued abroad	8,125		106,768	11,104
<u>Subject to buyback transactions</u>				
- Financial Treasury Bills – LFT			7,020	
- National Treasury Notes – NTN				33,014
<u>Subject to guarantees</u>				
Federal Public Securities				
- Financial Treasury Bills - LFT	267,689	546,223	242,874	544,199
<u>Derivative financial instruments (i)</u>				
Private securities				
- Swap receivables	97,566	149,920	97,566	149,920
- Option contracts	11,587	4,137	11,587	4,137
- Forward contract	76,127	24,413	76,127	24,413
Total	1,973,402	2,016,342	1,728,263	2,012,344
Current	193,645	220,494	201,013	231,598
Non-current	1,779,757	1,795,848	1,527,250	1,780,746

(i) See information on derivative financial instruments in Note 7.



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(b) Marketable securities fall due as follows:

Description	Financial Conglomerate				Bank			
	Yield curve value / amortized cost		Book value		Yield curve value / amortized cost		Book value	
	2018	2017	2018	2017	2018	2017	2018	2017
Securities/Maturity	1,777,453	1,830,688	1,775,111	1,830,281	1,433,626	1,815,585	1,431,329	1,815,179
Securities available for sale								
- LFT								
From 91 to 180 days	104,944	159,341	104,927	159,322	13,654	159,341	13,652	159,322
After 360 days	1,038,354	1,484,941	1,038,281	1,484,553	785,817	1,469,838	785,774	1,469,451
- LTN								
Up to 30 days								
After 360 days	6,240		6,205		6,240		6,205	
- NTN								
After 360 days	627,915		625,698		627,915		625,698	
- Debenture								
After 360 days		186,406		186,406		186,406		186,406
Securities held for trading (i)	13,125	7,503	13,011	7,591	111,768	18,607	111,654	18,695
- Securities issued abroad								
From 181 to 360 days	8,125		8,125					
After 360 days					106,768		106,768	
- Shares								
Without maturity		2,503		2,589		2,503		2,589
- Quotas in investment funds								
Without maturity	5,000	5,000	4,886	5,002	5,000	5,000	4,886	5,002
Derivative financial instruments- "Swap" -								
Differential receivable			185,280	178,470			185,280	178,470
Up to 30 days			17,975	21,297			17,975	21,297
From 31 to 60 days			4,491	13,135			4,491	13,135
From 61 to 90 days			32,100	667			32,100	667
From 91 to 180 days			15,696	1,014			15,696	1,014
From 181 to 360 days			5,446	17,468			5,446	17,468
After 360 days			109,572	124,889			109,572	124,889
Total	1,790,578	1,838,191	1,973,402	2,016,342	1,545,394	1,834,192	1,728,263	2,012,344
Total - Book value			1,973,402	2,016,342			1,728,263	2,012,344
Current			193,645	220,494			201,013	231,598
Non-current			1,779,757	1,795,848			1,527,250	1,780,746

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(c) Classification of marketable securities

(i) Available for sale

On September 30, 2018 and 2017, federal government securities were marked-to-market pursuant to the quotation published by Anbima and are in custody at Brazil, Stock Market, Over-the-counter - B3.

Financial Conglomerate					
Description	Maturity	Quantity	Yield curve value / amortized cost	Market value	Adjustment to market value in equity
Public Securities					
LTN	01/04/2020	7,020	6,240	6,205	(35)
LFT	01/03/2019	10,783	104,945	104,926	(19)
LFT	01/03/2021	46,740	454,795	454,819	24
LFT	01/09/2021	12,200	118,752	118,693	(59)
LFT	01/03/2022	13,400	130,352	130,352	
LFT	01/09/2022	15,383	149,591	149,624	33
LFT	01/03/2023	4,854	47,241	47,204	(37)
LFT	01/09/2023	12,663	123,147	123,125	(22)
LFT	01/03/2024	1,488	14,475	14,465	(10)
NTNB	15/05/2023	192,000	627,915	625,698	(2,217)
Total – 2018			1,777,453	1,775,111	(2,342)
Total – 2017			1,830,688	1,830,281	(407)
Bank					
Description	Maturity	Quantity	Yield curve value / amortized cost	Market value	Adjustment to market value in equity
Public Securities					
LTN	01/04/2020	7,020	6,240	6,205	(35)
LFT	01/03/2019	1,403	13,654	13,652	(2)
LFT	01/03/2021	23,125	224,964	224,996	32
LFT	01/09/2021	12,200	118,752	118,693	(59)
LFT	01/03/2022	13,400	130,352	130,352	
LFT	01/09/2022	15,380	149,562	149,595	33
LFT	01/03/2023	4,854	47,241	47,204	(37)
LFT	01/09/2023	10,333	100,471	100,469	(2)
LFT	01/03/2024	1,488	14,475	14,465	(10)
NTNB	15/05/2023	192,000	627,915	625,698	(2,217)
Total – 2018			1,433,626	1,431,329	(2,297)
Total – 2017			1,815,585	1,815,179	(406)

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(ii) Securities held for trading

Financial Conglomerate					
Description	Maturity	Quantity	Yield curve value / amortized cost	Market value	Adjustment to market value
Private securities					
Quotas in investment funds	Without maturity	5,000	5,000	4,886	(114)
Securities issued abroad	05/05/2019	15,720	8,125	8,125	
Total – 2018			13,125	13,011	(114)
Total – 2017			7,503	7,591	88
Bank					
Description	Maturity	Quantity	Yield curve value / amortized cost	Market value	Adjustment to market value
Private securities					
Quotas in investment funds	Without maturity	5,000	5,000	4,886	(114)
Securities issued abroad	19/07/2019	56,042	60,855	60,855	
Securities issued abroad	26/07/2019	5,081	5,437	5,437	
Securities issued abroad	02/08/2019	4,943	5,231	5,231	
Securities issued abroad	05/08/2019	7,693	8,047	8,047	
Securities issued abroad	23/08/2019	9,406	9,035	9,035	
Securities issued abroad	06/09/2019	6,370	6,137	6,137	
Securities issued abroad	06/09/2019	8,251	8,021	8,021	
Securities issued abroad	20/09/2019	8,017	4,005	4,005	
Total – 2018			111,768	111,654	(114)
Total – 2017			18,607	18,695	88



BANCO BMG S.A. (BANK) AND BANCO BMG S.A. AND ITS SUBSIDIARIES (FINANCIAL CONGLOMERATE)

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7 Derivative financial instruments

The Bank participates in transactions involving financial instruments, recorded in asset and liability accounts at amounts compatible with those currently practiced in the market, in order to manage its exposure to market, foreign exchange and interest rate risks. The transactions are principally designed to protect assets and liabilities, involving changes in indexes in the application and obtaining of resources, contracted at maturities, rates and amounts compatible with the protection necessary.

The transactions involving derivative financial instruments (swaps and futures contracts) are entered into in order to protect their own and clients' assets and liabilities. The risks are managed through control policies, establishment of operating strategies, determination of limits and various techniques for monitoring positions, with a view to liquidity, profitability and security. The utilization of derivative financial instruments in order to minimize market risks arising from fluctuations in interest rates, currencies, asset prices, and other factors, is an integral part of good accounting practice and is an indispensable tool in financial management.

Market risk is the exposure created by potential fluctuations in interest rates, exchange rates, prices of goods, prices quoted on the stock market and for other securities, and is the function of the type of product, the volume of operations, the duration and conditions of the contract and the underlying volatility. Risk management is controlled and monitored independently of the areas generating the risk exposure. The assessment and measurement are carried out daily based on indexes and statistical data, utilizing tools such as non-parametric "VaR" and sensitivity analysis in stress scenarios.

The derivative financial instruments are registered at the Brasil, Bolsa, Balcão - B3

At September 30, 2018, the counterparties in the swap operations were exclusively financial institutions and Brasil, Bolsa, Balcão - B3 in futures transactions.

(a) Swaps by index

Description	Financial Conglomerate and Bank	
	2018	2017
Differential receivable		
Foreign currency	11,858	4,163
Interest rate	85,368	95,323
Indexes	88,054	78,984
Assets	185,280	178,470
Differential payable		
Foreign currency	(41,300)	(532,445)
Interest rate	(107,388)	(96,060)
Indexes	(676)	
Liabilities	(149,364)	(628,505)
Net exposure in the balance sheet	35,916	(450,035)



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(b) Swaps by maturity

Description	Financial Conglomerate and Bank				Total
	Up to 30 days	From 31 to 180 days	From 181 to 360 days	Over 360 days	
Swap contracts:					
Asset position					
Foreign currency			272	11,586	11,858
Interest rate	17,975	52,287	5,174	9,932	85,368
Indexes				88,054	88,054
Total – 2018	17,975	52,287	5,446	109,572	185,280
Total – 2017	21,297	14,816	17,468	124,889	178,470
Swap contracts:					
Liability position					
Foreign currency	(1,930)		(11,613)	(27,757)	(41,300)
Interest rate	(14,788)	(5,710)	(13,423)	(73,467)	(107,388)
Indexes				(676)	(676)
Total – 2018	(16,718)	(5,710)	(25,036)	(101,900)	(149,364)
Total – 2017	(18,626)	(49,683)	(168,154)	(392,042)	(628,505)

(c) Swaps by index and notional amount

Swaps	Notional amount	Yield curve value - amortized cost	Financial Conglomerate and Bank	
			Mark-to-market adjustment in income / (expense)	Market value
CDI x U.S. dollar	68,843	20,273	388	20,661
Libor x U.S. dollar	22,147	8	264	272
TJLP x CDI	16,667	60	106	166
IPCA x CDI	1,021,500	13,819	74,235	88,054
Fixed rate x Real	2,685	(65)	105	40
Fixed rate x U.S. dollar	335,075	71,839	4,248	76,087
Asset position – 2018	1,466,917	105,934	79,346	185,280
Asset position – 2017	2,368,775	158,806	19,664	178,470
U.S. dollar x CDI	1,298,984	(40,728)	12,972	(27,756)
U.S. dollar x U.S. dollar			(1,930)	(1,930)
CDI x IPCA	580,200	(2,320)	(21,392)	(23,712)
CDI x U.S. dollar	450,232	(55,478)	(14,718)	(70,196)
CDI x Libor	16,667	(4,048)	37	(4,011)
CDI x TJLP	16,666	(1,491)	(126)	(1,617)
IPCA x CDI	474,000	626	(1,303)	(677)
Fixed rate x Real	22,415	(1,801)	936	(865)
Fixed rate x U.S. dollar	133,784	(19,131)	531	(18,600)
Liability position – 2018	2,992,948	(124,371)	(24,993)	(149,364)
Liability position – 2017	4,763,878	(588,381)	(40,124)	(628,505)
Exposure – 2018	4,459,865	(18,437)	54,353	35,916
Exposure – 2017	7,132,653	(429,575)	(20,460)	(450,035)

Swap transactions were marked-to-market based on BM&FBovespa quotations.

