Safra

Tradição Secular de Segurança

ANNUAL REPORT 2018

PRIVATIZATION

"If you choose to sail upon the seas of banking, build your bank as you would your boat, with the strength to sail safely through any storm."

Jacob Safra, founder (1891-1963)

J. Safra Group

BRAZIL

Banco Safra S.A.

Banco J. Safra S.A.

Safra Leasing S.A. Arrendamento Mercantil

Safra Asset Management Ltda.

Safra Corretora de Valores e Câmbio Ltda.

SafraPay Credenciadora Ltda.

Safra Serviços de Administração Fiduciária Ltda.

Safra Seguros Gerais S.A.

Safra Vida e Previdência S.A.

SIP Corretora de Seguros Ltda.

Sercom Comércio e Serviços Ltda.

Turmalina Gestão e Administração de Recursos S.A.

Banco Safra (Cayman Islands) Limited

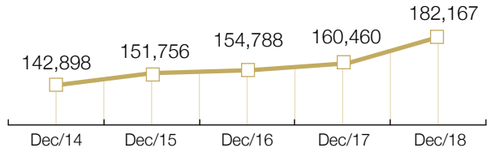
Banco Safra S.A., Luxembourg Branch

Banco Safra S.A., Cayman Islands Branch

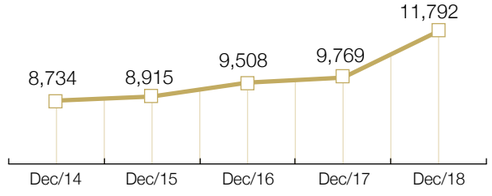
Key financial indicators

(BRL million)

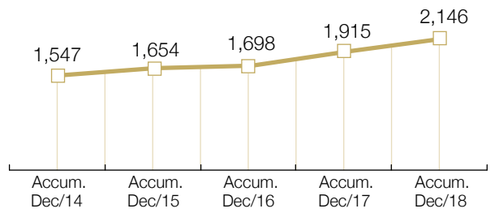
Total assets



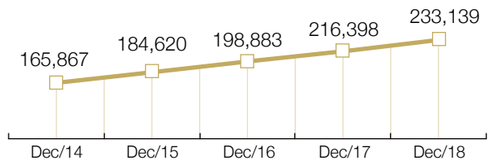
Equity



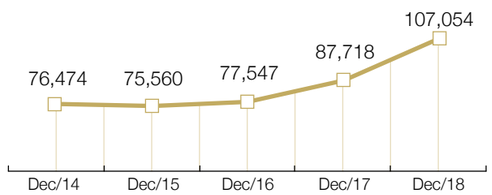
Net income



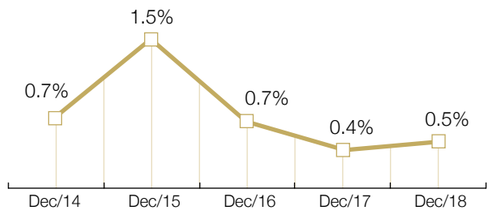
Raised and managed assets[1]



Expanded credit portfolio[2]

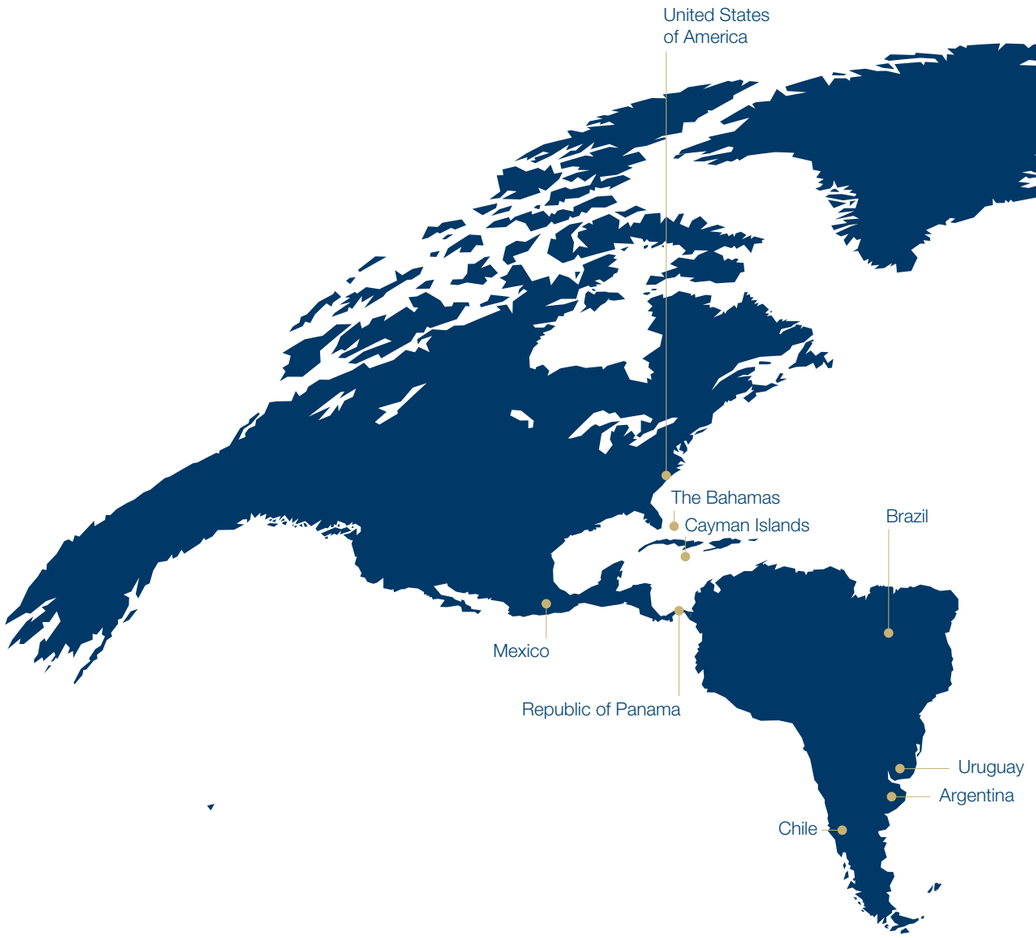


Non performing loans - NPL90



(1) Represented by raised and managed funds + repurchase agreements + foreign exchange portfolio + collection of taxes and similar.
(2) Included Transactions with credit characteristics and Garantees and sureties.

J. Safra Group worldwide



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Message from the CEO

Message from the CEO

Optimism about the economic outlook predominated at the start of 2018. As the year proceeded, however, GDP growth projections were revised down in response to intensifying uncertainty and continuing concern regarding the fiscal situation. The final result was a similar pace of economic growth to the previous year's. Nevertheless, we remain optimistic about the outlook for the coming period.

The new government has displayed a disposition to conduct a very important agenda of structural reforms, especially pension reform. This is the main challenge Brazil faces in the current year, as pension reform is key to controlling public debt and achieving a sustainable economic recovery. Once the debate about pension reform is concluded, we will be in a position to discuss other important structural reforms, laying the foundations for a new growth cycle.

Inflation remains under control. Our forecasts suggest that prices will remain well-behaved in the years ahead, allowing the Central Bank of Brazil to continue pursuing the accommodative monetary policy begun in 2016. If this scenario plays out, interest rates will reach the lowest level ever in this country, and the credit and consumer markets will recover more strongly, while the capital markets will see an increase in stock and bond issues.

The prospect of economic stabilization, combined with progress in implementing important structural reforms, also favors a resumption of confidence and clearer visibility for companies, which still have very high levels of idle capacity. The return of short-, medium and long-term planning capabilities enables firms to resume investment.

Banco Safra, faithful as always to its business management strategy, once again achieved a solid and consistent balance-sheet position in 2018. Net income in the year was BRL 2.1 billion, resulting in annualized return on equity of 20.3% in the period. Assets totaled BRL 182.2 billion at December 31, 2018, and net equity reached BRL 11.8 billion, maintaining Banco Safra as the fourth-largest private bank in Brazil. The level of liquidity remained significant, reaching BRL 27.7 billion or 2.3 times net equity on December 31, 2018.

In the credit segment, Safra continued to focus on extending credit to low-risk corporates and individuals. Loans rated AA, A and B on the Central Bank of Brazil's scale accounted for 95.0% of the portfolio. Non-performing loans accounted for only 0.5% at end-2018. This was certainly one of the lowest delinquency rates among Brazilian banks. Similarly, problem loans accounted for 1.1% of the total, compared with the market average of 7.5%.

In recent years Banco Safra has intensified its activities both in segments involving individual clients and in corporate segments. This strategic decision is aligned with the principle of diversification, which has always been very important to the institution and its clients. We have achieved robust growth on all business fronts and will continue to seek leading positions in all markets.

We know banking will be more digital in future and have implemented several digital transformation initiatives in all segments, including reformulation of auto loan and payroll advance loan contracts, enabling our finance house to achieve one of the highest growth rates in the market.

We will increasingly offer clients self-service solutions aligned with society's demands for agility and convenience. We are also convinced that relationships will play a fundamental role in adding value to our services, and for this reason we continue to expand and qualify our staff, who now comprise more than 8,000 professionals throughout Brazil.

We will undoubtedly face new challenges in 2019, but this will also be a year of many opportunities. We are convinced this will be a crucial period to pave the way to sustainable growth in the years ahead. We are prepared to proceed with our strategic plan and capture the opportunities that present themselves.

Alberto Corsetti
Chief Executive Officer

Global and brazilian economy

Global economy

Economic environment in 2018 and outlook for 2019

World GDP growth in 2018 was similar to that seen in 2017. The median rate projected by market analysts for 2018 was 3.7%. In 2017 world GDP grew 3.8%. The developed economies grew more slowly than in the previous year, with the noteworthy exception of the United States, while the emerging economies grew faster. As shown by Table 1, GDP grew 2.3% in the developed economies in 2018, or 0.1 percentage point (pp) less than in the previous year, while GDP in the emerging economies grew 5.0%, 0.1 pp more than in 2017.

In 2018, economic growth decelerated in all the developed economies except the US, which accelerated to 2.9%, from 2.2% in the previous year. US acceleration mainly reflected rising domestic demand. Household consumption grew, and investment increased with the support of the tax reform implemented in late 2017.

Table 1: GDP growth

	2017	2018
World	**3.8%**	**3.7%**
Developed economies	**2.4%**	**2.3%**
USA	2.2%	2.9%
Eurozone	2.4%	1.8%
Japan	1.9%	0.8%
UK	1.8%	1.4%
Canada	3.0%	1.8%
Emerging economies	**4.9%**	**5.0%**
Russia	1.6%	2.3%
China	6.8%	6.6%
India	7.1%	7.2%
Brazil	1.1%	1.1%
Mexico	2.0%	2.0%
South Africa	1.4%	0.8%

Source: Bloomberg, Banco Safra

With regard to monetary policy, the world's main central banks embarked on a gradual reduction of their accommodative policies. In the eurozone, the ECB ended its asset buying program (quantitative easing or QE) in December, but signaled that it would leave interest rates on hold until at least the second half of 2019.

On the other side of the Atlantic, the strong dynamics of US economic data and labor market data, despite surprisingly low inflation during part of the year, led the Federal Reserve to proceed with gradual monetary normalization, raising the fed funds rate four times in 2018. At the end of the year, however, the Fed indicated that it might pause the process to evaluate the effects of tightening on the real economy.

The risks observed in 2018 were mainly of a political nature. The standouts were the US-China trade war and the US government shutdown in late December, both of which had a negative impact on business and consumer confidence, and will probably inhibit US economic growth in 2019.

We expect world economic growth to slow moderately in 2019. In the US, inflation is expected to continue running slightly below the Fed's target, with GDP growth remaining robust but slower than in the previous year. In light of these trends, we expect the Fed to leave interest rates on hold throughout the year. In Europe, economic activity is set to slow more sharply, with GDP growth probably falling slightly short of potential. As a result, the ECB will maintain a dovish stance throughout the year.

With regard to the emerging economies, it is important to note that falling inflation in recent years leaves room for monetary easing, which, in conjunction with the global abundance of liquidity, will continue to support the growth of these economies. They face the challenge of continuing to implement structural reforms in order to guarantee the materialization of higher growth rates than those seen in recent years.

There are several threats to this scenario. In the political arena, a deterioration of the US-China dispute, which is not our basic scenario, could again have a negative impact on confidence. If Chinese economic growth slows more sharply owing to the trade war, risk aversion will probably intensify considerably, impacting the emerging economies in particular.

Another risk to watch is the possibility of a sharper pick-up in inflation than expected, especially in the US. If this entailed a more substantial response from central banks, driving up interest rates, global economic growth could be slower than expected, with a negative impact on commodity prices. Brazil's economic recovery might also be jeopardized, with a reversal of financial conditions.

USA

The US economy is estimated to have grown 2.9% in 2018, accelerating from 2.2% in the previous year. The main driver of this acceleration was household consumption, significantly boosted by the tax reform that was implemented in late 2017 and raised disposable household income during the year.

The labor market again performed well in 2018, with net job creation amounting to 2.7 million during the year. The unemployment rate fell from 4.1% in December 2017 to 3.9% at end-2018.