CDI - Interbank Deposit Certificate
IPCA - Amplified Consumer Price Index
TJLP - Long-term Interest Rate
Libor - London Interbank Offered Rate

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(d) Operations with derivative instruments designated for hedge purposes**(i) Cash flow hedge**

The purpose of BMG's hedge relationship is to protect the portion of the payment cash flows to be disbursed in the funding of time deposits with floating interest rates indexed by the Interbank Deposit Certificate (CDI) to fixed rates.

In order to protect the future cash flows of the portion of the funding of time deposits against the exposure to the CDI, Banco BMG negotiated future one-day DI contracts at BM&F Bovespa, and the market present value of the funding is R\$ 3,041,135 (2017 – R\$ 2,531,683). These instruments generated an adjustment to market value in equity of R\$ 17,170 (2017 – R\$ 18,769), net of tax effects.

The effectiveness determined for the hedge portfolio was in compliance with the provisions established in BACEN Circular Letter 3082 of January 30, 2002.

(ii) Fair value hedge

Banco BMG's hedging relationships are designated to protect, from exposure to changes in market risk, variable-rate time deposits indexed to the US dollar against the CDI.

To hedge exposure to the changes in the market risk of time deposits against exposure to the variable interest rate (CDI), the Bank contracted US dollar x CDI swaps, in August 2013, maturing in January 2015, in the amount of R\$2,755,508. In December 2013, the swaps designated as hedging instruments for the hedge accounting of funding operations were substituted by others for the purpose of matching the maturity dates and the coupons of the asset portion of the swaps, the hedging instruments, with the maturities and coupons of the funds obtained, the hedged items. Accordingly, the Bank contracted US dollar x DI swaps in the amount of R\$796,894. At September 30, 2018, the balance of the asset portion of the swaps totaled R\$ 731,626 (2017 – R\$ 893,716), and the balance of funds obtained totaled R\$ 718,642 (2017 – R\$ 899,094). These instruments generated an adjustment to positive market value in the statement of income of R\$ 11,359 (2017 – negative by R\$ 20,475), net of taxes.

The effectiveness determined for the hedge portfolio is in compliance with the provisions established in BACEN Circular Letter 3082/2002.

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8 Credit, leasing and other credit operations
(a) Classification by product

	Financial Conglomerate		Bank	
	2018	2017	2018	2017
Personal credit	6,846,541	5,565,068	6,580,890	5,438,675
Direct consumer credit (CDC) -Vehicles	6,312	31,317	6,312	31,317
Commercial portfolio	1,183,366	1,158,289	1,183,366	1,158,289
Leasing		46		
Assigned credit operations (i)	961,991	1,363,664	961,991	1,363,664
Import financing		8,217		
Sub-Total	8,998,210	8,126,601	8,732,559	7,991,945
Foreign exchange portfolio	7,546	37,630	7,546	37,630
Credit cards	259,223	226,555	259,223	226,555
Total other receivables	266,769	264,185	266,769	264,185
Total credit portfolio	9,264,979	8,390,786	8,999,328	8,256,130
Provision for impairment of credits – credit operations	(551,008)	(538,103)	(537,783)	(532,737)
Provision for impairment of credits – other credits	(2,147)	(464)	(2,147)	(464)
Total	8,711,824	7,852,219	8,459,398	7,722,929
Current	7,657,753	6,656,179	7,596,464	6,603,809
Non-current	1,054,071	1,196,040	862,934	1,119,120

(i) Credits assigned with substantial retention of risks and rewards in accordance with Resolution 3533/08.

(b) Classification by sector of activity

	Financial Conglomerate		Bank	
	2018	2017	2018	2017
Private sector:				
Industry	92,192	174,523	92,192	174,523
Commerce	50,879	71,538	50,879	71,538
Financial intermediaries	161,355	168,110	161,355	168,110
Other services	812,133	748,001	812,133	747,955
Housing	9,159	31,310	9,159	31,310
Rural credits	5,428	14,949	5,428	6,732
Individuals	8,133,833	7,182,355	7,868,182	7,055,962
Total	9,264,979	8,390,786	8,999,328	8,256,130



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(c) Credit assignments

Effective as from January 1, 2012, Resolution 3533/2008 establishes procedures for the classification, recording and disclosure of operations of sale or transfer of financial assets.

The classification as substantial retention of risks and rewards in the credit assignment operations is characterized by the co-obligation in the credit assignments or by the acquisition of subordinated quotas of the assignee funds. In this classification, the assigned operations remain recorded in the assets of the assignor institution and the funds received are recorded in assets with a corresponding entry in liabilities, due to the assumed obligation. Income and expenses referring to the assignments of credit realized are recognized in the statement of income according to the remaining term of the transactions.

In the period ended September 30, 2018, Banco BMG S.A. did not perform credit assignment transactions classified as substantial retention of risks and rewards, in which the Bank was exposed to market, operating and credit risk, which are monitored and mitigated in conformity with the Bank's risk management structure (see Note 28) and the current standards. The retained economic benefits are related to the income from the credit operations of the assigned operations.

The amounts of the assigned operations and the assumed obligations at September 30, 2018 were as follows:

Assignment after resolution 3533/08	Financial Conglomerate and Bank	
	Assigned operations	Assumed obligations
		(Note 17b)
Personal consigned credit:		
With co-obligation - Present value	961,991	844,189
Balance of settled operations to be transferred		1,957
Total 2018	961,991	846,146
Total 2017	1,363,664	1,144,411

In period ended September 30, 2017, Banco BMG S.A. carried out credit assignment operations without retention of risks and rewards, with a net gain of R\$ 28,421, of which R\$ 100,549 relates to credit operation expenses, R\$ 105,967 relates to reversals of the provision of impairment of credits and R\$ 23,003 to the recovery of credits written-off as losses.

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(d) Analysis of the credit portfolio by product and maturities

					Financial Conglomerate
Maturity/Product	Personal credit	Vehicle finance	Commercial portfolio	Leasing	Total
Falling due in up to 30 days	6,478,931	611	44,822		6,524,364
Falling due from 31 to 60 days	119,966	475	54,246		174,687
Falling due from 61 to 90 days	98,755	437	96,520		195,712
Falling due from 91 to 180 days	194,207	1,048	104,964		300,219
Falling due from 181 to 360 days	215,228	1,124	141,775		358,127
Falling due after 360 days	463,637	722	654,804		1,119,163
Total installments not yet due	7,570,724	4,417	1,097,131		8,672,272
Overdue up to 14 days	10,637	166	1,671		12,474
Overdue from 15 to 30 days	118,110	147	1,961		120,218
Overdue from 31 to 60 days	50,545	269	1,328		52,142
Overdue from 61 to 90 days	44,459	231	1,370		46,060
Overdue from 91 to 180 days	113,644	555	3,546		117,745
Overdue from 181 to 360 days	157,160	527	86,381		244,068
Total overdue installments	494,555	1,895	96,257		592,707
Total portfolio – 2018	8,065,279	6,312	1,193,388		9,264,979
Total portfolio – 2017	7,067,215	31,316	1,292,209	46	8,390,786
					Bank
Maturity/Product	Personal credit	Vehicle finance	Commercial portfolio		
Falling due in up to 30 days	6,478,878	611	44,822		6,524,311
Falling due from 31 to 60 days	119,774	475	54,246		174,495
Falling due from 61 to 90 days	98,238	437	96,520		195,195
Falling due from 91 to 180 days	191,189	1,048	104,964		297,201
Falling due from 181 to 360 days	182,965	1,124	141,775		325,864
Falling due after 360 days	262,486	722	654,804		918,012
Total installments not yet due	7,333,530	4,417	1,097,131		8,435,078
Overdue up to 14 days	10,637	166	1,671		12,474
Overdue from 15 to 30 days	111,654	147	1,961		113,762
Overdue from 31 to 60 days	46,296	269	1,328		47,893
Overdue from 61 to 90 days	41,596	231	1,370		43,197
Overdue from 91 to 180 days	107,134	555	3,546		111,235
Overdue from 181 to 360 days	148,781	527	86,381		235,689
Total overdue installments	466,098	1,895	96,257		564,250
Total portfolio – 2018	7,799,628	6,312	1,193,388		8,999,328
Total portfolio – 2017	6,940,823	31,317	1,283,991		8,256,130

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BANCO BMG S.A. (BANK) AND BANCO BMG S.A. AND ITS SUBSIDIARIES (FINANCIAL CONGLOMERATE)

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(e) Provision for impairment of credits

The analysis of the credit and leasing operations portfolio in the corresponding risk levels established in BACEN Resolution 2682/99, and the related provision for impairment, is as follows:

(i) Financial Conglomerate

				2018			2017
Level	%	Portfolio	Provision for impairment of credits		Portfolio	Provision for impairment of credits	
A	0.50	8,292,810	41,464		7,291,844	36,459	
B	1.00	190,051	1,901		202,560	2,026	
C	3.00	90,933	2,728		171,170	5,135	
D	10.00	68,493	6,849		79,574	7,957	
E	30.00	94,947	28,484		118,215	35,465	
F	50.00	54,604	27,302		72,153	36,076	
G	70.00	95,714	67,000		132,737	92,916	
H	100.00	377,427	377,427		322,533	322,533	
Total		9,264,979	553,155		8,390,786	538,567	

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BANCO BMG S.A. (BANK) AND BANCO BMG S.A. AND ITS SUBSIDIARIES (FINANCIAL CONGLOMERATE)

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(ii) Bank

				2018			2017
Level	%	Portfolio	Provision for impairment of credits		Portfolio	Provision for impairment of credits	
A	0.50	8,055,614	40,277		7,174,953	35,875	
B	1.00	183,595	1,836		192,916	1,929	
C	3.00	86,684	2,601		169,690	5,091	
D	10.00	65,631	6,563		78,584	7,858	
E	30.00	92,703	27,811		117,422	35,227	
F	50.00	52,213	26,106		71,434	35,717	
G	70.00	93,840	65,688		132,089	92,462	
H	100.00	369,048	369,048		319,042	319,042	
Total		8,999,328	539,930		8,256,130	533,201	

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(f) Changes in the provision for impairment of credits and recovery of credits

Data related to doubtful credits written-off against the provision for impairment of credits and the recovery of credit operations previously written off as losses can be summarized as follows:

	Financial Conglomerate		Bank	
	2018	2017	2018	2017
Opening balance	558,455	576,482	551,764	571,260
Addition to/reversal of provision	384,768	315,312	370,347	309,722
Effect on profit	384,768	315,312	370,347	309,722
Doubtful credits written-off against the provision	(390,068)	(353,227)	(382,181)	(347,781)
Closing balance	553,155	538,567	539,930	533,201
Credit operations recovered	(158,042)	(149,914)	(157,607)	(149,834)
Total effect on the profit (expense)	226,726	165,398	212,740	159,888