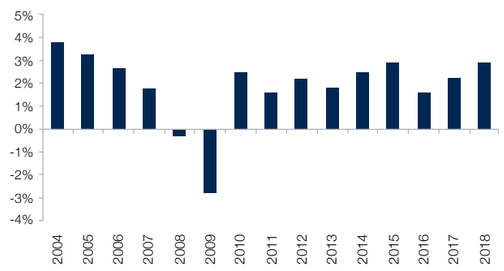
The continuing economic recovery, alongside the labor market's strong performance, allowed the Fed to proceed with monetary policy normalization. The fed funds rate was hiked four times during the year, reaching 2.25%-2.50% p.a.

While the Fed indicated that a pause in the process of monetary policy normalization was likely in the coming year, in December the median forecast of the FOMC's members pointed to two rate hikes in 2019. We expect rates to be left on hold, however.

Consumer inflation measured by the PCE deflator reached 1.8% in the year. The core PCE, which excludes food and energy, rose 1.9%. Thus both measures ended the year below the 20.% target, as they had in 2017.

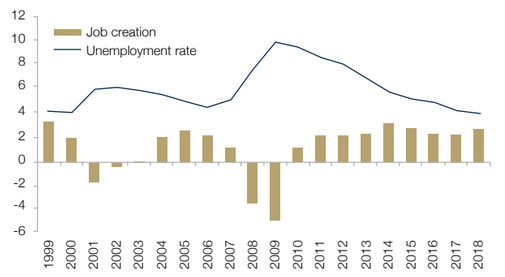
The most probable scenario for the US economy in 2019 is that moderate growth will continue, reflecting the resilience of household consumption and the recovery of investment. Inflation, which has remained below the target in recent years, is likely to continue doing so in 2019.

Figure 1: US GDP (annual growth)



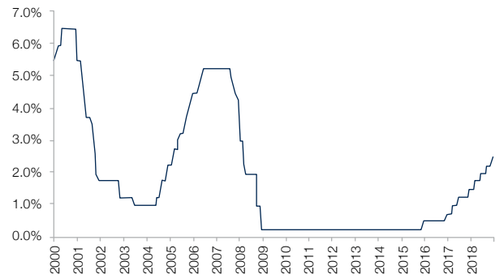
Source: BEA, Banco Safra

Figure 2: Job creation (million jobs) and unemployment rate (%)



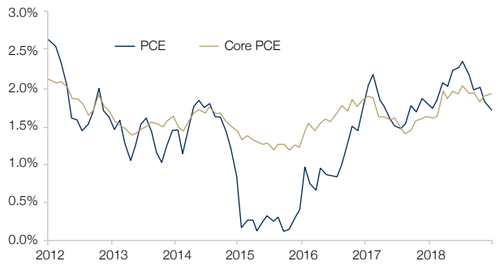
Source: BLS, Banco Safra

Figure 3: Fed funds rate (% p.a.)



Source: Bloomberg, Banco Safra

Figure 4: PCE - Personal consumption expenditure (PCE) deflator (trailing 12 months)



Source: BEA, Banco Safra

Eurozone

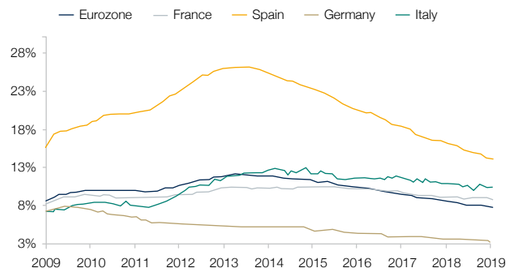
The year 2018 can be characterized as a period of consolidation for the Eurozone's economic recovery. GDP growth reached 1.8%, decelerating from 2.4% in the previous year but still above potential growth, which is currently estimated at just over 1.0%.

The unemployment rate fell to 7.8%, from 8.6% in 2017, with a substantial improvement in Spain, where it fell to 14.3% (from 16.5%), and Greece, where it fell to 18.3% (from 20.8%). In Germany it was 3.2%, again the lowest since reunification.

Consumer inflation in the region reached 1.5%, down compared with the previous year (1.3%). The core rate, which excludes energy and food, remained flat compared with the previous year, on 0.9%.

With regard to the outlook for the coming year, the indicators available at the time of writing point to a continuation of the gradual economic slowdown in the region, with GDP growth projected to reach only 1.0%. Inflation is set to remain below the 2.0% target, suggesting that the ECB will not raise interest rates during the year.

Figure 5: Unemployment rates (%)



Source: Eurostat, Banco Safra

China

In China attention again focused on the measures taken by the government in pursuit of more balanced growth while attempting to avoid a sharp economic slowdown or hard landing.

The previous deceleration in corporate and consumer loans, especially non-bank credit, ended, positively influencing GDP in second-half 2017 and first-half 2018, and growth accelerated to 6.9% (from 6.7% in the previous year).

The economy is expected to decelerate again in 2019, growing 6.2%. The government has set a target of 6.0%-6.5% and will strive to achieve it even if this means resorting to more quasi-fiscal measures.

The main risk to the region continues to be a continuation of the trade dispute with the US, which could lead to additional negative surprises in growth.

Figure 6: Chinese GDP (annual growth)

Source: Bloomberg, Banco Safra

Brazilian economy

Safra

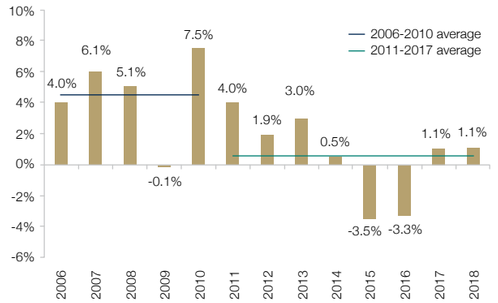
Economic Performance

The Brazilian economy underperformed market expectations in 2018. GDP grew only 1.1%, compared with a median forecast of 2.7% at the start of the year. Thus there was no year-on-year change in the pace of growth. On the supply side, the industrial sector grew 0.6% in 2018 after contracting for four years, with the exception of the construction industry (which continued to contract for the fifth consecutive year). The service sector accelerated, growing 1.3%, and the agricultural sector grew 0.1%.

On the demand side, household consumption accelerated moderately, growing 1.9%, and investment grew 4.1% after a four-year decline. The external sector contributed negatively, with accelerating imports and slower export growth subtracting 0.5 of a percentage point from GDP growth in the year. Government consumption stalled in the context of fiscal adjustment.

In public finance, despite efforts to implement fiscal adjustment and a sharp contraction in discretionary spending, the primary fiscal result was a primary deficit of BRL 108.3 billion, equivalent to 1.6% of GDP. This was an improvement compared to the 2017 deficit (2.3% of GDP). From the standpoint of the Treasury, revenue net of transfers totaled BRL 1.246 trillion, for 2.6% real growth compared with 2017. Central government expenditure totaled BRL 1.371 trillion, up 2.0% in real terms compared with the previous year. The economic recovery explains part of the revenue growth. Expenditure, albeit mostly comprising mandatory spending items which limited the potential reduction, began to be constrained by the spending cap.

Figure 7: GDP (annual growth)



Source: IBGE, Banco Safra

Table 2: GDP (annual growth, in %)

	2010	2011	2012	2013	2014	2015	2016	2017	2018
GDP - Market prices	7.5	4.0	1.9	3.0	0.5	-3.5	-3.3	1.1	1.1
Agriculture	6.7	5.6	-3.1	8.4	2.8	3.3	-5.2	12.5	0.1
Industry	10.2	4.1	-0.7	2.2	-1.5	-5.8	-4.6	-0.5	0.6
Services	5.8	3.5	2.9	2.8	1.0	-2.7	-2.3	0.5	1.3
Household consumption	6.2	4.8	3.5	3.5	2.3	-3.2	-3.9	1.4	1.9
Government consumption	3.9	2.2	2.3	1.5	0.8	-1.4	0.2	-0.9	0.0
GFCF (gross fixed capital formation)	17.9	6.8	0.8	5.8	-4.2	-13.9	-12.1	-2.5	4.1
Exports	11.7	4.8	0.7	1.8	-1.6	6.8	0.9	5.2	4.1
Imports	33.6	9.4	1.1	6.7	-2.3	-14.2	-10.3	5.0	8.5

Source: IBGE, Banco Safra

Exchange-rate volatility was high throughout 2018. Externally this reflected perceptions that US monetary policy would be adjusted faster than previously expected, fueling appreciation of the US Dollar against all other major currencies. In addition, concern about the possible impact of the US-China trade war intensified perceived risk and further strengthened the USD. Domestically the BRL depreciated strongly in response to political and electoral turbulence. The BRL/USD exchange rate came close to 4.20, but growing optimism about the possibility of progress with structural reforms in 2019 partially reversed this movement late in the year. Thus the BRL/USD exchange rate ended 2018 on 3.88, depreciating 17.7% compared with 3.31 a year earlier.

Inflation reached 3.75% in 2018, accelerating from 2.95% in the previous year, owing mainly to food prices, which had fallen sharply in 2017. Non-regulated rose 2.9%, up from 1.3% despite lower service inflation, while regulated prices rose less than in the previous year.

In this context the Central Bank proceeded with monetary easing, cutting its policy rate (Selic) from 7.00% to 6.50% p.a. in the first quarter of 2018. This is the lowest Selic rate ever.

As noted, the political crisis and uncertainty about the electoral outlook continued to affect the economy negatively, lowering confidence levels, given the need for progress with the structural reform agenda.

Inflation and monetary policy

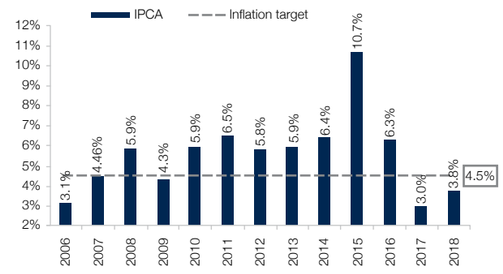
Inflation in Brazil in 2018 was structurally low, as it had been in the previous year. The National Broad Consumer Price Index (IPCA) rose 3.75%, accelerating from 2.95% in 2017. The result was less than the target set by the Central Bank (4.50%) for the second consecutive year.

Since the introduction of inflation targeting two decades ago, the IPCA had come in under the target only twice before, in 2006 and 2007. It should be noted, however, that inflation totaled 7.7% in 2006-07, compared with a more benign 6.8% in 2017-18.

For a more robust analysis of the behavior of inflation during 2018, it is necessary to decompose the IPCA into three major sub-groups: regulated prices (26% of the index); prices of food at home (15% of the index); and non-regulated excluding food (59%).[1]

Non-regulated ex-food – the largest sub-group, accounting for more than half of the index in weighted terms – decelerated steadily and prevented the IPCA from rising faster. In 2018 it rose 2.6%, compared with 3.1% in 2017 and 5.9% on average in the period 2008-17.

Figure 8: IPCA (%)

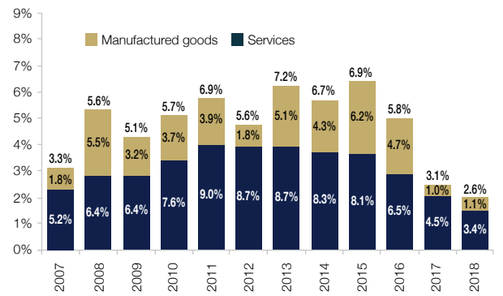


Source: IBGE, Banco Safra

[1] Free prices are not administered by the government and include food-at-home prices, which must be excluded for the purposes of this analysis to avoid overlapping among the IPCA's components.

The slowdown in non-regulated inflation excluding food reflected the low level of capacity utilization in the economy, given that the sub-group includes the prices of services and manufactured goods, considered more sensitive to monetary policy. The behavior of these prices remained benign throughout the year despite the Central Bank's attempt to stimulate the economy by means of monetary easing. Begun in early 2017, the cycle lowered the Selic rate from 14.25% to 6.50% p.a.

Figure 9: Free prices excluding food (%)



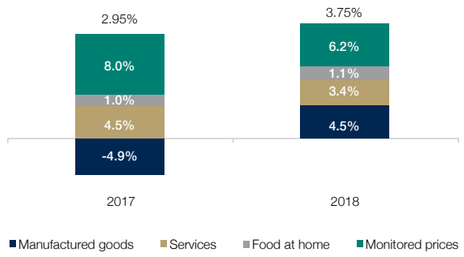
Source: IBGE, Banco Safra

Regulated prices, the second-largest sub-group, also decelerated owing to weaker inertia: they rose 6.2% in 2018, compared with 8.0% in the previous year. Most regulated price hikes reflect past inflation, in accordance with service concession agreements. Hence the role played by inertia in the behavior of this sub-group.

However, non-concession items also contributed to the deceleration of regulated price inflation. Fuels are a good example. Prices of gasoline and bottled cooking gas (LPG), for example, fluctuated in line with the international prices of these commodities and the exchange rate. Both decelerated at the end of the year because of local currency appreciation and also because of a sharp fall in the international prices concerned, and both contributed to the deceleration of regulated prices.

Lastly, in the opposite direction to the first two sub-groups, food-at-home prices rose 4.5% in 2018 after falling 4.9% in the previous year. Although this was a sizable acceleration, it was mainly due to the effect of a low comparison base in 2017, as evidenced by the fact that these prices have risen 6.6% per year as a historical average.