9 Other receivables

	Financial Conglomerate		Bank	
	2018	2017	2018	2017
Tax credits (i)	2,323,093	2,384,912	1,954,944	2,000,652
Foreign exchange portfolio (Note 8 (a))	8,987	66,864	8,987	66,864
Debtors for guarantee deposits (ii)	300,952	268,499	297,041	264,672
Taxes to be offset (iii)	366,222	357,275	324,941	294,871
Sundry debtors - local (iv)	592,366	564,390	553,446	546,224
Debtors for purchase of assets	1,293	6,231	1,293	6,231
Amounts receivable from associated companies	114,231	113,988	121,319	157,154
Commitment to former owner of Banco Cifra	11,425	43,975	11,425	43,975
Credit securities receivable (Note 8 (a))	259,223	226,555	259,223	226,555
Others	26,410	11,898	36,024	18,152
(-) Provision for impairment - Other receivables (Note 8 (a))	(2,147)	(464)	(2,147)	(464)
Total	4,002,055	4,044,123	3,566,496	3,624,886
Current	1,377,590	1,390,057	1,314,152	1,358,970
Non-current	2,624,465	2,654,066	2,252,344	2,265,916

- (i) The income tax and social contribution on net income credits were calculated and recorded based on the aspects detailed in Note 25(a).
- (ii) The balances of debtors for guarantee deposits are related to tax and fiscal litigations (Note 18).
- (iii) The balance of taxes to be offset mainly comprises a COFINS credit of R\$262,367 (2017 - R\$255,457) in the Financial Conglomerate and R\$249,554 (2017 - R\$242,920) in the Bank, as a result of the unappealable decision on April 6, 2009 of a Rescissory Action seeking the recognition of the right to only pay COFINS on revenues from services in the form of Supplementary Law 70/91, because of the unconstitutionality of Art. 3, § 1, of Law 9,718/98, declared by the Supreme Court in the judgment of Extraordinary Appeal No. 357,950.

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- (iv) The balance of sundry debtors - local refers mainly to the balances of "Non-financial write-offs", being amounts written-off from the credit portfolio and pending transfer by the relevant entities, of R\$362,822 (2017 – R\$388,860), as well as amounts receivable from credit assignments made in 2017 of R\$ R\$109,290 (2017 R\$102,457).

10 Other assets

(a) Assets not in use and inventory of supplies

	Financial Conglomerate		Bank	
	2018	2017	2018	2017
Assets not in use (i)	55,902	28,876	55,793	28,569
Provision for losses	(634)	(2,211)	(634)	(2,211)
Inventory of supplies	130	154	130	154
Total – Current assets	55,398	26,819	55,289	26,512

- (i) Basically comprises real estate and vehicles received as payment in kind.

(b) Prepaid expenses

	Financial Conglomerate		Bank	
	2018	2017	2018	2017
Commissions - Local	168,423	236,220	168,422	236,220
Commissions - Foreign	1,928	8,390	1,928	8,390
Other	3,051	748	1,052	748
Total	173,402	245,358	171,402	245,358
Current	106,754	76,282	104,754	76,282
Non-current	66,648	169,076	66,648	169,076

BANCO



BANCO BMG S.A. (BANK) AND BANCO BMG S.A. AND ITS SUBSIDIARIES (FINANCIAL CONGLOMERATE)

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11 Investments

Investments in subsidiary companies

	Number of shares/ quotas held	% holding	Equity	Profit / (loss) –first three-month period	Equity in earnings (loss) three-month period	Financial Conglomerate	
						Book value of the investment	Book value of the investment
						2018	2017
(i) Direct (non-financial area)							
ME Promotora de Vendas Ltda.	8,000	80.00%	9,707	1,650	1,320	8,059	7,061
CB Intermediação de Negócios Ltda.	198,490,998	99.99%	74,628	(33)	(33)	72,980	73,588
BMSE Participações Ltda.	7,006,483	99.74%	1,964	7	7	1,964	1,953
BMG Participações em Negócios Ltda.	23,625,000	94.49%	27,455	(1,085)	(1,441)	24,414	25,480
Help Franchising Participações Ltda.	21,995,600	99.98%	18,373	(817)	(141)	18,762	
Goodwill on investment in Help Franchising Participações Ltda.						3,091	
Amortization of goodwill - Help Franchising Participações Ltda.						(360)	
(ii) Indirect (non-financial area)							
Cinpar Holding S.A.(i)	3,238,638	47.07%				11,543	11,543
Provision Cinpar Holding						(11,543)	(11,543)
Total					(288)	128,910	108,082

(i) A provision of R\$11,543 was recorded in an Investment subaccount in respect of the indirect investment in Cinpar Holdings S.A. to recognize the expected impairment thereof.



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	2018						Bank
	Number of	%		Profit / (loss)	Equity in earnings	Book	2017
	shares/quotas	holding	Equity	three-month	(loss) three-month	value of	Book value
	held			period	period	the	of the
						investment	investment
(i) Direct (financial area)							
BMG Bank (Cayman) Ltd.	2,417	100.00%	191,779	5,106	39,293	201,259	153,238
BMG Leasing S.A - Arrendamento Mercantil	229,125,505	99.99%	337,238	7,237	7,237	340,141	334,138
Banco Cifra S.A.	163,647,689	100.00%	705,188	14,063	14,063	709,960	690,720
Banco BCV S.A.	81,977,488,506	100.00%	1,175,204	21,879	21,879	1,183,190	1,153,043
Cifra Financeira S.A.	279,000	100.00%	14,199	269	269	14,269	14,207
Goodwill on investment in Banco BCV S.A.						1,422,504	1,422,504
Goodwill amortization on investment in Banco BCV S.A.						(1,007,607)	(865,357)
Goodwill on investment in Banco Cifra S.A./ Simples Participações Ltda.						27,908	27,908
Amortization of goodwill - Simples Participações Ltda.						(20,233)	(17,442)
Goodwill on investment in Help Franchising Participações Ltda.						3,091	
Amortization of goodwill - Help Franchising Participações Ltda.						(361)	
(iii) Direct (non-financial area)							
ME Promotora de Vendas Ltda.	8,000	80.00%	9,707	1,650	1,320	8,059	7,061
CB Intermediação de Negócios Ltda.	198,490,998	99.99%	74,628	(33)	(33)	72,980	73,588
BMSE Participações Ltda.	7,006,483	99.74%	1,964	7	7	1,964	1,953
BMG Participações em Negócios Ltda.	23,625,000	94.49%	27,455	(1,085)	(1,441)	24,414	25,480
Help Franchising Participações Ltda.	21,995,600	99.98%	18,373	(817)	(141)	18,762	
Total					82,453	3,000,300	3,021,041



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The operations of the branch in Grand Cayman started in July 1995. It was transformed into a subsidiary in 2001 and named BMG Bank (Cayman) Ltd. This subsidiary adopts the accrual basis of accounting to record income and expenses. Its financial statements are originally prepared in local currency in accordance with the accounting practices adopted in Brazil. In accordance with BACEN regulations, the foreign subsidiary is recorded as an investment on the equity method of accounting.

BMG acquired Banco Cifra S.A. (previously Banco GE Capital S.A.) on July 1, 2011. At the transaction date, the amount of R\$ 36,614 was paid for an equity of R\$ 78,246, resulting in negative goodwill of R\$ 41,632. On the same date, the Bank acquired all the quotas of Simples Participações (previously GE Participações e Promoções e Serv. Ltda.) and goodwill of R\$ 69,540 was computed on the transaction date. As these were combined transactions and reflected the economic substance of the transaction, the accounting record was made at the net value representing a goodwill of R\$ 27,908.

On August 18, 2011, BMG purchased Banco BCV S.A. (previously Banco Schahin S.A.). The amount paid for this acquisition was R\$ 277,641 and goodwill of R\$ 1,422,504 was computed and classified under "Intangible assets" (Note 13). The acquisition was structured, together with the Credit Guarantor Fund (FGC), through the assumption of the debt of Banco BCV S.A. (previously Banco Schahin S.A.) subject to the SELIC interest rate, in the amount of R\$ 249 million, to be paid in 15 years (Note 16). The basis of this goodwill was its future profitability.

The transaction involved the transfer of 100% of the shares comprising the capital Banco BCV S.A. (previously Banco Schahin S.A.) to BMG. Cifra Financeira S.A. and Schahin Corretora C.C.V.M. were also acquired in addition to Banco BCV S.A..

The result of the participation in the subsidiary Cinpar Holding S.A., relates solely to foreign exchange variations.

On July 9, 2012, Banco BMG S.A. ("BMG") entered into an Association Agreement with Itaú Unibanco Holding with the purpose of offering, distributing and trading consigned credits through the establishment of the financial institution Banco Itaú BMG Consignado S.A. ("Itaú BMG Consignado"). After obtaining the necessary prior approval for the commencement of operations, which was issued by the Fair Trade Commission (CADE) on October 17, 2012, the final documentation was signed on December 13, 2012 and Banco BMG became a stockholder of Itaú BMG Consignado on January 7, 2013.

On January 31, 2014, a partial split of Cifra Financeira S.A was performed by Banco Cifra S.A changing the Banco BMG S.A percentage of interest in Banco Cifra S.A..

On April 29, 2014 an agreement was signed establishing the unification of consigned loans from Banco BMG and Banco Itaú BMG Consignado, meaning that all matters related to consigned loans would be made exclusively by Itaú BMG Consignado.

This agreement increased the participation of Banco BMG in partnership with Itaú BMG Consignado from 30% to 40%, with a consequent increase of the capital of Itaú BMG Consignado.

Banco BMG will continue exploring the business of credit assignment Card, Commercial Portfolio, Vehicles, Real estate financing and other products with growth potential and profitability.

The Agreement was approved by the Brazilian Central Bank on July 9, 2014 and by CADE on May 28, 2014.

On July, 2014 a capital increase of Itaú BMG Consignado was carried out in the amount of R\$ 181,098.

On September 15, 2014, a capital increase of Banco BCV was carried out in the amount of R\$ 1,000,000.

On November 10, 2014, a capital increase of BMG Leasing was carried out in the amount of R\$ 200,000.



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On February 13, 2015, a capital increase of Itaú BMG Consignado was carried out in the amount of R\$ 274,800

On February 28, 2015, Simples Participações Ltda. was merged into CB Intermediação de Negócios Ltda.

On April 30, 2015, a capital increase of CB Intermediação de Negócios Ltda. was carried out in the amount of R\$ 20,000.

At the Extraordinary General Meeting held on December 30, 2015, the stockholders approved a capital decrease in Banco BCV of R\$ 900,000, with the subsequent cancellation of 139,417,900,120 shares.

On March 8, 2016, through Circular Letter 3,875/2016-BCB/Deorf/GTSP2, the Brazilian Central Bank approved the change in the capital of Banco BCV to R\$ 1,530,617 and the consequent capital decrease by R\$ 900,000 (R\$ 570,870 of which was in cash), as well as the transfer of 79,539,206 shares held by Banco BCV to the capital of Banco Cifra and the transfer of 279,000 shares held by Banco BCV to the capital of Cifra FI.