Figure 10: IPCA breakdown

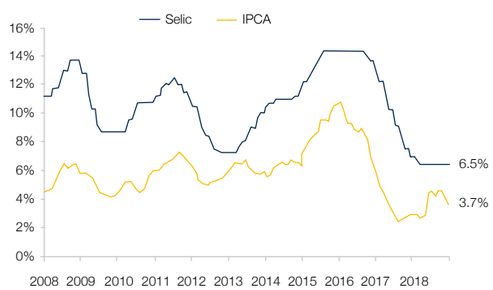


Source: IBGE, Banco Safra

Given the level of capacity underutilization in the labor market and the low level of inflation, the Central Bank decided to continue the monetary easing cycle begun in 2016, lowering the Selic rate to 6.50% p.a. in 2018, from 7.00% p.a. at end-2017.

The reduction of 50 basis points (bp) occurred at the first two meetings of the Monetary Policy Committee (Copom), in February and March, with cuts of 25 bp each. Even with current inflation running below the target and with anchored inflation expectations, the Selic was then left on hold for the rest of the year in response to uncertainty about structural reforms and the unfavorable international outlook.

Figure 11: Selic rate - end of month (% p.a.)



Source: Central Bank of Brazil, Banco Safra

Key economic indicators

Economic activity

The Brazilian economy continued to recover gradually in 2018. GDP growth reached 1.1%, repeating the growth seen in 2017 but with a different configuration, since the agriculture sector contributed significantly to the previous year's performance with a bumper grain crop.

Domestic demand (the sum of household consumption, investment and government expenditure) contributed 1.8 pp to GDP growth, thanks largely to household consumption, whose growth of 1.2 pp was reflected on the supply side in expansion of the service sector.

Investment grew in 2018 but remained weak. The industrial sector also grew very moderately, and the construction industry continued to contract, reflecting the impact of Operation Car Wash. The external sector subtracted 0.5 pp from GDP growth in the year, as import growth outpaced export growth in value terms.

Specifically with regard to industry, production grew 1.1%, decelerating compared with the previous year's 2.5%. The sector's performance improved strongly until almost midyear but this trend was interrupted by a ten-day truck driver stoppage in May. After this shock the sector as a whole decelerated. Production ended the year at a lower level than in January.

On average, however, production in most segments rose year over year. The main positive contributions came from consumer durables, up 7.7%, and capital goods, up 7.4%. Intermediate goods expanded only 0.2%, and non-durables contracted 0.2%.

Figure 12: Industrial production (index number, seasonally adjusted: 2012 = 100)

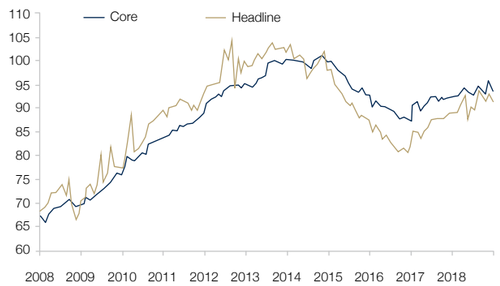
Source: IBGE, Banco Safra

It is worth noting the performance of building materials, a key coincident indicator of construction GDP. After a gradual recovery in the previous year, production of building materials ended 2018 practically flat, growing only 1.0% in the period. The level of production in December 2018 was still 28% below the average for 2013, the last year in which it rose before the domestic economic crisis.

Retail sales displayed a clear tendency to recover, but their level at end-2018 was still similar to that seen in mid-2015 and thus well below pre-crisis levels.

The core measure, which excludes vehicles and building materials, rose 2.3%, thanks mainly to 3.7% growth in supermarket sales. The headline measure rose 5.0%, with vehicle sales growing 15.1%.

Figure 13: Retail sales (index number, seasonally adjusted: 2014=100)



Source: IBGE, Banco Safra

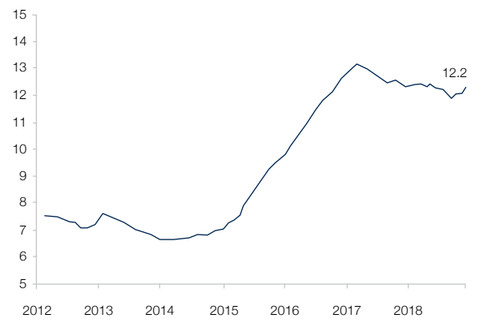
Turning to the labor market, the unemployment rate fell only slightly in 2018, owing mainly to a rise in the number of people employed in jobs with relatively low average wage. After ending the previous year on 12.4% (considering the series seasonally adjusted by us), it fell to 12.0% in the first nine months of 2018 but then turned up again, ending 2018 on 12.2%. Thus the average rate for the year was 12.3% (down from 12.8% in 2016).

The average wage rose 4.4% in nominal terms and 0.8% in real terms, decelerating compared with the previous year, when it rose 6.2% and 2.3% respectively.

In the formal labor market, net job creation amounted to 421,000 in 2018. This was the first net gain after

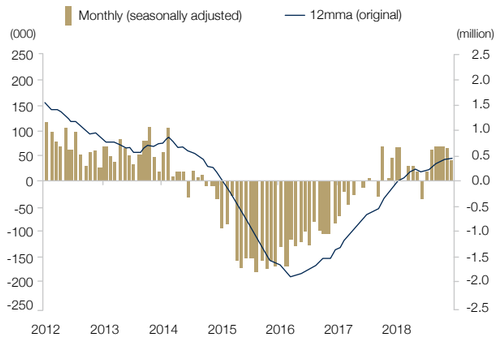
three years during which 3.0 million jobs were lost. Employment rose most in the service sector, with net job creation of 340,000. On the downside, manufacturing remained in negative territory, losing 2,600 jobs in 2018, the fifth consecutive year of net job losses in the sector.

Figure 14: Unemployment rate (%, seasonally adjusted)



Source: IBGE, Banco Safra

Figure 15: Net formal job creation



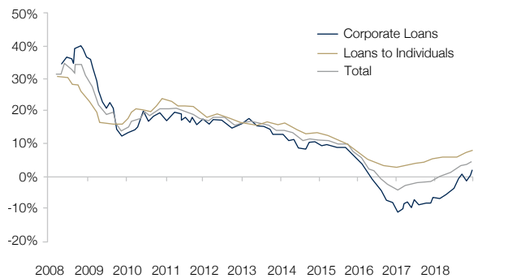
Source: Labor Ministry (CAGED), Banco Safra

In the credit market, after a contraction of 0.5% in 2017, the stock of credit began recovering in 2018, with growth of 5.0%. Unearmarked credit expanded 10.7%, with consumer loans rising 10.9% and corporate loans growing 10.4%. Earmarked credit extended by state-owned banks fell 0.9%, owing mainly to a contraction of 8.1% in corporate loans, while earmarked loans to individuals rose 5.4%.

Weighted by business day and considering growth in 12 months, unearmarked credit continued to accelerate strongly, ending 2018 up 12.1%. After several months of contraction, the stock of corporate loans rose 14.5% in the year, while consumer loans rose 10.3%.

The total delinquency rate continued to fall, ending the year on 2.9% (compared with 3.2% in 2017). Interest rates also trended down, ending the year on 23.2% p.a. (compared with 25.6% p.a. in 2017). Finally, the household debt-to-income ratio fell from 20.1% to 19.8% during the year, while household debt rose from 42.5% to 42.7% of GDP.

Figure 16: Credit operations (growth in 12 months)



Source: Central Bank of Brazil, Banco Safra

Fiscal

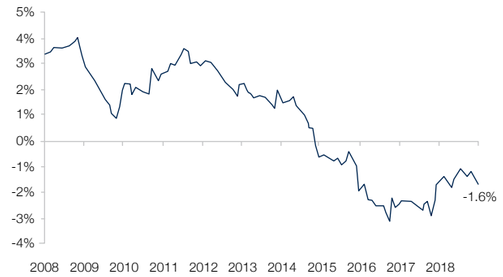
Net revenue (excluding transfers to states and cities) rose 2.6% in real terms year over year, thanks largely to extraordinary receipts amounting to BRL 41.5 billion from concessions and payment of tax arrears under the REFIS, PRT and PERT recovery programs. However, even without non-recurring sources, net revenue rose 2.6% year over year thanks to the removal of extraordinary receipts totaling BRL 60.3 billion from the 2017 comparison basis. This result reflects a significant recovery in tax collection in light of the still timid growth of economic activity.

Central government expenditure rose 2.00% in real terms, with 1.88% growth in mandatory spending and 4.75% growth in discretionary spending. Despite the increase, the comparison basis for discretionary expenditure was already much lower, having fallen 14.3% in real terms in 2017.

The consolidated public-sector primary result as defined by the Central Bank of Brazil was a deficit of BRL 108.3 billion, equivalent to 1.6% of GDP, reflecting a central-government deficit of BRL 116.2 billion and a surplus of BRL 7.9 billion for regional governments and state-owned enterprises.

It is important to note that expenditure came in below the spending cap and golden rule. According to the Treasury, spending items subject to the cap reached only 9.5% of the ceiling. The golden rule (a legal ban on borrowing to cover current expenses, i.e. everything except capital expenditure) was also obeyed in 2018, as revenue from bond issuance (borrowing) remained below capital expenditure during the period. BNDES, the national development bank, repaid BRL 130 billion to the Treasury, contributing significantly to compliance with the golden rule, given the continuing primary deficit.

Figure 17: Public-sector primary surplus (trailing 12 months, % GDP)



Source: Central Bank of Brazil, Banco Safra

General government gross debt (GGGD) rose 4.0 pp to 77.2% of GDP, from 74.1% in 2017, reflecting the current year's primary deficit as well as interest expense.

Interest expense amounted to BRL 379.2 billion, or 5.6% of GDP, compared with BRL 400.8 billion, or 6.1% of GDP, in 2017. The level of GGGD would have been higher if it had not been for the repayment by BNDES to the Treasury noted above. Net debt corresponded to 54.1% of GDP, up from 51.6% in the previous year.

External sector

The balance of payments performed fairly positively again in 2018, with a current-account deficit of only USD 14.8 billion, equivalent to 0.8% of GDP. The current-account deficit in 2017 was USD 7.2 billion (0.4% of GDP).

The merchandise trade surplus was again the main reason for the relatively small current-account deficit in 2018. Exports, which were strongly boosted by another exceptional grain crop and high average prices, totaled USD 239 billion, up 10.0% year over year and close to the 2012-13 level.

Imports totaled USD 185.4 billion, up 21.0% year over year but still relatively low compared with the pre-economic crisis level, owing mainly to the slow pace of the economic recovery. As a result, the trade balance surplus amounted to USD 53.6 billion in 2018.

The service and income accounts displayed no significant change compared with the previous year, basically because of the slower economic recovery and more intense local currency depreciation. Both international travel and profit and dividend remittances decelerated, and interest expense fell sharply compared with the previous year, reflecting a reduction in the stock of foreign debt.

Generally speaking, the current-account adjustment seen in recent years was due above all to the weakness of the domestic economy. In 2017 and 2018 it also benefited from the substantial trade balance surpluses due to high levels of agricultural exports and commodity prices.

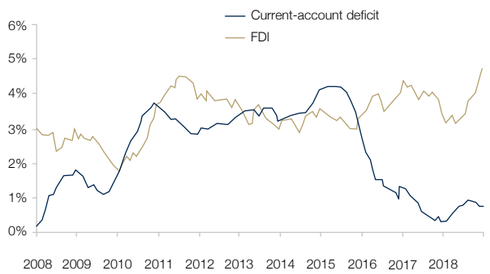
At the same time, financing conditions remained positive in 2018, and each month the cumulative flow of foreign direct investment (FDI) far exceeded the trailing 12-month current-account deficit. FDI totaled USD 88.3 billion (4.7% of GDP), six times the current-account deficit in the year. It is worth recalling that FDI totaled USD 70.3 billion (3.4% of GDP) in 2017.

The net flow of foreign portfolio investment (FPI) was negative in 2018, reflecting the high level of political uncertainty during the year. There was an outflow of USD 5.6 billion in equities and USD 4.4 billion in fixed income.

In the foreign-exchange market, the BRL/USD exchange rate began 2018 in the range of 3.30 and depreciated to 4.20 in August-September. After the

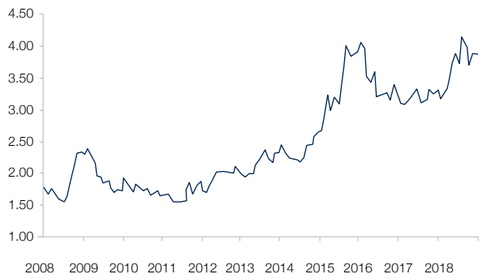
presidential election in October-November, however, it appreciated again, ending the year on 3.88.

Figure 18: Foreign direct investment and current account (12-month total, in % GDP)



Source: Central Bank of Brazil, Banco Safra

Figure 19: Exchange rate (BRL/USD, end of month)



Source: Central Bank of Brazil, Banco Safra

The Central Bank of Brazil (BCB) held no auctions of dollar swaps in first-quarter 2018, but uncertainty about the economic and political outlook led it to offer them in the second quarter, raising the balance of these transactions to USD 67.5 billion at end-June, up from USD 23.9 billion at the start of the year. The stock was kept practically flat until December, ending the year on USD 69 billion.

The flow of foreign funds was moderately negative in 2018, with a deficit of USD 995 million resulting from a net outflow of USD 48.7 billion in the financial account and a net inflow of USD 47.7 billion in the trade account.

Outlook

In 2019 Brazil begins another year facing the challenges of advancing the fiscal adjustment and approving structural reforms, above all in social security and pensions. Economic activity continues to recover more gradually than expected, owing partly to uncertainty about the sustainability of the public debt. Despite this uncertainty, the sluggishness of the recovery combined with fairly benign inflation suggests that monetary policy may be less stimulatory than imagined. The labor market will continue recovering slowly, providing support for a resumption of consumer spending. Investment is set to accelerate moderately, after finally resuming growth in 2017, but will remain well below the pre-crisis level because of the slow pace of the recovery. On the other hand, below-target inflation will allow the Central Bank to begin a new monetary easing cycle, contributing to a faster economic growth rate further ahead.

Our economic scenario for 2018 therefore considers the following expectations:

- In public finance, we expect the three fiscal targets to be met in 2019. We project a central-government primary deficit of BRL 93.7 billion, well short of the target for the year, which is BRL 139 billion. Both revenue and expenditure will rise in real terms: we project year-over-year growth of 5.0% and 2.0% respectively. The main contributions to revenue growth will be (i) economic growth, and (ii) Brazil's largest-ever auction of oil drilling blocks in what is known as the "onerous transfer of rights" area of the Santos Basin, expected to bring in BRL 16.5 billion in 2019. On the expenditure side, the spending cap will be the main constraint limiting expansion. Besides the funds raised by the auction of oil plays (primary revenue), we expect BNDES to make another repayment to the Treasury, in this case about BRL 126 billion (financial revenue that does not affect the primary result but is deducted from public debt). We therefore believe the golden rule will be complied with again this year. Finally, the better primary results and interest rate cuts in 2018 enhanced the trajectory of general government gross debt, which we expect to fall to 77.1% of GDP in 2019 and 76.5% in 2020.
- The exchange rate will remain volatile, reflecting the uncertainties of the domestic outlook, especially in politics and on whether there will be real progress with the structural reform agenda. Now that the pension reform has finally passed, risk premiums should fall in the financial and capital markets, potentially leading to more lasting local currency appreciation. At the same time, we believe a continuation of robust growth in the US, albeit not as fast as in 2018, will sustain the dollar's strength. We project a year-end BRL/USD exchange rate of 3.70 in 2019.
- Inflation is set to end the year on 3.6%, largely reflecting the fall in regulated price inflation and once again remaining below the target, which falls to 4.25% in 2019.
- The balance of payments is set to remain satisfactory. The current-account deficit is expected to end 2019 in the range of USD 25.1 billion, equivalent to 1.3% of GDP, compared with 0.8% of GDP in 2018. Despite the increase, it should not be difficult to finance the deficit as FDI is expected to reach USD 100 billion (5.2% of GDP).
- After two years of modest growth, we expect GDP to accelerate slightly, with growth reaching 1.5% in 2019. The service sector will grow faster, and on the demand side we forecast 1.8% growth in household consumption and a rise of 3.0% in investment. The credit market will continue to recover, and both consumer and corporate loans are set to grow. However, our scenario remains more cautious with regard to the economic recovery because the fiscal crisis has not yet been resolved and this feeds uncertainty about the outlook.
- Considering the slow pace of the economic recovery with inflation under control, we believe the Central Bank will see room for a new monetary easing cycle in 2019, as long as the pension reform looks set to pass into law. We expect the Selic rate to be lowered to 5.50% in 2019.

In conclusion, it is worth reiterating our view that the economic recovery will proceed only if there is genuine progress on the reform agenda, especially pension reform, essential to restore fiscal equilibrium and dispel concerns regarding the sustainability of Brazil's public debt, paving the way for looser financial conditions and an improvement in business and consumer confidence.

Written on May 2, 2019

J. Safra Group

J. Safra Group is a cluster of private banks and holding companies for investments in real estate and agribusiness. It is present in some 200 locations around the world. With a 178-year history focusing on a strategy of high capitalization, liquidity, agility and conservative investment, the Group continues to expand and diversify its activities.

The financial conglomerate comprises Banco Safra S.A., based in São Paulo, Brazil; J. Safra Sarasin, in Basel, Switzerland; and Safra National Bank of New York, in New York (USA). All three banks operate independently from the standpoint of consolidated supervision.

At December 31, 2018, the Group held a total of BRL 1 trillion (USD 251 billion) in raised and managed assets.

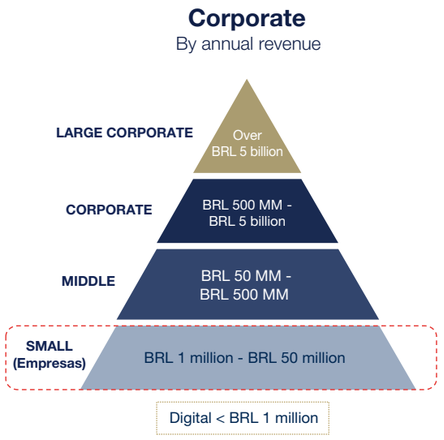
Banco Safra S.A.

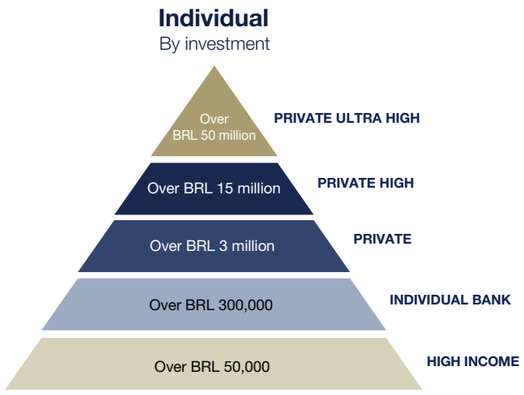
Banco Safra S.A. ended 2018 as the fourth-largest private bank in Brazil by total assets[1]. It is a full-service bank offering a complete line of financial products and services, and standing out in the Brazilian market for the Safra family's experience and proximity to the business. It identifies scenarios, opportunities and threats with agility, rapidly adapting products and services to maximize the results of its clients and consequently those of the organization.

Operating in various business segments for individual and corporate clients, it has a conservative, flexible and agile management culture and is staffed by exceptionally well-qualified and dedicated professionals who understand that their clients are the bank's most important asset. The bank's product development teams are responsible for customizing financial solutions in accordance with the needs of its clients, who are segmented by size.

Banco Safra operates a nationwide branch network staffed by commercial teams who specialize in retail sales. At end-2018 it had 111 branches (109 in Brazil and two offshore). The Brazilian branches, included in Safra's 368 service points, are located in major cities and operate in a segmented manner.

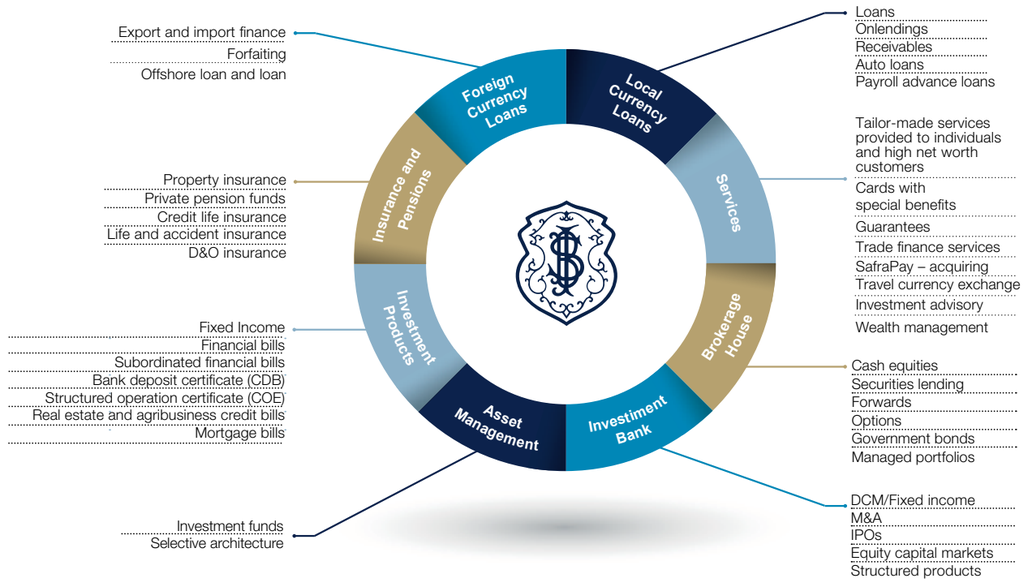
This service structure has enabled us to expand our client base, both businesses and individuals, where we





[1] Source: Central Bank of Brazil, data for December 2018.

Products and Services Customized for Corporate and Individual Clients



Network of branches and sales outlets: Banco Safra S.A. (Brazil)

368 sales outlets in **109** branches in Brazil and **2** offshore branches

Large Corporate (1)	6 platforms
Corporate (2)	19 sales outlets in segmented branches
Middle (3)	73 sales outlets in segmented branches
Small Enterprise (Empresas) (4)	77 sales outlets in segmented branches
Individual (Branch Segment)	119 sales outlets in segmented branches
Private Banking	49 platforms

16 currency exchanges at Brazil's main airports and **7** mini-branches

SafraPay: card acquiring platform launched in 2017 (more than 123,000 active merchant machines at end-2018)

Institutional investors: services provided by a specialized structure centralized at headquarters

Finance house: vehicle financing and payroll linked to consumers via special structure involving resales and correspondent banks

Complementary services: Home Banking, Office Banking, Internet Banking, and shared network of some **20,000 ATMs**

Number of employees: 8,070

Customers: approximately **1.5** million

(1) Annual sales of more than BRL 5.0 billion
(2) Annual sales of BRL 500 million-5.0 billion
(3) Annual sales of BRL 30 million-500 million
(4) Annual sales of BRL 1 million-30 million

reached the mark of one million customers. In SafraPay we ended the year with over 123,000 active machines on merchant premises and more than BRL 3 billion per month in transactions.

Key indicators

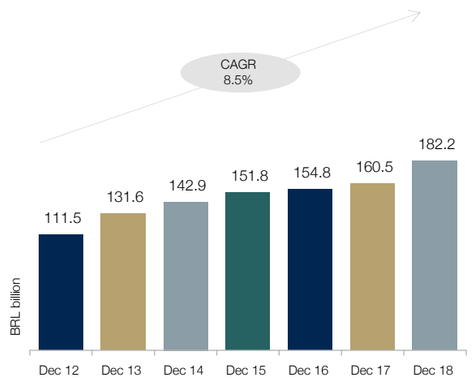
In 2018 Banco Safra S.A. reported net income of BRL 2.1 billion, for an average annualized return on equity of 20.3%. At December 31, 2018, assets totaled BRL 182.2 billion and equity stood at BRL 11.8 billion.

With 22.0% growth in its expanded credit portfolio and 22.7% growth in net funding, it ended the year with a robust liquidity position amounting to BRL 27.7 billion and a Basel III capital adequacy ratio of 14.4%.

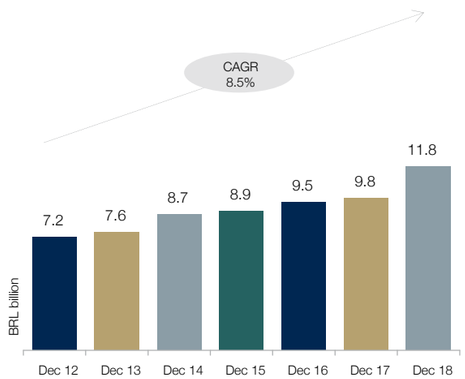
The vehicle financing and payroll linked loans portfolios grew 53.5% and 46.2% year over year respectively.

The expanded portfolio of corporate loans reached BRL 85.5 billion, with 33.6% growth in loans to companies with gross sales of BRL 1 million-BRL 500 million, far outperforming the industry in Brazil. Large corporates increased the amount of funding via debt issuance locally (debentures, promissory notes and similar instruments) and abroad (Eurobonds), for growth of 85.4% in 2018.