The Brazilian Central Bank approved on September 28, 2016 the request for partial spin-off of assets and liabilities of Banco Cifra S.A and Banco BCV S.A. into Banco BMG S.A..

On September 29, 2016, Banco BMG S.A. entered into a share purchase agreement with Itaú Unibanco S.A. under which Itaú Unibanco undertook to acquire the entire interest held by BMG in Banco Itaú BMG Consignado S.A., corresponding to 40% of total capital. This agreement was concluded on December 28, 2016 after obtaining the necessary regulatory authorizations and the fulfillment of previous conditions. The sale of the entire stake was completed for R\$ 1.46 billion, generating a gain of R\$ 431,091.

At June 30, 2017, a capital increase of CB Intermediação de Negócios Ltda. was carried out in the amount of R\$ 10,000.

On November 23, 2017, the assignment and transfer of 875,000 quotas in BMG Participações em Negócios Ltda., totaling R\$ 944, was made with the consequent reduction of the investment of Banco BMG S.A. from 99.99% to 96.50%.

On March 9, 2018, Banco BMG purchased from the controlling shareholders 99.98% of Help Franchising Participações Ltda. In order to complete the transaction, R\$ 6,999 was paid for an equity of R\$ 3,908, and goodwill of R\$ 3,091 was recorded. Subsequently, a capital increase was made at Help Franchising Participações Ltda. in the amount of R\$ 14,997.

On May 25, 2018, the assignment and transfer of 500,000 shares of BMG Participações em Negócios Ltda., totaling R\$ 500, with a consequent reduction of Banco BMG S.A.'s ownership interest from 96.50% to 94.49%.



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12 Property and Equipment

Financial Conglomerate and Bank										
	Annual rate of depreciation (%)	2018		2017		Changes				
		Cost	(Accumulated Depreciation)	Net book value	Net book value	Net book value at 12.31.2017	Purchases	(Amount written off)	(Depreciation expense)	Net book value at 03.31.2018
Properties in use		16,687	(12,964)	3,723	3,913	3,741			(19)	3,722
Land		3,711		3,711	3,876	3,711				3,711
Buildings	4	12,976	(12,964)	12	37	30			(19)	11
Other assets in use		225,324	(134,686)	90,638	71,244	73,468	42,714	(11,869)	(13,674)	90,639
Security system	5				6					
Facilities	10	89,590	(61,883)	27,707	32,317	31,083	11,473	(11,074)	(3,774)	27,708
Furniture and equipment	10	20,263	(13,117)	7,146	5,823	5,605	2,526	(27)	(958)	7,146
Communications system	10	1,538	(1,054)	484	427	450	93	(1)	(58)	484
Data processing system	20	107,789	(55,707)	52,082	30,382	33,711	28,225		(9,854)	52,082
Transport system	20	6,144	(2,925)	3,219	2,289	2,619	397	(767)	970	3,219
Property and equipment in use		242,011	(147,650)	94,361	75,157	77,209	42,714	(11,869)	(13,693)	94,361



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13 Intangible assets

	Financial Conglomerate	
	2018	2017
Goodwill based on expected future profitability		
Banco BCV S.A.	1,422,504	1,422,504
Banco Cifra S.A. / Simples Participações Ltda.	27,908	27,908
Amortization of goodwill	(1,027,841)	(882,799)
Total	422,571	567,613

According to a study carried out on the base date of June 2018, the need to recognize the goodwill impairment loss in the period ended September 30, 2018 was not identified. The amortization period for goodwill is 10 years, the final date of which is August 2021. The recoverable value of goodwill was calculated based on the value in use. The calculation uses cash flow projections, based on the 10-year budget approved by Management.

The changes in intangible assets were:

	Financial Conglomerate	
	2018	
	Goodwill on acquisition of subsidiaries	
Balance at January 1, 2018	531,352	
Amortization	(108,781)	
Total	422,571	

	Financial Conglomerate	
	2017	
	Goodwill on acquisition of subsidiaries	
Balance at January 1, 2017	676,394	
Amortization	(108,781)	
Total	567,613	

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14 Deposits

(a) Interbank deposits

	Financial Conglomerate		Bank	
	2018	2017	2018	2017
Fixed rate				18,624
Floating rate	847	20,176	1,531,148	1,761,373
Total	847	20,176	1,531,148	1,779,997
Current	847	19,400	1,529,398	1,773,537
Non-current		776	1,750	6,460

(b) Time deposits

	Financial Conglomerate		Bank	
	2018	2017	2018	2017
Fixed rate	2,879,043	1,346,781	2,879,043	1,346,781
Floating rate	6,458,834	6,446,817	6,458,818	6,415,007
Total	9,337,877	7,793,598	9,337,861	7,761,788
Current	2,958,043	1,747,919	2,958,027	1,716,109
Non-current	6,379,834	6,045,679	6,379,834	6,045,679

(c) Maturity of time and interbank deposits

The information on the maturities of time and interbank deposits is as follows:

	Financial Conglomerate					
	Interbank deposits		Time deposits (i)		Total	
	2018	2017	2018	2017	2018	2017
Up to 30 days	424	388	274,919	194,722	275,343	195,110
From 31 to 60 days			163,710	165,133	163,710	165,133
From 61 to 90 days			365,237	128,841	365,237	128,841
From 91 to 180 days		18,624	1,004,897	548,624	1,004,897	567,248
From 181 to 360 days	423	388	1,149,280	710,599	1,149,703	710,987
Over 360 days		776	6,379,834	6,045,679	6,379,834	6,046,455
Total	847	20,176	9,337,877	7,793,598	9,338,724	7,813,774
Current	847	19,400	2,958,043	1,747,919	2,958,890	1,767,319
Non-current		776	6,379,834	6,045,679	6,379,834	6,046,455

(i) The amount of R\$9,337,877 (2017 - R\$7,793,598) of time deposits includes R\$103,070 (2017 - R\$572,648) with a special guarantee of the Credit Guarantee Fund - Time Deposits with Special Guarantee (FGC - DPGE), under BACEN Resolution 3692 of March 26, 2009.

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	Interbank deposits		Time deposits (i)		Bank Total	
	2018	2017	2018	2017	2018	2017
	Up to 30 days	424	549,592	274,919	194,722	275,343
From 31 to 60 days	88	900,600	163,710	165,133	163,798	1,065,733
From 61 to 90 days	1,510,180	1,598	365,236	128,841	1,875,416	130,439
From 91 to 180 days	14,701	319,069	1,004,897	548,624	1,019,598	867,693
From 181 to 360 days	4,005	2,678	1,149,265	678,789	1,153,270	681,467
Over 360 days	1,750	6,460	6,379,834	6,045,679	6,381,584	6,052,139
Total	1,531,148	1,779,997	9,337,861	7,761,786	10,869,009	9,541,784
Current	1,529,398	1,773,537	2,958,027	1,716,109	4,487,425	3,489,646
Non-current	1,750	6,460	6,379,834	6,045,679	6,381,584	6,052,139

(i) The amount of R\$9,337,861 (2017 - R\$7,761,786) of time deposits includes R\$103,070 (2017 - R\$572,648) with a special guarantee of the Credit Guarantee Fund - Time Deposits with Special Guarantee (FGC - DPGE), under BACEN Resolution 3692 of March 26, 2009.

15 Funds from acceptance and issue of securities
(a) Short-term / Medium-term notes program

Type of security	Principal (US\$ thousand)	Issuance	Maturity	Rate per year	Financial Conglomerate and Bank	
					2018	2017
Notes	171,871	abr-11	abr-18	8.00%		283,848
Subordinated notes (i)	245,242	nov-09	nov-19	9.95%	45,897	36,580
Subordinated notes (i)	164,607	ago-10	ago-20	8.88%	10,397	8,226
Market risk hedge (i)					(10,985)	(18,200)
Total					45,309	310,454

(i) At June 30, 2018 and 2017 funding operations in U.S. dollars were adjusted to market value, as stated in Note 7.

The Bank utilizes swap contracts to mitigate the risks related to the foreign exchange rate exposure of the external funding. See Note 7 (d) (ii).

The balances include a provision for income tax, calculated at 14.3% on the financial charges.

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(b) Liabilities from issue of financial bills

Financial bills were issued:

	Financial Conglomerate and Bank	
	2018	2017
Financial bills	427,922	585,718
Real estate credit bills	35,311	31,313
Agribusiness credit bills	94,720	146,247
Total	557,953	763,278
Current	335,072	474,138
Non-current	222,881	289,140

(c) Maturity

The information on the maturity of the funds from acceptance and issue of securities is as follows:

	Financial Conglomerate and Bank							
	Short-term / Medium-term notes Program		Interest on Subordinated Debt		Financial and Credit Bills			Total
	2018	2017	2018	2017	2018	2017	2018	2017
Up to 30 days		11,615			104,817	30,316	104,817	41,931
From 31 to 60 days			34,912	36,580	18,608	22,022	53,520	58,602
From 61 to 90 days					6,366	7,540	6,366	7,540
From 91 to 180 days			10,397	8,226	135,532	249,945	145,929	258,171
From 181 to 360 days		254,033			69,749	164,315	69,749	418,348
Over 360 days					222,881	289,140	222,881	289,140
Total		265,648	45,309	44,806	557,953	763,278	603,262	1,073,732
Current		265,648	45,309	44,806	335,072	474,138	380,381	784,592
Non-current					222,881	289,140	222,881	289,140

16 Borrowings and onlendings

	Financial Conglomerate		Bank	
	2018	2017	2018	2017
Local onlendings – Official Institutions (a)	50,668	63,752	50,668	63,752
Foreign loans (b)		67,711		114,913
Local loans – Other Institutions (c)	461,259	437,140	461,259	437,140
Total	511,927	568,603	511,927	615,805
Current	50,668	131,141	50,668	178,343
Non-current	461,259	437,462	461,259	437,462

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(a) Local onlendings – Official institutions

These onlendings refer to funds received from the Government Agency for Machinery and Equipment Financing (FINAME) and the Ministry of Agriculture - Coffee Economy Defense Fund (FUNCAFÉ). They fall due as follows:

	Financial Conglomerate and Bank	
	2018	2017
Up to 30 days	333	336
From 31 to 60 days		322
From 61 to 90 days		322
From 91 to 180 days		967
From 181 to 360 days	50,335	61,483
Over 360 days		322
Total		63,752
Current	50,668	63,430
Non-current		322

(b) Local onlendings – Other Institutions

These refers to a loan from the FGC - Credit Guarantor Fund (See Note 11).

17 Other liabilities

(a) Taxes and social security contributions

	Financial Conglomerate		Bank	
	2018	2017	2018	2017
Provision for income tax and social contribution payable	27,369	64,138	2,346	24,964
Other taxes and contributions payable	21,408	23,466	20,829	21,682
Provision for deferred income tax and social contribution (i)	39,685	34,760	39,446	34,268
Total	88,462	122,364	62,621	80,914
Current	48,777	71,701	23,175	32,514
Non-current	39,685	50,663	39,446	48,399

(i) The provision for deferred income tax and social contribution refers to temporary differences included in the calculation of taxable income, as shown in Note 25 (c).