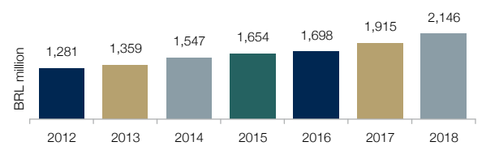
Total assets



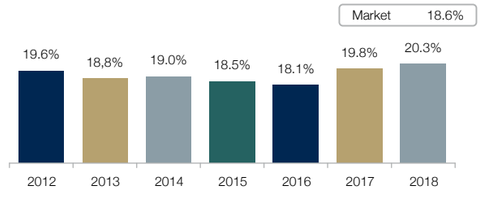
Equity



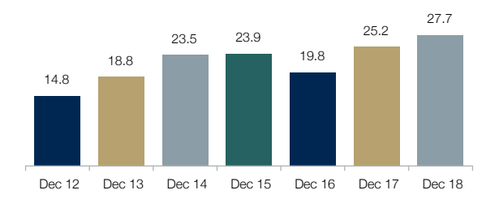
Net income



Return on average equity (ROAE)



Liquidity - BRL Billion

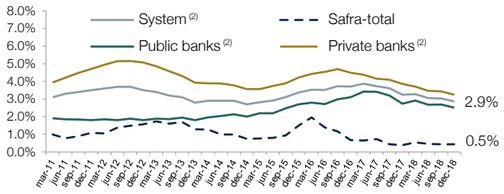


	Dec/18		Dec/17		Change Dec-18/ Dec-17
	BRL million	% share	BRL million	% share	
Individual clients	**21,555**	**20.1%**	**14,472**	**16.5%**	**48.9%**
Credit cards	265	0.2%	215	0.2%	23.3%
Payroll linked loans	9,267	8.7%	6,337	7.2%	46.2%
Personal loans/others	1,557	1.5%	1,101	1.3%	41.4%
Vehicle financing	10,466	9.8%	6,819	7.8%	53.5%
Corporate clients	**85,498**	**79.9%**	**73,246**	**83.5%**	**16.7%**
Large Corporate[1]	53,662	50.1%	48,449	55.2%	10.8%
Corporate[2]	17,850	16.7%	14,328	16.3%	24.6%
Middle Market[3]	10,282	9.6%	9,023	10.3%	14.0%
Small (Empresas)[4]	3,704	3.5%	1,445	1.6%	156.2%
Expanded credit portfolio[5]	**107,054**	**100.0%**	**87,718**	**100.0%**	**22.0%**

(1) Annual sales of more than BRL 5.0 billion.
(2) Annual sales of BRL 500 million-BRL 5.0 billion.
(3) Annual sales of BRL 30 million-BRL 500 million.
(4) Annual sales of BRL 1 million-BRL 30 million.
(5) Includes endorsements and guarantees amounting to BRL 20,529 million in Dec/18 and BRL 19,134 million in Dec/17; and private bonds amounting to BRL 14,706 million in Dec/18 and BRL 7,931 million in Dec/17.

Loans rated AA, A and B accounted for 95% of the total credit portfolio. Non-performing loans (NPL90 = loans more than 90 days past due) accounted for only 0.5% of the portfolio at December 31, 2018, and problem loans[2] in accordance with CMN Resolution 4557 accounted for 1.1% on the same date. The loan loss provision coverage ratio was 817.7% for loans more than 90 days past due and 338.1% for problem loans at end-2018.

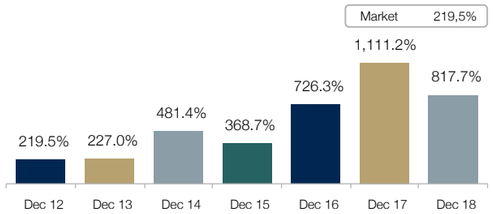
Delinquency rate: NPL90/total portfolio[1]



Market = top three private banks in Brazil based on assets in December 2018.

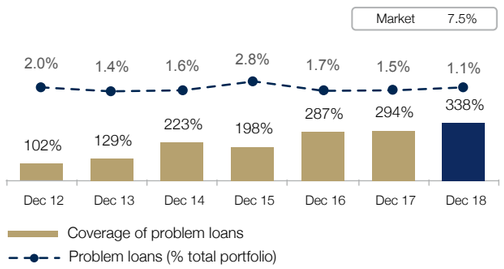
[1] Loans more than 90 days past due as percentage of total credit portfolio.
[2] Source: Central Bank of Brazil.

Coverage ratio NPL90

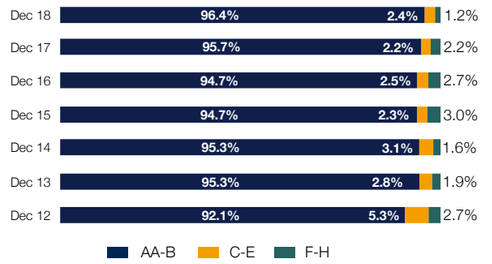


Market = top three private banks in Brazil based on assets in December 2018.

Problem loans



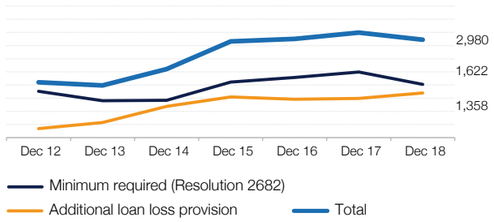
Expanded credit portfolio loan ratings[1] (Resolution 2682)



(1) In Dec/18 and Dec/17, as percentage of expanded portfolio.

In relation to the allowance for loan losses, in the expanded perspective, in line with its conservative positioning, the Bank records allowances in addition to those requiried by the regulation authority, totaling BRL 1.4 billion in the end of 2018, which, added to the minimum required of BRL 1.6 billion, resulted in a total allowance for loan losses of BRL 3.0 billion, equivalent to 2.8% of the expanded credit portfolio.

Expanded allowance for loan losses (BRL million)



Banco Safra had BRL 233.1 billion in raised and managed assets at December 31, 2018. Investment funds accounted for BRL 85.5 billion. Pension funds grew 22.1% in the year.

It is also worth highlighting the issue of USD 500 million in dollar-denominated five-year senior notes with a 4.125% coupon in February 2018 via Banco Safra's Cayman branch.

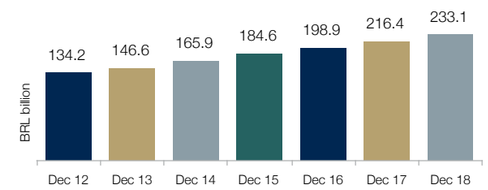
In recent years Banco Safra has diversified its revenue sources, focusing more on existing products such as investment funds and insurance, and including new products such as SafraPay, launched in 2017 with outstanding acceptance in the merchant acquiring market.

Safra is also a leader in investment banking, especially capital market activities, bond distribution and mergers and acquisitions (M&A), leveraging its brand recognition.

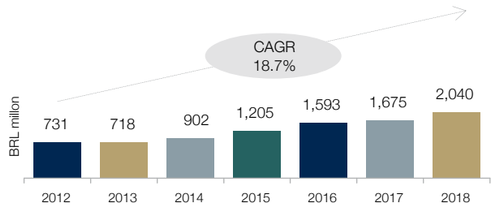
As a result of this diversification, income from banking service fees and charges totaled BRL 2.0 billion (BRL 1.7 billion in 2017), growing 13.5% in the period. In particular, income from fund management and administration, brokerage and custody amounted to BRL 1.3 billion (BRL 1.0 billion in 2017), growing 27.2% in the year.

[2] Definition of problem loans: I. Loans more than 90 days past due; II. Renegotiated loans that appear unlikely to be repaid; III. All loans to corporate clients undergoing court-ordered reorganization; IV. All loans to corporate clients declared bankrupt; V. All loans to deceased individual clients; VI. All loans written off as losses.

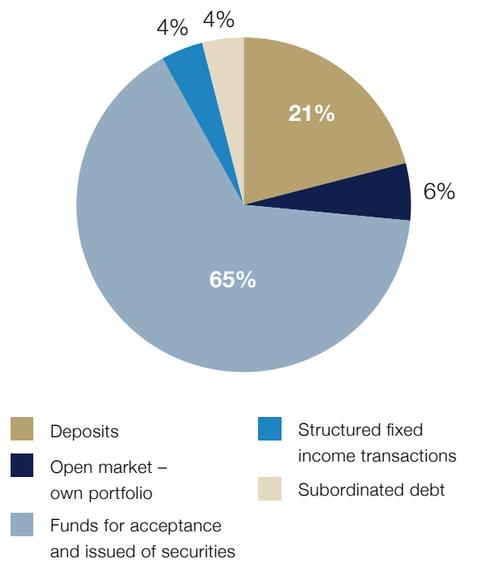
Raised and managed assets



Banking service fees and charges



Client funding (by product)



Strategic initiatives

The main strategic initiatives in progress are outlined below:

- *Digital transformation* – Convinced that the bank of the future will be driven by digital transformation and growing integration with the everyday lives of clients to provide new experiences of interactivity and smart selling, Safra has invested in a range of self-service solutions encompassing traditional services and investment products as well as more structured offerings such as loan quotation and contracting. It has also invested in the creation of a mobile virtual network operator (MVNO), Cinco Telecom, focusing on the internet of things (IoT), and constantly seeks new opportunities in digital solutions.
- *SafraPay* – 2017 saw the launch of SafraPay, marking Banco Safra's entry into the merchant acquirer market. Since then it has extended operations into Brazil's entire electronic payment chain, offering services that go beyond electronic payment capture and provide access to a complete range of products and services in an agile and effective manner thanks to synergy with its commercial banking operation. The initiative positions Banco Safra competitively in this market and strengthens still further the long-term relationships it builds with clients.
- *Retail and Corporate Digital* – Alongside the SafraPay operation, which acts as a gateway for access by smaller clients, the bank has extended its core business focus by including companies with annual revenue of BRL 1 million-BRL 10 million, and, in the

corporate digital segment, clients with annual revenue of less than BRL 1 million.

- *TopAdvisor* – In the individual client segment the bank aims to attract high-income checking account holders with substantial investment potential. This will be achieved by offering products distributed by the asset management and brokerage units. The cutoff limit for acceptance of clients in this segment has been lowered in 2019 from BRL 50,000 to BRL 10,000. In addition to reducing the eligibility ticket, the bank is strengthening its sales force to maintain its traditionally high quality in client service, always focusing on long-term relationships.
- *Digital Finance House* – Complete reformulation of the processes involved in auto loan and payroll loan offering, approving, formalizing and payment, guaranteeing superior agility in the marketing of these products and even more rigorous client confirmation checking, while reducing the risk of fraud by means of biometric credit application procedures.
- *Darwin Startups* – We entered into a partnership with Darwin Startups, elected best accelerator by Startup Awards Brazil in 2018, to accelerate our investment in innovative solutions and digital transformation in the areas fintech, insurtech, big data, IT and telecom.

Awards

- *Valor Econômico* recognized Safra's Top Fund Manager program (Programa Top Gestor) as one of the industry's most important initiatives to seek out talented professionals at universities.
- Best wholesale bank in Brazil: Safra led the category Banks (Wholesale and Business) for the second consecutive year in the yearbook *Estadão Finanças Mais*, and won awards in the categories Life Insurance & Pensions (ranked second) and Property Insurance (ranked fifth).
- Safra Asset Management won a Top Fund Management award (Prêmio Top Gestão) in the category Best in Fixed Income from S&P Global and *Valor Investe* in 2017.
- In the last four years Safra has won awards from *Exame - Onde Investir*. In 2018 it won in the category Five-Star Fund.
- LinkedIn Top Companies Brazil: Safra ranked fifth among the best places to work in 2018, in recognition of its capacity to attract new talent.

Risk and capital management

Banco Safra manages risks using the three lines of defense methodology and has procedures aligned with industry best practices, guaranteeing compliance with the applicable legislation and regulation as well as its internal policies.

Risk management is the responsibility of an integrated risk management unit subordinated to the Chief Risk Officer (CRO), who reports to the Risk Superior Committee and to the Board of Directors. Also part of Safra's risk management framework is a formal Risk Appetite Statement (RAS) specifying the key indicators, metrics and principles on which its business activities and risk controls are based. The RAS is periodically monitored by top management and the Risk Superior Committee, and approved by the Board of Directors.

The credit risk management structure is reflected in low loan delinquency rates and comfortable levels of loan loss provision and coverage. These indicators confirm the use of best practices and technologies in lending and control of guarantees, making Banco Safra one of the industry's best in terms of credit management.

Several regulatory measures were issued in 2018 for implementation in the current year and 2019, further strengthening the National Financial System's risk and capital management culture. The following are particularly noteworthy:

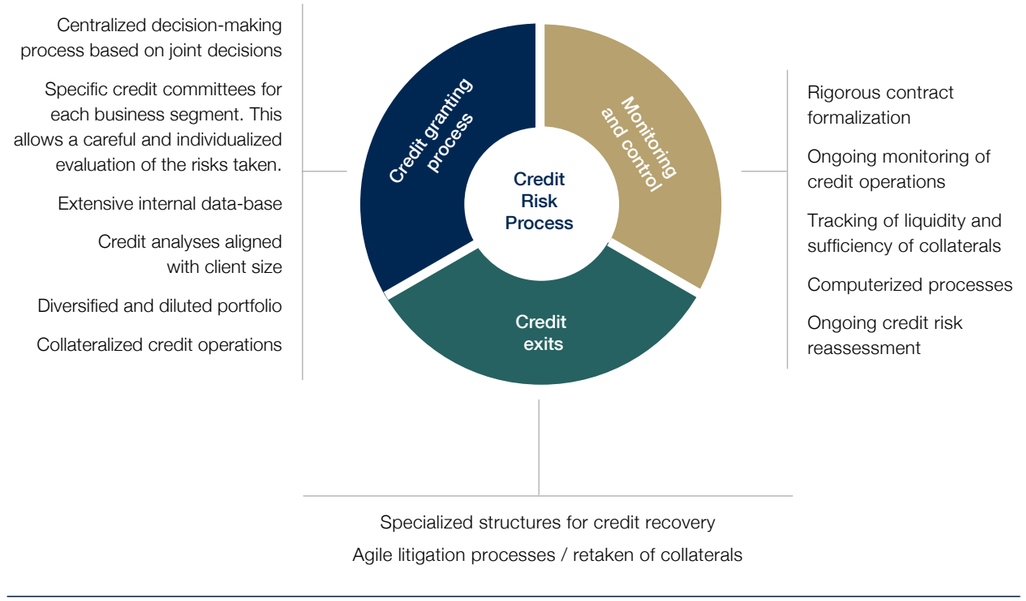
- Interest-rate risk in the banking book (IRRBB): Simply put this provides (i) broader guidelines on the process of banking book risk management, especially with regard to interest-rate shock and stress scenarios; (ii) extended disclosure requirements to enhance consistency, transparency and comparability across institutions; and (iii) an update to the standard model.
- Exposure limit per client: The exposure limit per client was redefined as the ratio between Tier I capital and client exposure, in line with the formula for total exposure considering mitigators used to calculate RWA for credit risk.
- Large exposure (RWF 85%): A new criterion was issued for application of the 85% risk weighting factor to corporate clients (large exposure): 85% for large corporates (total assets >BRL 240 million, or annual gross revenue >BRL 300 million); no problem loans; SCR delinquency rate (ID) of 0.05% or lower.

It is worth recalling that Banco Safra runs the annual Internal Capital Adequacy Assessment Process (ICAAP). Regulated by the Central Bank, the process entails an assessment of all risk and capital management procedures at all hierarchical levels, including a forward-looking capital plan for a minimum of three years ahead. In addition, alongside other leading financial institutions Safra is a participant in the Central Bank's Bottom-Up Stress Test Exercise, introduced in 2017. These processes are designed to assure the solidity and security of the National Financial System and anticipate any adjustments required to keep the markets running smoothly.

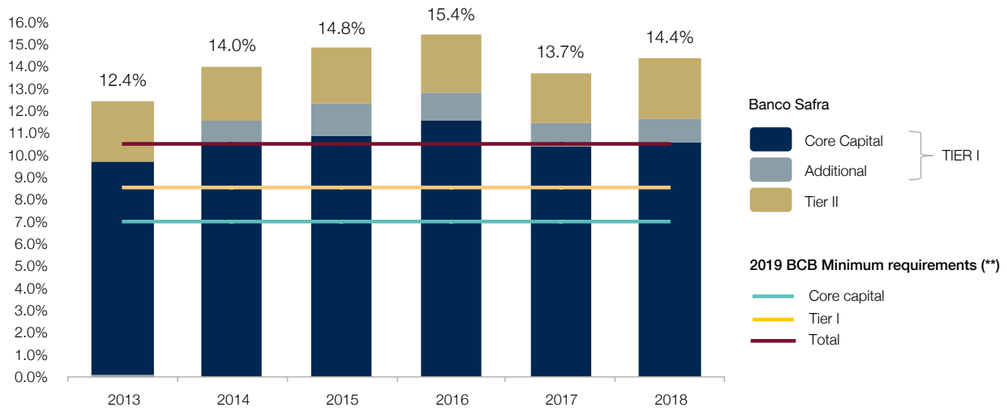
In 2018 Banco Safra reinforced its capital base, guaranteeing an increase in the Basel III capital adequacy ratio from 13.7% at December 31, 2017, to 14.4% at December 31, 2018. This prepared the bank for the expansion planned for the years ahead.

The financial statements (note 18) present a summary of the bank's risk management practices. Information regarding the risk management framework requirements established by the Central Bank of Brazil in Circular 3678/13 and the capital management framework requirements established by its Resolution 3988/11, as amended by National Monetary Council (CMN) Resolution 4557/17, can be found on Banco Safra's website (www.safra.com.br).

Credit risk management



BIS Ratio*



(*) BIS Ratio = regulatory capital/ risk weighted assets.
(**) Countercyclical capital buffer equals to zero.

BRL million	Dec 18	Dec 17	Dec 16
Regulatory capital (PR)	**15,774**	**12,759**	**12,567**
Tier I	**12,779**	**10,626**	**10,414**
Core capital	11,617	9,636	9,433
Additional	1,162	991	981
Tier II	**2,995**	**2,133**	**2,153**
Risk-weighted assets	**109,294**	**92,978**	**81,552**

Governance

Banco Safra has a strong corporate governance structure focusing on collegiate decision making and supported by rigorous internal controls.

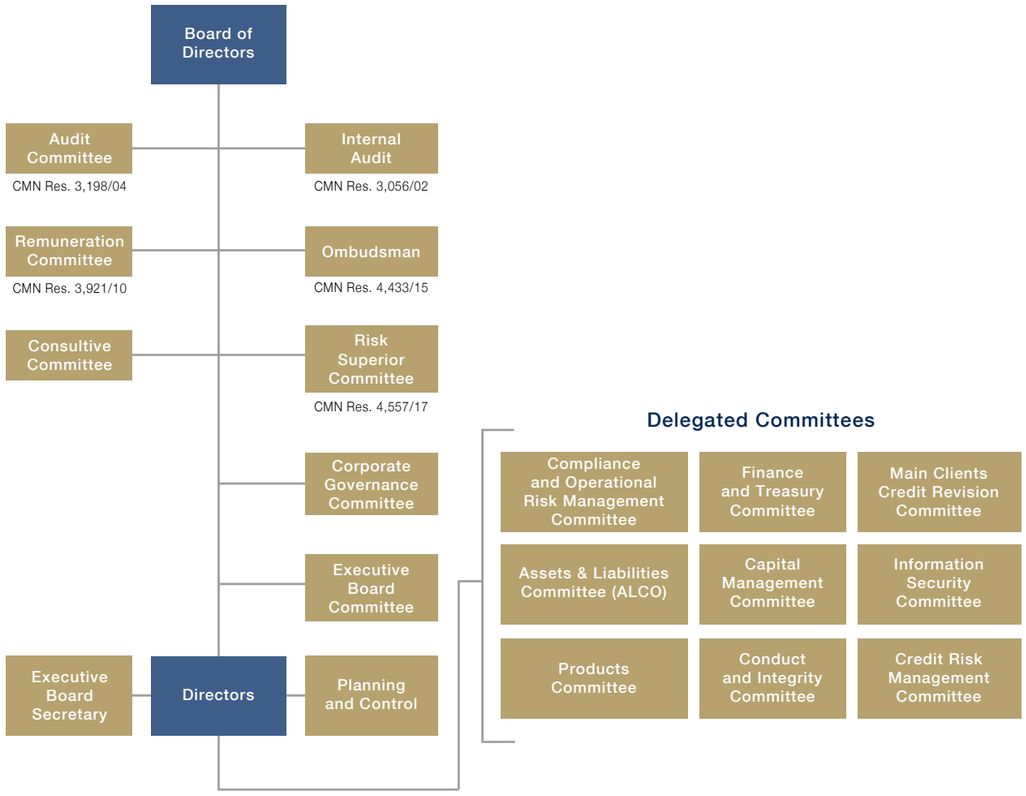
Besides the Risk Superior Committee, Banco Safra S.A. has an Audit Committee, a permanent statutory body that operates in compliance with CMN Resolution 3198 (dated May 27, 2004) and National Private Insurance Council (CNSP) Resolution 312 (dated June 16, 2014). The Audit Committee reports directly to the Board of Directors, and has five members. Three members are company directors and two are independent. Its activities are governed by its own bylaws and the bylaws of Banco Safra.

The other statutory committees include the Remuneration Committee, which advises the Board of Directors on the implementation of the organization's compensation policy for top management in accordance with CMN Resolution 3921 (dated November 25, 2010), with four members serving a two-year term, and acts as a single organizational component of the Safra Financial Conglomerate's lead institution. The Advisory Board guides, assists and advises the Board of Directors on the conduct of the organization's business activities, suggesting strategies for the organization and its subsidiaries in the various branches of its financial business.

In addition to its statutory committees, Safra has a number of delegated committees that support the institution's operations. The Finance and Treasury Committee and the Capital Management Committee were established in 2016, further strengthening the bank's corporate governance framework.

In 2018 the Corporate Governance Committee was established to contribute to improvements in the quality of the Safra Conglomerate's management, compliance with its ethical and business values, and enhancement of the relationships among the members of the Board of Directors, the Executive Committee, the employees and the bodies that oversee and control their activities, and to promote synergies among Safra's risk and control units and its other structures by means of interaction among Internal Auditing, Operational Risk, Ombudsman, Regulatory Affairs, Internal Controls and Compliance.

Corporate Governance



Ratings

Banco Safra continues to merit the highest ratings possible for financial institutions in Brazil from S&P Global and Moody's, limited as these are by Brazil's sovereign rating. Safra Asset Management is rated Excellent by FitchRatings.

	Moody's	S&P
Global scale - Local currency Long term	Ba2	BB-
Global scale - Foreign currency Long term	Ba3	BB-
Brazil national scale Long term	Aa1.br	brAAA
Outlook	Stable	Stable
Latest report	2/28/2019	12/19/2018

Sustainability

Safra follows sustainability best practices in its business activities. To this end it maintains close and balanced relationships with clients and suppliers, supported by qualified internal structures and well-trained staff, in conformity with the guidelines issued by the regulators and with its own Socioenvironmental Risk Management Policy and Framework implemented in compliance with CMN Resolution 4327/2014. The Social and Environmental Risk Framework Policy - PRSA is available from Safra´s website[1].

Before any relationship is established with a client, supplier or any interested party, an analysis is conducted to verify the existence of socioenvironmental risks, including corruption, child labor or forced labor, and compliance with environmental laws. The credit portfolio and active suppliers are periodically analyzed for the same purpose.

The Human Rights Policy issued in 2018 establishes guidelines and basic principles governing our business relationships, including related party transactions and disclosures. We also implemented a mechanism to prevent new transactions or the start of relationships with individuals or companies considered socio-environmentally noncompliant.

In property management our commitment to sustainability is reflected in optimization of the use of natural resources such as water and electricity in all facilities. Power consumption in our branches has been reduced by half thanks to the use of LED bulbs, which will become exclusive within two years. Power for head office buildings is now purchased on the free market and a significant proportion therefore includes renewables such as wind, biomass and solar energy.

Paper consumption has also been considerably reduced. Thanks to the creation of digital channels offering an array of services and products, the number of pages printed fell 35% for clients and 15% for staff compared with the previous year.

Banco Safra's Socioenvironmental Risk Management Report describes our sustainability actions in more detail as they apply to clients, staff, suppliers and all stakeholder groups. The report can be read in Portugues[2].

[1] *www.safra.com.br/relacoes-com-investidores/financial-information.htm*
[2] *www.safra.com.br/relacoes-com-investidores/informacoes-financeiras.htm*

Social responsibility

Banco Safra contributes to the development of society in many fields, such as health, social inclusion, education, culture and sport, among others, supporting high-impact projects that help the poor and disadvantaged. The 2018 highlights are described below.

Health

A significant proportion of the donations made by Banco Safra goes to hospitals recognized for the quality of the services they offer, such as the Albert Einstein Jewish Hospital, the Barretos Cancer Hospital and the Santa Catarina Hospital and the Japanese-Brazilian Hospital. The bank also supports important partners who promote the universalization of healthcare (see chart on right).

Social inclusion

The project Laços de Amizade ("Ties of Friendship") promotes social inclusion through visual and plastic arts workshops led by young volunteers for children and adolescents with cancer, people in situations of risk or abandonment, people with special needs and elderly adults, among other groups.

Instituto Verdescola assists young people in areas of social vulnerability. In 2019 it will offer courses supplementing formal education in robotics, educommunication, computing, arts, dance, music and cooking, among others, as well as courses that prepare children for the National High School Exit Examination (ENEM), an important gateway to several Brazilian universities.

Longstanding partnerships

Banco Safra traditionally supports institutions recognized for their dedication to noble causes. They have all been the bank's partners for over 20 years.

Fundação Dorina Nowill: Promotes social inclusion of the visually impaired by producing and distributing free Braille, audio and digital books to some 2,500 schools, libraries and organizations throughout Brazil.

Jewish-Brazilian Social Welfare Association (UNIBES): More than 100 years running educational and social aid projects for children, adolescents and adults young or old.

APAE: Association of Parents and Friends of Children with Special Needs: Promotes the diagnosis and prevention of genetic anomalies, contributing to social inclusion of the developmentally disabled.

AACD - Association for Assistance to Handicapped Children: Cares for children with special needs through occupational training, sport and physical rehabilitation, among other activities.

GRAACC - Support Group for Children with Cancer: Maintains an internationally recognized hospital and pediatric oncology institute in partnership with the Federal University of São Paulo (UNIFESP).

TUCCA - Association for Children and Adolescents with Cancer: Provides treatment for cancer and conducts projects such as "Classical Music and Gastronomy for Healing".