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(b) Sundry

	Financial Conglomerate		Bank	
	2018	2017	2018	2017
Provision for other payments	113,776	98,202	113,470	97,874
Sundry creditors (i)	313,217	369,229	312,299	368,177
Transfer – Credit Assignments (ii)	1,957	5,082	1,957	5,082
Amounts payable to related companies			798	7,390
Provisions for contingent liabilities (iii)	431,247	456,534	420,002	445,718
Obligations on operations linked to assignments(iv)	844,189	1,139,329	844,189	1,139,329
Subordinated debts (Note 17(c))	1,640,749	1,303,857	1,640,749	1,303,857
Financial guarantees provided	4,827	4,770	4,827	4,770
Obligations due to official agreements		44		44
Other	34	53	34	36
Total	3,349,996	3,377,100	3,338,325	3,372,277
Current	1,186,853	1,450,874	1,186,427	1,456,867
Non-current	2,163,143	1,926,226	2,151,898	1,915,411

- (i) Refers to transactions related to assignments in which the customers prepaid, totally or partially, the credit transaction transferred (prepayment), recorded as a liability until the actual transfer of the funds received to the purchaser or transferee. See Note 8 (c).
- (ii) Refers to claims of a civil, labor and tax nature. See Note 18.
- (iii) Refers to obligations assumed for credit assignment operations with substantial retention of risks and rewards. See Note 8 (c).

(c) Subordinated debt

The funds obtained in connection with the issuance of subordinated debt securities, in accordance with the conditions determined by CMN Resolution 3444, of February 28, 2007, as amended by CMN Resolution 3532, of January 31, 2008, were as follows:

Type of security	Amount	Date of			Financial Conglomerate and Bank	
		Issuance	Maturity	Rate per year	Principal balance	
					US\$ thousand	R\$ thousand
Foreign:						
Subordinated debt (dollar)	516,238	Nov/09	Nov/19	9.95%	245,242	981,777
Subordinated debt (dollar)	431,836	Ago/10	Ago/20	8.88%	164,607	658,972
Total – 2018						1,640,749
Total – 2017						1,303,857

The subordinated debts eligible for level II capital (Financial Conglomerate and Bank) mature as follows:

Subordinated Notes	Financial Conglomerate and Bank	
	2018	2017
Over 360 days	1,640,749	1,303,857
Total	1,640,749	1,303,857

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18 Contingent assets and liabilities and legal obligations - Tax and social security

The Bank is a party to litigation involving labor, civil and tax issues. The criteria described in Note 2.2(r) are utilized to assess the need to record a provision. Management of the Bank believes that the provision recorded is sufficient to cover the expected losses from the respective processes.

Banco BMG and its subsidiaries, in the execution of their normal activities, are involved in the following contingencies: a) Contingent assets - there were no contingent assets recorded; b) Contingent liabilities - These are classified and shown together with their respective judicial deposits, as follows:

(i) Provision for tax risks - The contingencies are equivalent to the amount of the principal of taxes related to administrative or judicial proceedings, which are subject to self-assessment or official assessment, plus interest and, when applicable, fines and charges. A provision is recorded, regardless of the likelihood of loss, when related to a legal obligation, that is, for a favorable outcome in the matter the law in effect must be declared unconstitutional. For other cases, a provision is recorded whenever the likelihood of loss is probable.

No provision is recorded for tax processes in which the likelihood of loss is considered as possible, amounting to an estimated R\$397,321 (2017 – R\$411,352) for the Financial Conglomerate and R\$389,996 (2017 – R\$400,765) for the Bank. These processes mainly refer to federal taxes.

The Bank is a party to legal and administrative proceedings, in the normal course of its operations, involving tax and other matters.

The principal matters being challenged relate to the **National Institute of Social Security (INSS)**:

- a) The Bank questions the payment of the employer's contribution in respect of the profit sharing of management in accordance with the terms of Law 8,212/91. Judicial deposits with possible loss have been made for the amounts being disputed.
- b) Lawsuits filed to recognize the unconstitutionality and illegality of the Work Accident Insurance (SAT) premium under the terms of article 21-A of Law 8,213/91, introduced by Law 11,430/06, with the subsequent recognition of the non-existence of a legal and tax relationship that obliges the Associates of the Claimant to comply with such provisions, keeping the regulatory and legal original wordings.

(ii) Provisions for labor claims – A calculation is made periodically to determine the amount of the claim, stage and the likelihood of loss which, in turn, is estimated according to the characteristics of the facts and the rights related to the process. A provision is recorded for amounts considered as probable losses.

The contingencies are related to lawsuits discussing the labor rights derived from labor legislation specifically relating to the professional category, such as overtime, salary equalization, job reinstatement, premium for transfer, among other matters.

Contingent labor lawsuits assessed as a possible loss risk are not recognized in the accounting records, with a total estimated risk of R\$ 241,584 (2017 - R\$ 299,257) in the Financial Conglomerate and R\$ 241,584 (2017 - R\$ 299,257) in the Bank, referring to indemnity actions.

(iii) Civil Provisions - The provision of individualized civil cases is carried out periodically, based on the determination of the value of the risk and the probability of loss. The provision for class action civil cases is carried out periodically, based on a parameter of the average loss verified temporally and applied to the active cases base. The amounts considered as probable losses are subject to an accounting provision.

BANCO



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19 Equity (Bank)

(a) Capital

On September 7, 2018, the Central Bank of Brazil (Bacen) approved Banco BMG Bank's capital change through Official Notice 10120/2018-BCB/Deorf/GTSP2, to R\$ 2,545,571. Consequently, the capital increase was in the amount of R\$ 38,094, through the issuance of 363 new shares.

At September 30, 2018, subscribed and paid-up share capital is R\$ 2,542,571, comprised of 25,169 shares.

(b) Reserves

Revenue reserves:

- **Legal:** Accumulated through appropriations equivalent to 5% of the profit, for the year with the balance limited to 20% of capital.
- **Statutory:** The undistributed annual profit after all appropriations is transferred to this reserve and the accumulated balance is available to stockholders for future appropriations to be decided at General Meetings.

(c) Interest on Capital

Stockholders are entitled to receive as mandatory dividends, in each fiscal year, an amount of not less than twenty-five percent (25%) of the adjusted net income, as provided for in the Brazilian Corporate Law.

Interest on Equity was established by Law 9.249/95, which through art. 9, and amendments, allows companies to deduct the Real Profit and Social Contribution from the duly recorded financial expense resulting from the application of the TJLP on shareholders' equity as compensation to the shareholder.

20 Financial intermediation income (expenses)

Analysis of the financial intermediation income and expenses:

(a) Credit and leasing operations

	Financial Conglomerate		Bank	
	2018	2017	2018	2017
Direct consumer credit – personal	2,378,216	1,913,116	2,315,054	1,909,081
Direct consumer credit - for vehicles	1,081	18,668	1,081	18,668
Commercial portfolio	79,356	129,979	79,356	129,979
Leasing	(29)	110		
Agent commissions	(309,413)	(222,149)	(309,413)	(222,149)
Expenses with assigned credit operations (i)	(71,344)	(186,115)	(71,344)	(186,115)
Total	2,077,867	1,653,609	2,014,734	1,649,464

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Marketable securities transactions

	Financial Conglomerate		Bank	
	2018	2017	2018	2017
Interbank investments	62,277	70,469	61,689	64,560
Marketable securities	80,477	179,478	73,597	176,402
Investments abroad		19		
Total	142,754	249,966	135,286	240,962

(b) Expenses with funds obtained in the market

	Financial Conglomerate		Bank	
	2018	2017	2018	2017
Funding expenses abroad	(423,150)	(65,480)	(416,107)	(66,477)
Derivative financial instruments	198,577	(214,912)	198,577	(214,912)
Sub-Total	(224,573)	(280,392)	(217,530)	(281,389)
Expenses with time deposits	(619,325)	(572,794)	(618,579)	(572,501)
Expenses with interbank deposits	(1,779)	(7,317)	(81,675)	(133,532)
Other funding expenses	(50,407)	(92,472)	(50,407)	(87,030)
Loans, assignments and onlendings	(32,309)	(49,204)	(32,309)	(49,204)
Total	(928,393)	(1,002,179)	(1,000,500)	(1,123,656)

21 Income from services rendered

	Financial Conglomerate and Bank	
	2018	2017
Collection charges	851	1,952
Bank fees	14,139	9,275
Others	17,742	16,421
Total	32,732	27,648

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22 Personnel expenses and other administrative expenses

(a) Personnel expenses

	Financial Conglomerate		Bank	
	2018	2017	2018	2017
Payroll	(66,604)	(61,065)	(66,561)	(61,030)
Social charges	(26,308)	(29,744)	(26,294)	(29,731)
Training	(998)	(844)	(998)	(844)
Benefits	(20,341)	(17,460)	(20,318)	(17,441)
Fees	(6,706)	(6,846)	(6,706)	(6,846)
Total	(120,957)	(115,959)	(120,877)	(115,892)

(b) Other administrative expenses

	Financial Conglomerate		Bank	
	2018	2017	2018	2017
Water, power and gas	(1,298)	(1,259)	(1,298)	(1,259)
Marketing	(26,836)	(23,396)	(26,692)	(23,317)
Rentals	(8,949)	(9,163)	(8,930)	(9,144)
Leased property	(3,505)	(3,064)	(3,505)	(3,064)
Promotions and public relations	(3,929)	(21,211)	(3,929)	(21,211)
Communication expenses	(19,551)	(25,386)	(19,551)	(25,386)
Maintenance and repairs of property	(996)	(890)	(996)	(890)
Data processing	(33,526)	(26,480)	(33,522)	(26,479)
Insurance	(2,427)	(1,624)	(2,096)	(1,624)
Third-party services	(60,350)	(94,446)	(60,349)	(94,398)
Surveillance services	(4,326)	(4,138)	(4,326)	(4,138)
Specialist technical services	(118,812)	(83,134)	(117,162)	(82,829)
Sundry materials	(2,102)	(1,331)	(2,102)	(1,331)
Financial system services	(8,618)	(10,270)	(8,595)	(10,254)
Transport	(2,798)	(2,321)	(2,798)	(2,320)
Travel	(7,559)	(6,350)	(7,558)	(6,350)
Amortization and depreciation	(123,592)	(122,777)	(123,592)	(122,777)
Others	(27,881)	(22,082)	(27,649)	(21,677)
Total	(457,055)	(459,322)	(454,650)	(458,448)

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23 Tax expenses

	Financial Conglomerate		Bank	
	2018	2017	2018	2017
PIS/COFINS	(68,358)	(48,336)	(64,278)	(42,058)
ISS	(385)	(309)	(385)	(309)
Other	(3,752)	(6,104)	(3,277)	(5,360)
Total	(72,495)	(54,749)	(67,940)	(47,727)

24 Other operating income and expenses

	Financial Conglomerate		Bank	
	2018	2017	2018	2017
Other operating income				
Recovery of charges and expenses	4,362	64,041	3,129	63,984
Monetary variations	13,226	17,381	12,167	17,249
Reversal of operating provisions (i)	98,112	95,473	95,222	92,096
Income security		1,706		1,706
Refis - Tax Recovery Program		3,020		3,020
Adjustment of taxes to be offset	9,068	19,687	8,590	18,535
Other	941	10,589	941	2,356
Total	125,709	211,897	120,049	198,946
Other operating expenses				
Monetary variations	(7,028)	(9,147)	(7,028)	(9,147)
Collection charges	(3,504)	(3,742)	(3,393)	(3,534)
Transaction expenses with onlending of funds	(61,307)	(49,639)	(61,307)	(49,639)
Operating provisions (i)	(212,385)	(246,168)	(206,661)	(241,815)
Tax adjustments	(178)	(20,900)	(32)	(18,698)
Interest and fines	(14)	(1,156)	(2)	(1,156)
Charges	(25,629)	(13,978)	(25,629)	(13,978)
Other	(26,901)	(1,554)	(23,508)	(1,697)
Total	(336,946)	(346,284)	(327,560)	(339,664)

- (i) The "Reversal of operating provisions" and "Operating provisions" lines basically record for reversals and provisions for civil, labor and tax cases.