Unibes
Center for Children
& Adolescents (CCA)

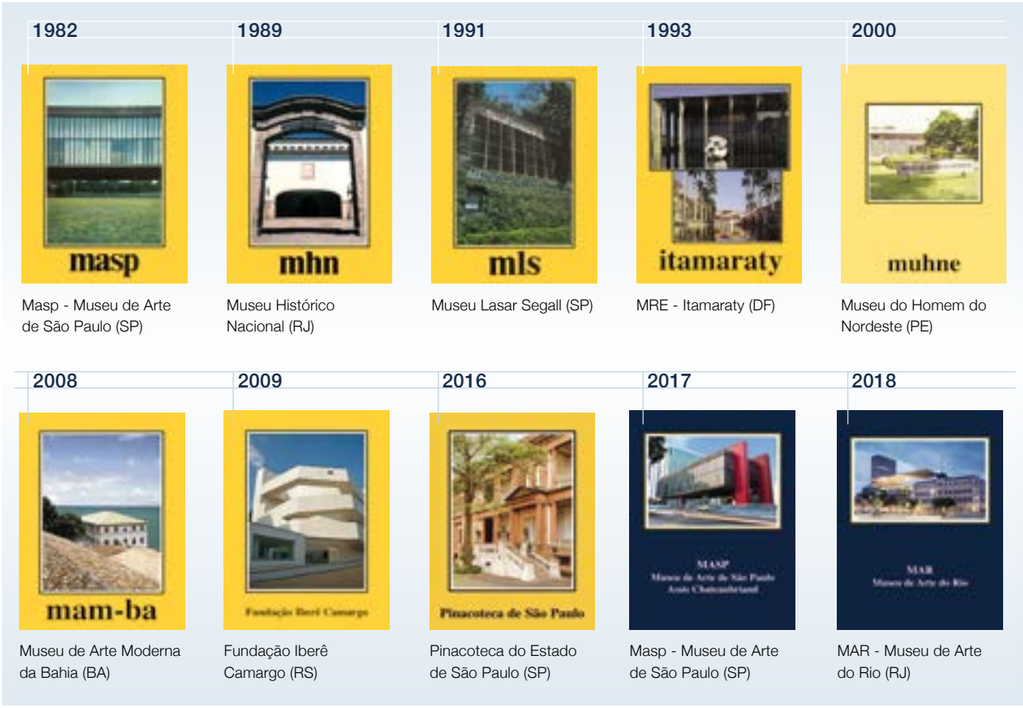
Tucca
Apprentice
Orchestral Conductor Project

Education and culture

In 2018 the J. Safra Culture Project completed 36 years paying tribute to Museu de Arte do Rio (MAR). Only six years old, MAR owns a robust collection with more than 7,000 art works and 20,000 archival items, and has an important place in Brazil's cultural life.

A new volume has been issued cataloguing a leading Brazilian museum's collections and facilities every year since 1982. This initiative is considered innovative by museologists, researchers, teachers and art lovers generally, and has won the Grand Prix awarded by the São Paulo Association of Art Critics (APCA).

Teatro J. Safra promotes the democratization of access to culture with a varied program of the highest quality, as well as offering arts and theater courses for young people from low-income households.



Series on Brazilian Museums: some of the volumes produced over the years. The 2018 volume pays tribute to MAR.

Human resources

Banco Safra and its subsidiaries ended December 2018 with 8,070 employees, up 20% in the year. Pay, taxes and charges, excluding expenses relating to severance and labor contingencies, totaled BRL 2.1 billion.

BRL million

Key performance indicators for compensation and benefits	2018	2017
Meals	100.3	78.8
Compulsory social security	379.9	331.2
Occupational health and safety	50.8	36.4
Capacitação e desenvolvimento profissional	3.6	2.4
Daycare or daycare allowance	7.7	6.7
Travel allowance	3.6	3.2
Profit sharing	398.8	355.7
TOTAL	**944.7**	**814.4**

Careers

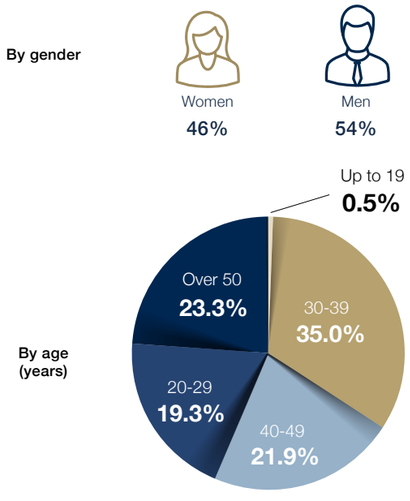
Providing professional development opportunities is a constant concern for Safra. In 2018 the number of promotions rose 19% compared with the previous year. In parallel, the bank invests in the hiring of market professionals with outstanding competencies and experience. Approximately 2,800 new staff were taken on in 2018. Integration of existing staff with new hires guarantees a diverse and increasingly well-prepared team.

Enrollment for the Safra Trainee Program was opened once again in 2018. More than 40,000 people applied for the selection process, which was one of the most sought-after in Brazil. The process lasted three months and ended with the admission of 31 new trainees. The main aim of the initiative is to develop all-round professionals in support of Safra's expansion plan.

The program's success is grounded in the freedom of choice given to these young trainees to choose the area in which they want to work during the first stage of the selection process. They then participate in a nine-month development cycle that includes a special course in financial markets designed by a top-tier university, plus lectures, working side by side with the bank's senior executives, job rotation tailored to the needs of each trainee, and development activities.

Safra also invests in an Internship Program, which has the same standard of quality as its Trainee Program. In 2018 it engaged 137 students from the best Brazilian universities and offered them workshops and career supervision with concrete possibilities of joining the regular staff.

Profile of Team Safra in 2018



To offer opportunities to undergraduates who study full time or overseas, Safra also has a Vacation Internship Program, which engaged 75 students to work at the bank in January and July 2018. These interns are future candidates for the Internship and Trainee Programs.

The cycle of initiatives to attract and retain future talent is completed by the Young Apprentice Program, which engaged 41 second- and third-year high school students and undergraduates to begin a career at one of the largest Brazilian banks.

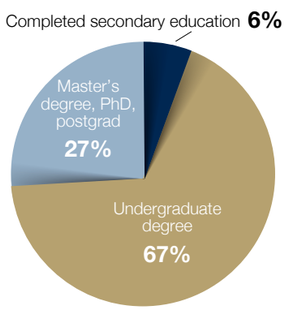
Training and business education

Safra values the development, education and training of its professionals. It therefore offers financial support for staff to pursue undergraduate degrees, MBAs and graduate studies at the best universities. The meritocratic fairness and assertiveness of this educational assistance are guaranteed by regular performance assessments for eligible employees. Safra also pays the full cost of the ANBIMA CPA 10 and CPA 20 examinations required for financial market professionals to obtain mandatory certification. In 2018 it invested BRL 1.5 million in educational grants and the cost of mandatory certification.

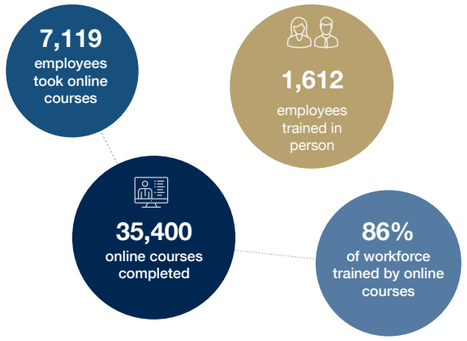
The bank also invests in learning and development via face-to-face and online training. Twenty-three new courses have been offered in the last two years. Because the courses are designed by Safra's executives, they are highly applicable, efficient, and compliant with the bank's values and principles. In 2018 more than 35,000 online courses were completed, and 1,612 professionals took courses in person.

Another highlight is the Integration Program consisting of two weeks of full-time training for newly hired members of the sales force, who undergo a valuable process of institutional immersion, learning in theory and practice all about the workings of the business areas that make Safra an example of fast growth combined with solidity.

Educational attainment of Team Safra in 2018



Training indicators in 2018



Health

Banco Safra's Health Program has an annual calendar that is constantly enhanced and expanded. It includes a voluntary campaign against influenza under which employees and their families are immunized with the quadrivalent flu vaccine, the most complete vaccine for this purpose on the market. Aware that children are not exactly happy about going out for a flu jab, Safra sets up a special clinic to vaccinate employees and their spouses and children in its head office building, and provides a day of recreation for these families with games and special decorations for the children.

Another important annual campaign is Pink October for awareness, prevention and early diagnosis of breast cancer. In 2018 we offered a complete circuit, with a physical checkup (blood pressure, blood sugar, cholesterol, BMI, weight, height, heart rate and eye test), dermatologist and dietitian consults, counseling on healthy habits from fitness coaches, medical test prescriptions, and talks on such topics as gender equality in business, endometriosis and nutrition, among others.

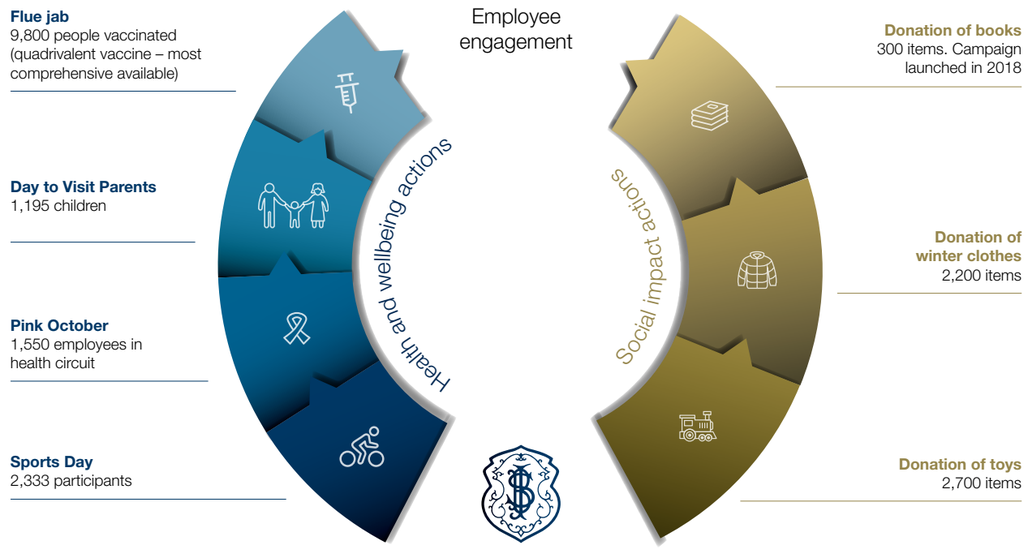
The Antenatal Course provided guidance for our future mothers on labor, breastfeeding and baby care on two occasions in 2018. The Blood Donation Campaign organized in partnership with São Paulo's Syrian-Lebanese Hospital proudly achieved 100% enrollment for the fifth year running. Another highlight in 2018 was a new dental care plan with some 37,000 listed professionals all over Brazil.

Wellbeing

Activities of various kinds are organized during the year to provide positive experiences for Safra's staff. In 2018 we sponsored Peace Run & Walk and raffled kits for employees to participate in the 7 km event in São Paulo City.

Another highlight was the Annual Day to Visit My Parent's Workplace, which opens Safra's doors to employees' children so they can get to know the institution. In 2018 the theme was Professions. The children built models of the head office building and bank branches, learned about human physiology using virtual and augmented reality, watched an interactive play about the professions of our staff and participated in a science lab session, among other activities. More than 1,200 children took part across the country, as the festivities were extended for the first time to all branch staff as well as professionals employed at head office.

Safra also benefits from the support and activities of its employee association, which in 2018 signed deals with a record number of companies for discounts in a range of areas including healthcare, fitness, education, apparel and meals, among others. Its membership has risen at an unprecedented pace in recent years, reaching 4,117 in 2018, for 22% growth compared with 2017. The association organizes an extensive calendar of sporting and cultural events with activities for staff and dependants throughout the year and in all the cities where the bank operates.



The social impact of Safra's human resources actions and the number of people participating grow year by year.