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25 Income tax and social contribution on net income

(a) Deferred tax credits

	Financial Conglomerate		Bank	
	2018	2017	2018	2017
Tax credits:				
On temporary differences	1,666,553	1,626,591	1,632,165	1,592,487
On income tax and social contribution losses	655,993	757,774	322,232	407,618
Social contribution - MP 2158-35	547	547	547	547
Total (i)	2,323,093	2,384,912	1,954,944	2,000,652
(i) Non-current (see Note 9).				

The Financial Conglomerate adopts the practice of recording deferred tax credits and liabilities on all of the temporary differences and on income tax and social security losses. At September 30, 2018, these balances had the following characteristics:

Income tax and social contribution losses of R\$1,697,242 (2017 – R\$1,883,457) and R\$1,516,652 (2017 – R\$1,885,388), respectively, and a Social Contribution Credit – MP 2.158-35 of R\$547 (2017 – R\$547) which management expects will be recovered against future taxable income.

Deferred tax assets on temporary additions relate mainly to the provisions for tax and social security contingencies under dispute in the judicial or administrative spheres, the provisions for labor claims and civil litigations, the realization of which depends on the conclusion of the cases, actions and the provision for impairment of credits, the realization of which depends on the criteria for deductibility under the terms of Law 9430/96.

The technical studies prepared reflect the group's ability to generate taxable profits sufficient to offset the existing tax credits.

On February 16, 2016, the formalization of the request addressed by Art. 1 of Circular Letter 3,776 of December 30, 2015 was filed with the Brazilian Central Bank and properly approved.

(b) The changes in the tax credits during the year ended September 30, 2018 can be summarized as follows:

	Financial Conglomerate			
	Social contribution MP 2158-35	Temporary differences	Income tax and social contribution losses	Total
Opening balance 1.1.2018	547	1,696,436	664,636	2,361,619
Increase		215,241	3,979	219,220
(Utilization)		(245,124)	(12,622)	(257,746)
Closing balance 9.30.2018	547	1,666,553	655,993	2,323,093

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				Bank
	Social contribution MP 2158-35	Temporary differences	Income tax and social contribution losses	Total
Opening balance 1.1.2018	547	1,662,536	320,040	1,983,123
Increase		213,954	3,979	217,933
(Utilization)		(244,325)	(1,787)	(246,112)
Closing balance 9.30.2018	547	1,632,165	322,232	1,954,944

The deferred income tax and social contribution on temporary exclusions recorded in long-term liabilities refer mainly to marking marketable securities to market.

(c) Reconciliation of income tax and social contribution in the statement of income:

	Financial Conglomerate			
	2018		2017	
	Income tax	Social contribution	Income tax	Social contribution
Profit before taxation and profit sharing	229,009	229,009	52,369	52,369
Statutory profit sharing	(26,574)	(26,574)	(20,505)	(20,505)
Permanent additions (exclusions):				
Equity in the (earnings) loss of subsidiary and associated companies	288	288	4,717	4,717
Foreign exchange variations of investments abroad	(38,598)	(38,598)	4,820	4,820
Other	(14,365)	7,537	(10,049)	(21,209)
Calculation basis	149,760	171,662	31,352	20,192
Basic rate	(22,464)	(34,333)	(4,703)	(4,039)
Additional rate	(14,957)		(3,123)	
Effect of the increase of the Social contribution rate (i)				(592)
Tax incentives	461		1,008	
Income tax and social contribution expense (credit)	(36,960)	(34,333)	(6,818)	(4,631)

	Bank			
	2018		2017	
	Income tax	Social contribution	Income tax	Social contribution
Profit (loss) before taxation and profit sharing	193,861	193,861	(1,659)	(1,659)
Statutory profit sharing	(26,574)	(26,574)	(20,502)	(20,502)
Permanent additions (exclusions):				
Equity in the earnings of subsidiary and associated companies	(82,453)	(82,453)	(68,851)	(68,851)
Other	(13,632)	7,943	(2,547)	(13,907)
Calculation basis	71,202	92,777	(93,559)	(104,919)
Basic rate	(10,680)	(18,555)	14,034	20,984
Additional rate	(7,102)		9,374	
Tax incentives	192		656	(2,472)
Income tax and social contribution expense (credit)	(17,590)	(18,555)	24,064	18,512

(i) Management periodically reviews the prospects for realization of tax credits and recorded increased tax credits because of the increase in the social contribution rate

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26 Related party transactions (Bank)

Transactions carried out between related parties are disclosed in compliance with BACEN Resolution No. 3.750, dated 6/30/2009, and with Technical Pronouncement CPC 05. These operations are carried out at the usual values, terms and rates of the bank's other operations.

(a) Related-party transactions

Intercompany transactions are eliminated from the financial statements on consolidation. The main balances can be summarized as follows:

Partes Relacionadas	Ativo (Passivo)		Receita (Despesa)	
	2018	2017	2018	2017
Marketable securities				
<i>BMG Bank (Cayman) Ltd.</i>	106,768	11,104		
Income receivable				
<i>BMG Leasing S.A. – Arrendamento Mercantil</i>	6,588	3,380		
<i>Cifra S.A. Créd., Fin. Invest.</i>	3,089	2,938		
Other receivables				
<i>Banco Cifra S.A.</i>	1,218	17,912		
<i>Banco BCV S.A.</i>	5,870	21,855		
<i>Cifra S.A. Créd., Fin. Invest.</i>		3,423		
<i>Bmg Participações Em Negócios Ltda</i>	25	25		
Collection services				
<i>EGL – Empreendimentos Gerais Ltda.</i>	77	144		
Demand deposits				
<i>BMG Leasing S.A. – Arrendamento Mercantil</i>	(164)	(65)		
<i>Cifra S.A. Créd., Fin. Invest.</i>	(77)	(557)		
<i>EGL - Empreendimentos Gerais Ltda</i>	(722)	(602)		
<i>Help Franchising</i>	(848)	(367)		
<i>CB Intermediação de Negócios Ltda</i>	(307)	(499)		
<i>ME Promotora de Vendas Ltda</i>	(680)	(14)		
<i>BMG Soluções Eletrônicas S.A</i>	(45)	(53)		
<i>Bmg Participações Em Negócios Ltda</i>	(200)	(29)		
<i>Cmg Corretora De Seguros</i>	(466)	(85)		
Interbank deposits				
<i>Cifra S.A. Créd., Fin. Invest.</i>	(13,728)	(18,852)	(739)	(865)
<i>Banco BCV S.A.</i>	(935,986)	(898,035)	(43,236)	(67,703)
<i>Banco Cifra S.A.</i>	(574,194)	(544,282)	(26,419)	(34,848)
<i>BMG Leasing S.A. – Arrendamento Mercantil</i>	(6,393)	(298,652)	(9,502)	(22,550)
Time deposits				
<i>EGL - Empreendimentos Gerais Ltda</i>	(4,892)	(5,614)	(218)	(473)
<i>Help Franchising</i>	(13,079)	(3,015)	(483)	(403)
<i>ME Promotora de Vendas Ltda</i>	(4,704)	(3,236)	(169)	(289)
<i>CB Intermediação de Negócios Ltda</i>		(8,384)	(819)	(1,121)
<i>BMG Soluções Eletrônicas S.A</i>	(341)	(318)	(17)	(44)
<i>Bmg Participações Em Negócios Ltda</i>	(1,021)	(1,146)	(54)	(90)
<i>Cmg Corretora De Seguros</i>	(5,358)		(58)	
Other liabilities				
<i>BMG Bank (Cayman) Ltd.</i>		(47,202)		
<i>Banco Cifra S.A.</i>				
<i>Banco BCV S.A.</i>	(449)	(7,390)		
<i>Cifra S.A. Créd., Fin. Invest.</i>	(349)			
<i>EGL – Empreendimentos Gerais Ltda.</i>	(384)	(730)		

The funds invested in and obtained from related parties were contracted at market rates.

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EGL – Empreendimentos Gerais Ltda. (a non-financial company belonging to the BMG Group) acquired credits without recourse from Banco BMG, and, in compliance with the assignment agreement, receives 20% of the transfers to be made as collection services.

On December 28, 2012, a credit assignment without recourse amounting to R\$ 60,613 was carried out with EGL – Empreendimentos Gerais Ltda. Of that amount, R\$ 4,865 has been received. On December 27, 2013, the amount assigned and the amount received totaled R\$ 33,259 and R\$ 2,559, respectively. The assignment agreements were classified as risk levels G and H, in compliance with BACEN Circular 2682/99.

At September 30, 2018, the amounts to be transferred to EGL – Empreendimentos Gerais Ltda. and the collection services totaled R\$ 384 (2017 – R\$ 730) and R\$ 77 (2017 – R\$ 144) respectively.

In December 2017, Banco BMG and its subsidiaries contracted a guarantee insurance policy with premiums in the amount of R\$ 2,180 with its BMG Seguros S.A. indirect subsidiary.

(b) Management remuneration

As mentioned in Note 2.2 (s), in accordance with CMN Resolution 3921/10, the Bank has established the management remuneration at each the Annual General Meeting, agreed between the Board of Directors and the Executive Board, as determined by the Bank's bylaws.

(i) Short and long-term benefits for management

	<u>2018</u>	<u>2017</u>
Remuneration	6,706	6,847
INSS contribution	1,509	575
Total	8,215	7,422

(ii) Other information

Pursuant to current legislation, financial institutions are prohibited from granting loans or advances and/or loan guarantees to their controlling stockholders, associated companies, management or relatives of management up to the second degree. Accordingly, no loans or advances were made by the Bank to any subsidiaries, members of the Board of Directors or executive officers and their relatives.

27 Other Information

Liquidity Program of the Credit Guarantor Fund (FGC)

Banco BMG used the liquidity program with credit right guarantees of the Credit Guarantor Fund (FGC), through long-term Bank Deposit Certificates (CDB). Due to the change of the mix of credit assets originated by BMG, regarding the previously agreed contractual provisions, the prospective full use of the program is no longer possible. As a result, BMG and FGC entered into an irrevocable transaction, in accordance with Article 840 of the Civil Code, which resulted in the termination of the use of the program and in the receipt of R\$ 360 million, recognized by BMG as other non-operating income in the first six-month period of 2016. At the end of these negotiations with the FGC, in January 2017, BMG recognized R\$ 38 million in other non-operating income.

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Commitments and Guarantees

Guarantees and sureties given by the Financial Conglomerate to customers amount to R\$309,230 (2017 – R\$266,231) and are subject to financial charges and counter-guarantees from the beneficiaries.

With the advent of Resolution No. 4.512/16, referring to the treatment for financial guarantees provided, the balance of the provision of sureties and avals had an impact on the income statement for the period ended September 30, 2018 of R\$ 750 (9/30/2017 positive by R\$ 588).

Agreements for the clearing and settlement of liabilities in the National Financial System environment

In order to allow the offsetting of credits and debits held with a single counterparty, whose maturities of the rights and obligations may be accelerated to the date on which the event of default by either parties occurs, the BMG Conglomerate, pursuant to CMN Resolution 3,263, of February 24, 2005, entered into compensation agreements in the scope of derivative agreements, as well as agreements for the offset and settlement of assets and liabilities.

Subsequent Events

At the Shareholders' Meeting held on October 4, 2018, the CB Intermediação de Negócios Ltda. was renamed to CBFácil Corretora de Seguros e Negócios Ltda. In the same act, a capital increase of R\$ 100 million was made.

Additional Information

Banco BMG chose to present its results excluding the effect of amortization of goodwill, calculated in the acquisition of investments (note 13) in the amount of R\$ 65.3 million, net of tax effects, in the first half of 2018, as all goodwill already is fully deducted from the reference equity for the Basel Ratio calculation.

28 Risk management

1. Risk and Capital Management Structure

The BMG Prudential Conglomerate believes that risk management is essential to maximize efficient use of capital and choice of business opportunities and to ensure preservation of the integrity and independence of the processes. To this end, based on best risk management practices, Banco BMG has developed policies, systems and internal controls to mitigate and control possible losses arising from exposure to the risks to which its activities are exposed. These include a set of processes and routines suited to its operational methods.

In this context, Banco BMG manages its risks - capital, liquidity, market, credit and operational - with specific actions for each, as described below:

The document detailing the structure and guidelines set out in the risk management process can be found on the Bank's website (<http://www.bancobmg.com.br/RI/>) in the Corporate Governance, Risk Management section.

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1.1 Capital Management

Banco BMG opted to create a centralized capital management framework for the Financial Conglomerate, appointing a director responsible for the full structure.

The Capital Management Committee is primarily responsible for promoting discussions about capital management.

The Committee is led by the Planning, Risk, IR and Digital Channels Department in order to present the current Basel Ratio to the Board of Directors and other executive officers, along with the projections for the next three years.

Among the Committee's main activities are:

- Promote discussions and decisions on issues related to policies, procedures, methodologies and processes related to managing capital and the Capital Plan as set forth in this Policy paper;
- Validate the Capital Management Policy and the Organization's Capital Plan and submit them to the Executive Board and Board of Directors;
- Submit the committee's deliberations affecting Policy and the Capital Plan to the Executive Board and the Board of Directors;
- Monitor compliance with the Capital Management Policy;
- Evaluate regularly, at least every three months, the results of the capital management process, its strengths and weaknesses, as well as the adequacy of its structure, seeking to adapt it to the needs of the Organization;
- Monitor the effectiveness of the capital management process within the Organization, including the possible impacts on capital, deriving from the risks associated with non-financial companies that are part of the consolidated economic-financial group;
- Report to the Board of Directors the significant changes in the financial projections and future capital requirements, as well as possible significant changes in relation to the strategies adopted, the amount of capital to be allocated and the effects of stress tests within the Organization;
- Take cognizance of the work performed by the internal and external auditors related to capital management;
- To regularly report all the activities of the Committee to the Board of Directors.

The Superintendency for Planning, BI and Pricing, subordinated to the Planning, Risks, IR and Digital Channels Board, is responsible for forecasting the assets, liabilities, revenues and expenses of the BMG financial conglomerate, as well as applying stress scenarios on the projected balances.

The Tax Accounting Superintendency, subordinated to the Chief Executive, is responsible for the calculation and projection of the Basel Ratio using the budget (prepared by SUPLA) and the Credit, Market and Liquidity Risk scenarios.

The Risk Superintendency (SURIC) under the responsibility of the Planning, Risk, IR and Digital Channels Department is the unit responsible for managing the BMG financial conglomerate's capital as well as the assessment of potential impacts on the capital arising from risks associated with non-financial companies that are part of the consolidated economic financial group.

1.2 Market Risk

The stockholders and directors of the BMG Prudential Conglomerate believe that the management of this risk, coupled with an effective control based on best practices and operational tools, ensures that the group is

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adequately capitalized and secure, and is cognizant of its advantages and disadvantages in terms of returns and risk.

It also takes into account the fact that all levels of the group have roles and responsibilities in relation to market risk management inherent to their activities, thereby making controls more effective.

The BMG Prudential Conglomerate follows a conservative policy for managing market risk, effectively supervising and controlling each factor to identify and quantify volatilities and correlations that could impact the dynamics of asset prices.

The Financial Group's Strategy

BMG Group's internal policy defines conservative limits for foreign currency exposures and interest rates. The positions that are not within the established limits are subject to prior approval by ALCO (Asset and Liability Committee).

Trading Book and Banking Book

Pursuant to Circular 3,642/13, which sets minimum standards for the classification of operations of financial institutions in the Trading Book, and outside of the Banking Book, and Circular 3,365/07, which provides for the measurement of risk of the interest rate risk on the Banking Book operations of the BMG Prudential Conglomerate, segregates the transactions classified in the Banking Book portfolio from operations classified as Trading Book to calculate Market Risk.

Market risk management seeks to ensure that the criteria in the Trading Portfolio and Non-Trading Portfolio (Banking) are followed consistently by establishing controls to ensure the appropriateness of the classification and monitoring of the turnover of operations in the trading portfolio.

Management Process

The management area uses practices and technologies for daily measurement and monitoring of defined limits, sensitivity and stress to fluctuations of foreign exchange exposure, interest rates, stock and commodity prices, even forecasting the risks inherent in new activities and products, adapting necessary controls and procedures.

The Market Risk management area monitors compliance with limits and distributes management reports on the control of the positions, as well as reports and regular presentations to senior management.

In addition to verification of compliance with the established limits, the results of the measurements involving normal and stress situations and the running of compliance tests are disclosed through the Monthly Market Risk Letter to the full Executive Board and the Assets and Liabilities Committee (ALCO).

The hedge transactions carried out by Treasury must necessarily cancel or mitigate the risks of mismatch of quantities, maturities, currencies or indexes of the Banking positions. There are specific limits for Trading positions. There are also Hedge Accounting procedures for external issues and their protection elements (foreign exchange swaps) and Cash Flow Hedges for final CDI funding and their elements of protection (D11 futures on the BM&F), that make it possible to reduce risk by avoiding financial asymmetries.

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Pricing Financial Instruments

In order to adopt the best practices related to the determination of the market value of the financial instruments, the Risk Superintendency (SURIC) determines, whenever possible, the use of prices and rates of the Stock Market, Commodities and Futures Exchange and Secondary Markets. When unable to find such references, prices provided by other sources (for example: Bloomberg, Broadcast Brokers) are to be used. As a last option, internal models of pricing and pricing of instruments, which are subject to validation and evaluation processes of the Group, are adopted.

Pursuant to the governance process, the mark-to-market criteria are reviewed periodically, and may be modified due to changes in market conditions or development of new models the Group considers to be more appropriate.

In December 2014, the CMN published Resolution 4.389, amending Resolution 4,277 of 2013, which lays down minimum procedures to be observed in the process of pricing financial instruments measured at market value, and guidelines for application of prudential adjustments to such instruments. According to the procedures highlighted in the previous paragraphs, Banco BMG is already aligned with the Resolution's guidelines, including the application of the appropriate and prudential adjustments required under the regulation.

1.3 Liquidity Risk

Liquidity risk management aims to keep structured control systems in line with the Group's operating profiles. They are periodically reassessed to allow ongoing monitoring of positions taken in all financial and capital market operations, to highlight and mitigate the liquidity risk arising from its activities.

Liquidity risk is defined as the occurrence of imbalances between tradable assets and liabilities - "mismatching" between payments and receipts - which may affect the group's payment capacity, taking into consideration the different currencies and settlement terms of their rights and obligations.

Management Process

The Bank's risk management structure is centralized within a single department with attributions formally approved by the Board of Directors, designed to maintain liquidity at acceptable levels, including practices, processes, procedures and reports.

The management structure is compatible with the nature of the operations, the complexity of the products and the size of the Group's liquidity risk exposure, whose management is centralized in the Corporate Risk Department, which reports to the of the Planning, Risk, IR and Digital Channels Department is the unit responsible for managing. Liquidity risk management seeks to adopt best practices in order to avoid cash shortages and difficulties in meeting maturing obligations payable.

Risk Measurement and Control

The Risk area is primarily responsible for preparing the cash flows and the daily review of all positions held in conjunction with the Treasury. It also evaluates their suitability in relation to established operational limits and assesses the liquidity of traded assets and the impact of negative scenarios on cash flow.

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Liquidity risk is measured as follows:

- Daily monitoring of the liquidity limits determined by Management;
- Projections of Liquidity through cash flow;
- Scenario Modeling and Construction (Stress Test);
- Comparison and Analysis of Variations (Backtesting);
- Liquidity Contingency Plan.

The communication of the liquidity risk management process is carried out by distribution of reports to the areas involved in the management and through controls, as well as to the Executive Board and the Assets and Liabilities Committee (ALCO). Furthermore, as part of the process, monthly reports are prepared regarding liquidity risk management, detailing events occurred during the period.

The main liquidity risk mitigation policy is to find funds with maturities that match operations that have been carried out, in the form of credit assignments. In addition, the Company strives to continuously obtain maturities that are compatible with the applications and to ensure an appropriate contingency plan for exceptional cases.

1.4 Credit Risk

The BMG Prudential Conglomerate has a duly established credit risk management policy in place to ensure the integrity of its assets, adequate levels of risks and losses and the expected business results.

The stockholders and directors of the BMG Prudential Financial Group believe that this policy should be continuously improved, with comprehensive analysis of the internal and external factors that could impact the solvency of agreed financial obligations in the various segments and products with which it operates.

The Financial Group's Credit Strategy

In response to the conditions of the macroeconomic scenario, Banco BMG's strategy was reviewed over the course of 2016, in order to increase its focus on the Retail segment, offering efficient credit solutions for different customer profiles.

As a result, the main credit products are now: Payroll Loan Credit Card, BMG Empresas (Companies), BMG Em Conta (direct debit personal loans) and Digital Personal Credit. The Bank furthermore keeps open the possibility of developing other products that show growth and profitability potential.

Payroll Loan Credit Card

Banco BMG's Payroll Loan Credit Card is an international credit card, with the same benefits as traditional cards, and the advantage of being paycheck deductible and carrying a more attractive rate of interest. For the agreements with which BMG has a specific understanding, the card has an exclusive deductible margin.

BMG Empresas

BMG offers financing for medium and large companies and suppliers of large economic groups, through the BMG Empresas (Companies) platform.

In view of the macroeconomic scenario, the Bank opted to take a more conservative stance on loan awards, complementing its performance in this segment by offering customers alternative products, such as Derivatives.

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Credit in Account

The Credit in Account is a personal direct debit loan account exclusive for civil servants, retirees and INSS pensioners. To initiate sale of the product with employees of a particular governmental body, studies are carried out to assess their financial health so as to minimize the risk of delays or installment payments regarding salaries and benefits.

Furthermore, the product counts on a dedicated product team specialized in the acquiring process and interest rates that are consistent with the payment delinquency profile inherent to the product and target audience.

Digital Personal Credit

BMG released the Digital Personal Credit product through Lendico, a digital banking correspondent that offers personal loans through a 100% online platform. The product, coupled with the platform, provides secure and easy access with excellent interest rates compared to alternatives available on the market to customers with good credit histories and profiles.

Management Structure

The Credit Risk management activity is performed by a specific unit in the Corporate Risk Superintendency (SURIC). There is a single Credit Risk management structure for the institutions that are part of the BMG Prudential Conglomerate, which is compatible with the nature of the operations, the complexity of the products and the extent of the risk exposure.

SURIC, subordinated to the Planning, Risks, IR and Digital Channels Directorate, is responsible for:

- Proposing the development of systems, routines and procedures to identify, measure, control and mitigate exposure to credit risk;
- Issuing group management reports to the management of the institution on the performance of risk management as a result of the policies and strategies adopted;
- Proposing policies and strategies for managing credit risk, which establish operational limits, risk mitigation mechanisms and procedures to maintain exposure to credit risk at levels considered acceptable by the group's management;
- Estimating, according to consistent and prudent criteria, losses associated with credit risk;
- Carrying out prior assessment of new types of transaction with respect to the credit risk and check of the adequacy of the procedures and controls adopted by the institution;
- Adopting practices to ensure proper reporting of exceptions to the policy, to the procedures and to the limits established;
- Maintaining monitoring and control of potential credit risks ("fractionals") in derivative transactions entered into with customers.

The Accounting and Tax Superintendency (SUCOF) is responsible for calculating and accounting for the Provision for impairment of credits - PCLD, Risk Weighted Assets (RWAs) and provision debits.

Management Process

Considering BMG's operating strategy, the loan portfolio is distributed within a percentage that has been defined by the Board of Directors. These limits are constantly monitored by the Department responsible for credit risk management, which is in charge of monitoring and control, and which must ensure that the definitions in this area do not encourage behavior that is incompatible with a risk level considered prudent in the policies and strategies as outlined by the BMG Prudential Financial Group.

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This continuous process of monitoring the percentage distribution of the credit portfolio is reflected in a full, long-term financial plan that allows the group's Executive Board and Board of Directors to redirect the strategies for the portfolio's mix in a timely manner. This coordinated effort makes it possible to anticipate impacts of the Provision for impairment of credits, capital needs and regulatory impacts on the present and future credit portfolio.

Risk Measurement and Control

Measurement of the portfolio's credit risk is carried out using corporate database systems to calculate the rates of realized losses, both expected and unexpected, and constant monitoring of provision levels for doubtful accounts.

The realized portfolio loss must reflect the level of risk for operations involving loans in stock and those conceded with co-obligation or risk retention, while also allowing monitoring of their exposure levels compared to the Provision for impairment of credits.

The loan portfolio is evaluated on a regular basis, in terms of quality and its capacity to generate results in relation to the risks incurred, according to the following criteria:

- Credit Risk Budget reports - represents the projection for doubtful accounts (Provision for impairment of credits - PCLD) for the purpose of preparing the BMG Prudential Conglomerate's annual budget in the form of accounting records;
- Monitoring of risk exposure limits defined pursuant to CMN regulations;
- Credit Risk Management Reports - systematic follow-up and projections for the credit portfolio in various versions: losses per agreements, monitoring of spreads practiced per product and sub-product, management information on Banco BMG's major active agreements, among others;

The reporting of the results of credit risk management is through distribution of reports to the Executive Department responsible for risk and other areas involved in the process.

In the payroll loan area, the credit risk mitigation strategy, besides preventive measures in granting the credit, involves the investigation of the operating procedures that result in losses, in order to mitigate risks not detected at the source.

1.5 Operating Risk

The BMG Prudential Conglomerate believes operational risk management is essential to maximize the efficient use of capital and choice of business opportunities, thereby ensuring the adequate understanding of the risks associated with its business activities, so that no event may adversely interfere with identifying and dealing with the objectives to be achieved.

To this end, the response to risk comprises avoidance, acceptance, mitigation, sharing or transfer of the risk within the established parameters and evaluation of the cost/benefit ratio.

It also takes into account that the responsibility for risk management should be exercised by all employees, regardless of their hierarchical level, who must express concerns when they identify control breakdowns or violations of the rules defined by the BMG Prudential Conglomerate.

The Financial Group's Strategy

The adopted methodology covers the entire BMG Prudential Conglomerate and outsourced services important to the regular functioning of the activities.

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The strategy is characterized by monitoring all known and potential risks involving the group and service providers in order to set up the appropriate controls based on the cost/benefit ratio of each item evaluated, pursuant to the risk rating on a scale of five levels between "Low Risk" to "High Risk."

All risk events that lead to an effective operating loss must be controlled and accounted for in a specific accounting group to facilitate identification of typical occurrences and accompanying documentation, both for senior management's administration purposes as well as the provision of information to the supervisory authorities.

Risk Measurement and Management

The adopted methodology for this management covers the entire BMG Conglomerate's structure, including Banco BMG and other associated financial companies and outsourced services that are important to the regular functioning of its activities.

Management of the Institution's Operational Risk is structured and defined considering:

Operational Risk Policy - BMG's Institutional Operational Risk Policy sets guidelines for the management of the risk of its processes, products and services in a manner that ensures that compliance with established standards of governance and control are in accordance with Senior Management's guidelines.

Activities Risk Mapping - the most important tool used by the BMG Prudential Conglomerate for operational risk control is the identification of the risks, which makes it possible to demonstrate the exposure of the Conglomerate to them, based on the analysis of probability versus impact, the consequences of the threats and the quality of internal controls.

Operational Incident Register - the incidents and materialization of the risks that occur unexpectedly, resulting from the failure to execute the activities. In this sense, the calculation of the losses arising from operational incidents is an important factor for satisfying the requirements of the regulatory agencies, as well as providing the Conglomerate with consistent, standardized and updated information for a quantitative and qualitative risk management analysis.

Operational Losses Register - to ensure that all losses are reported and recorded. Each month, the operational risk area asks managers to report incidents in the period and, subsequently, analyzes the balances of the financial accounts posting operating losses. This dynamic enables periodic validation of the consistency regarding losses that have been booked in relation to those registered on the risk database (communicated by the areas).

Business Continuity Plan: the Business Continuity Plan (PCN) is structured on two fronts: one that is geared toward formalization of the continuity plan of the various areas and another focused on testing the effectiveness of the plan in areas classified as critical.

Communication Process

The communication process, as well as the tools used for management implementation, aims to disseminate and consolidate a culture of operational risk within the BMG Prudential Conglomerate, involving the main actions for strengthening this subject, the responsibilities of the structure and procedures to be adopted at the organizational level.

For disclosure of the data collected and the appropriate mitigation actions, regular reports are issued in accordance with Resolution 3,380/06 in respect of the risk scenario, based on the results of the activity risk mapping process, in addition to specific incident and key indicator tracking reports. This cycle of information

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makes it possible to monitor the actions taken and define what new analyses will be needed to measure the results.

1.6 Sensitivity Analysis

In compliance with CVM Normative Instruction 475, Banco BMG carried out a sensitivity analysis for relevant market risk factors.

Financial instruments are segregated in the trading and banking (non-trading) portfolios, such as in the management of the market risk exposure, in accordance with the best market practices and with the classification criteria of operations and capital management of the BACEN Basel III new standardized method. The banking portfolio consists of commercial and structural operations arising from the Group's various lines of business and possible hedges. Therefore, the entire Group portfolio to be analyzed for market risk is classified as banking.

The summary table below shows the effects of changes in prices in the projected scenarios and does not necessarily reflect the current position, due to the dynamism of the market and the Group's activities.

Stress tests provide an indication of the potential volume of losses that could arise from extreme market situations. For the non-trading portfolio, stress tests are performed by the Risk area.

Fatores de Riscos	Definição	Cenário 1	Cenário 2	Cenário 3
Foreign currency	Exposures subject to exchange variation	246	614	1,228
Interest rate in reais	Exposures subject to pre-fixed interest rate changes	(8,661)	(21,653)	(43,307)
Foreign exchange coupon	Exposures subject to variation of coupon rates in foreign currency	18,838	47,094	94,189
IPCA/IGPM	Exposures subject to price index coupon rate variation	(15,938)	(39,844)	(79,688)
Total		(5,515)	(13,789)	(27,578)

The Group's financial instruments are classified as Banking Portfolio. They consist of credit operations, instruments for raising funds to finance the loan portfolio, securities classified as Available for Sale and derivative financial instruments intended to hedge other operations classified in this portfolio (assets or liabilities).

The identified risk factors:

Interest curve - loss due to price variations due to changes in the fixed interest rate in reais;
Foreign exchange coupon - loss due to changes in price due to changes in the domestic interest rate for operations indexed to the exchange rate variation;

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Exchange - loss arising from changes in price due to changes in any currency.

Assumptions for risk factors		
Scenario	Interest curve (pre) and Currency Coupon Curve	Foreign exchange
1	Parallel offset + 100 basis points	Increase of 10%
2	Parallel offset + 250 basis points	Increase of 25%
3	Parallel offset + 500 basis points	Increase of 50%

- Scenario 1 represents a parallel shock of 100 basis points (+1%) on interest and exchange coupon curves plus a 10% shock on exchange rates.
- Scenario 2 represents a parallel shock of 250 basis points (+2.5%) on interest and exchange coupon curves plus a 25% shock on exchange rates.
- Scenario 3 represents a parallel shock of 500 basis points (+5%) on interest and exchange coupon curves plus a 50% shock on exchange rates.

* * *

DIRECTORS

ACCOUNTANT

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