Financial statements

Balance sheet

R$ 000		CONSOLIDATED	
ASSETS	**Notes**	**12.31.2018**	**12.31.2017**
CURRENT AND NON-CURRENT ASSETS		182,166,931	160,459,501
Cash	3(b) and 4	699,893	535,052
Interbank investments	3(c) and 4 and 5	44,432,122	37,044,949
Open market investments		40,055,125	33,670,060
Interbank deposits		2,168,799	1,411,828
Foreign currency investments		2,208,198	1,963,061
Central Bank compulsory deposits	6	8,298,347	4,442,980
Marketable securities	3(d) and 7(a)	37,455,868	42,399,720
Own portfolio		21,881,042	25,359,134
Subject to repurchase agreements - Open market		12,912,329	15,007,169
Restricted deposits - Brazilian Central Bank		761,586	509,529
Subject to guarantees		1,900,911	1,523,888
Funds guaranteeing technical reserves for insurance and private pension	7(b)	14,922,255	12,302,405
Derivative financial instruments	3(d) and 7(c)	807,418	504,266
Transactions with credit characteristics	3(f) and 8	69,097,199	58,057,210
Credit operations		71,819,529	60,652,967
(Allowance for loan losses)		(2,722,330)	(2,595,757)
Other financial assets	11	3,203,972	2,366,949
Foreign exchange portfolio	11(a)	246,424	1,146,563
Negotiation and intermediation of securities	11(b)	680,304	401,248
Interbank and interdepartmental transactions		62	57
Acquirer		2,033,967	669,759
Sundry		243,215	149,322
Other sundry receivables	13(a)	2,677,128	2,355,492
Deferred Taxes		2,168,632	1,798,384
Sundry		508,496	557,108
Other assets - Prepaid expenses	3(h)	47,092	56,447
INVESTMENTS	3(i)	7,214	6,881
PROPERTY AND EQUIPMENT IN USE	3(j) and 16	377,073	253,193
INTANGIBLE ASSETS	3(k) and 16	141,350	133,957
TOTAL ASSETS		**182,166,931**	**160,459,501**

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

R$ 000		CONSOLIDATED	
LIABILITIES	**Notes**	**12.31.2018**	**12.31.2017**
CURRENT AND NON-CURRENT LIABILITIES		170,301,202	150,650,445
Deposits	3(m) and 9(a)	20,258,053	12,673,060
Demand deposits		1,293,058	895,691
Savings deposits		2,213,006	1,932,484
Interbank deposits		858,048	570,162
Time deposits		15,893,941	9,274,723
Open market funding	3(m) and 9(b)	39,855,778	54,123,032
Own portfolio		12,415,103	23,122,962
Third party portfolio		27,440,675	31,000,070
Funds from acceptance and issue of securities	3(m) and 9(c)	60,367,409	39,831,372
Funds from financial bills, bills of credit and similar notes		58,330,482	39,475,119
Liabilities for marketable securities abroad		2,036,927	356,253
Structured funding	3(m) and 9(d)	6,097,578	6,346,783
Borrowings and onlending	3(m) and 9(e)	13,429,094	14,135,756
Foreign borrowings		9,606,688	8,860,882
Domestic onlending		3,603,970	5,237,111
Other borrowings		218,436	37,763
Derivative financial instruments	3(d) and 7(c)	765,680	469,756
Insurance and supplementary pension operations	3(n) and 10(c)	14,921,952	12,304,097
Subordinated debt	3(m) and 9(f)	7,314,269	5,193,120
Other financial liabilities	11	3,673,716	2,944,844
Foreign exchange portfolio	11(a)	319,446	1,148,365
Collection of taxes and similar		12,702	16,341
Interbank and interdepartmental transactions		223,762	283,671
Negotiation and intermediation of securities	11(b)	644,195	594,266
Acquirer		2,024,190	526,395
Other		449,421	375,806
Other liabilities		3,617,673	2,628,625
Social and statutory		17,979	16,219
Taxes and social security contributions	3(o) and 15(c)	1,251,565	421,646
Deferred tax liabilities	3(q) and 15(b-II)	243,588	300,748
Provisions for contingencies	3(o) and 14(c)	1,477,140	1,350,894
Sundry	13(b)	627,401	539,118
DEFERRED INCOME	3(r)	74,069	40,508
EQUITY	17	11,791,660	9,768,548
Share capital – Country		10,716,042	8,652,392
Revenue reserves		1,069,185	1,086,001
Carrying value adjustments		6,433	30,155
TOTAL LIABILITIES AND EQUITY		**182,166,931**	**160,459,501**

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

Statement of income

R$ 000		CONSOLIDATED	
	Notes	2018	2017
INCOME FROM FINANCIAL INTERMEDIATION	12(a)	14,011,118	16,708,094
Credit operations		7,352,607	6,782,426
Transactions with marketable securities		5,500,477	8,611,279
Financial income from insurance and pension plan operations	10(e)	828,569	1,040,507
Compulsory deposits	6	320,906	261,329
Other financial income		8,559	12,553
EXPENSES OF FINANCIAL INTERMEDIATION	12(b)	(9,297,912)	(12,500,723)
Funds obtained in the market		(7,795,455)	(10,782,638)
Borrowings and onlending		(555,372)	(555,228)
Financial expenses from insurance and private pension operations	10(e)	(813,070)	(1,018,809)
Other interest expenses	14(c)	(134,015)	(144,048)
DERIVATIVE FINANCIAL INSTRUMENTS	12(c) and 18(f-II)	(527,627)	39,107
GROSS INCOME ON FINANCIAL INTERMEDIATION BEFORE ALLOWANCE FOR LOAN LOSSES		4,185,579	4,246,478
RESULT OF ALLOWANCE FOR LOAN LOSSES		13,316	(393,260)
Allowance for loan losses	3(f) and 8(a-II)	(732,815)	(1,039,704)
Recovery of credits written-off as loss	3(f) and 8(d)	746,131	646,444
NET INCOME ON FINANCIAL INTERMEDIATION		4,198,895	3,853,218
OTHER INCOME FROM OPERATIONS		2,453,987	2,054,784
Foreign exchange transactions		158,924	139,881
Revenue from service and bank fees	12(d)	2,040,451	1,674,689
Insurance, reinsurance and private pension operations	3(n) and 12(e)	254,612	240,214
TAX EXPENSES OF OPERATIONS	15(a-II) and 18(f-II)	(487,705)	(430,980)
NET INCOME FROM OPERATIONS	18(i-II)	6,165,177	5,477,022
OTHER OPERATING INCOME (EXPENSES)		(3,269,828)	(2,838,538)
Personnel expenses	13(c)	(2,331,666)	(2,037,754)
Administrative expenses	13(d)	(679,552)	(567,844)
Other operating income		7,212	5,314
Other operating expenses	14(c)	(265,822)	(238,254)
INCOME BEFORE TAXES		2,895,349	2,638,484
INCOME TAX AND SOCIAL CONTRIBUTION	3(q), 15(a-I) and 18(f-II)	(749,591)	(723,903)
NET INCOME		**2,145,758**	**1,914,581**
Earnings per share - Shares 15.301 (15.301 at 12.31.2017)		**140.24**	**125.13**

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

Statement of changes in equity

(Note 17)

R$ 000	Paid-up capital	Revenue reserves	Carrying value adjustment	Retained earnings	Total
AT JANUARY 1, 2017	**8,652,392**	**837,650**	**17,663**	–	**9,507,705**
Carrying value adjustments -					
Available-for-sale securities	–	–	12,492	–	12,492
Net income for the period	–	–	–	1,914,581	1,914,581
Allocation:					
Legal reserve	–	95,729	–	(95,729)	–
Special reserve	–	152,622	–	(152,622)	–
Interest on own capital	–	–	–	(655,138)	(655,138)
Dividends	–	–	–	(1,011,092)	(1,011,092)
AT DECEMBER 31, 2017	**8,652,392**	**1,086,001**	**30,155**	–	**9,768,548**
Repurchase of treasury shares	–	(722)	–	–	(722)
Capital increase - with revenue reserves	774,296	(774,296)	–	–	–
Carrying value adjustments -					
Available-for-sale securities	–	–	(23,722)	–	(23,722)
Net income for the period	–	–	–	2,145,758	2,145,758
Allocation:					
Legal reserve	–	107,288	–	(107,288)	–
Special reserve	–	650,914	–	(650,914)	–
Capital increase	1,289,354	–	–	(1,387,556)	(98,202)
Interest on own capital	556,481	–	–	(654,683)	(98,202)
Dividends	732,873	–	–	(732,873)	–
AT DECEMBER 31, 2018	**10,716,042**	**1,069,185**	**6,433**	–	**11,791,660**

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

Statement of cash flows

(Note 3(b))

R$ 000		CONSOLIDATED	
	Notes	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
ADJUSTED NET INCOME		2,211,582	2,180,707
Net income for the periods		2,145,758	1,914,581
Adjustments to net income:			
Depreciation and amortization	13(d)	91,289	66,636
Allowance for loan losses		(213,759)	186,379
Allowance for loan losses	8(a-II)	732,815	1,039,704
Write off of loss	8(a-II)	(946,574)	(853,325)
Foreign exchange gains (losses) on cash and cash equivalents		94,721	(51,445)
Provision for contingent		193,569	148,725
Civil, labor and other	14(c)	52,361	185,314
Tax, social security contingencies and legal obligations	14(c)	141,208	(36,589)
Adjustment to market value of trading securities, derivative financial instruments and hedge	7(d)	(18,651)	(178,016)
Interbank deposits, Trading securities and Obligations related to unrestricted repurchase agreements		110,433	(90,874)
Derivative financial instruments (assets and liabilities)		(41,370)	(9,187)
Fair value hedge		(87,714)	(77,955)
Financial expenses on liabilities of financing		318,818	217,765
Interest payable on debts related to marketable securities abroad	9(c-II)	73,815	36,397
Interest payable subordinated debt	9(f-III)	245,003	181,368
Provision for current and deferred income taxes	15(a-I)	749,591	723,903
Taxes paid		(1,149,754)	(847,821)
Current		(1,081,008)	(805,605)
Tax and social security contingent liabilities and legal obligations	14(c)	(68,746)	(42,216)
CHANGES IN ASSETS AND LIABILITIES		(3,258,946)	1,278,731
NET INVESTMENTS		(21,620,913)	(11,779,096)
In short-term interbank investments (assets/liabilities)		(9,792,841)	565,154
In securities (Net)		9,686,514	(1,969,942)
Trading securities (assets)		12,461,082	(1,214,404)
Available-for-sale securities (assets)		(148,336)	(905,385)
Open market funding - Government securities and Securities issued (liabilities)		(2,626,232)	149,847
In derivative financial instruments (assets/liabilities)		122,749	110,301
In Central Bank compulsory deposits		(3,855,367)	(1,939,973)
In Transactions with credit characteristics		(17,533,680)	(8,328,876)
In other financial assets and liabilities		(117,433)	1,724
In other assets		(130,855)	(217,484)

(continued)

R$ 000		CONSOLIDATED	
	Notes	2018	2017
NET FUNDING		18,361,967	13,057,827
In deposits		7,584,563	2,759,269
Time deposits		6,618,788	3,363,644
Other		965,775	(604,375)
In structured funding		(268,880)	(1,050,767)
In borrowings and onlending		(706,662)	2,214,300
Foreign borrowings		745,806	3,012,649
Domestic onlending		(1,633,141)	(781,961)
Other borrowings		180,673	(16,388)
In funds from financial bills, bills of credit and similar notes, and open market funding - Own portfolio - Own securities		10,542,335	8,731,675
In insurance and private pension operations (assets/liabilities)		(1,995)	(15,540)
Funds guaranteeing technical reserves for insurance and private pension operations (assets)		(2,619,850)	(3,352,555)
Insurance and private pension operations (liabilities)		2,617,855	3,337,015
In other liabilities		520,931	282,295
In foreign exchange gains (losses) on operations of financing		691,675	136,595
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		(1,047,364)	3,459,438
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property and equipment in use	16(b)	(175,869)	(89,532)
Disposal of property and equipment in use	16(b)	3,076	1,896
Investment in intangible assets	16(b)	(49,769)	(77,711)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		(222,562)	(165,347)
CASH FLOWS FROM FINANCING ACTIVITIES			
Liabilities for marketable securities abroad	9(c-II)	1,358,472	(1,303,682)
Funding		1,699,952	–
Redemptions		(341,480)	(1,303,682)
Subordinated debt - Funding	9(f-III)	1,318,886	461,766
Funding		1,352,678	461,766
Redemptions		(33,792)	–
Dividends		–	(1,666,230)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		2,677,358	(2,508,146)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		1,407,432	785,945
Cash and cash equivalents at the beginning of the period		2,982,756	2,145,366
Foreign exchange gains/losses on cash and cash equivalents		(94,721)	51,445
Cash and cash equivalents at the end of the period	4	4,295,467	2,982,756
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		1,407,432	785,945

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

Statement of Value Added

R$ 000		CONSOLIDATED	
	Notes	2018	2017
Revenue		**15,944,690**	**18,807,299**
Financial intermediation	12(a)	14,011,118	16,708,094
Derivative financial instruments	12(c)	(527,627)	39,107
Other income from operations		2,453,987	2,054,784
Other operating income		7,212	5,314
Expenses		**(9,550,418)**	**(13,132,237)**
Financial intermediation	12(b)	(9,297,912)	(12,500,723)
Result of allowance for loan losses		13,316	(393,260)
Other operating expenses		(265,822)	(238,254)
Expenses from acquired inputs		**(456,621)**	**(372,372)**
Facilities	13(d)	(49,082)	(48,477)
Data processing and telecommunications	13(d)	(153,004)	(93,334)
Third-party services	13(d)	(39,951)	(46,242)
Financial system services	13(d)	(12,653)	(19,282)
Surveillance, security and transport services	13(d)	(44,899)	(36,830)
Other	13(d)	(157,032)	(128,207)
Gross value added		**5,937,651**	**5,302,690**
Retentions - depreciation and amortization	13(d)	(91,289)	(66,636)
Total value added to be distributed		**5,846,362**	**5,236,054**
Distribution of value added		**5,846,362**	**5,236,054**
Personnel		**2,032,684**	**1,792,606**
Remuneration and profit sharing	13(c)	1,563,243	1,368,605
Benefits	13(c)	163,172	127,882
Government Severance Indemnity Fund for Employees (FGTS)	13(c)	80,936	69,753
Other	13(c)	225,333	226,366
Taxes and contributions		**1,536,278**	**1,400,030**
Federal		1,439,484	1,320,273
Municipal		96,794	79,757
Distribution - Third parties capital – Rentals	13(d)	**131,642**	**128,837**
Distribution - Capital		**2,145,758**	**1,914,581**
Dividends and Interest on capital paid	17(b)	1,387,556	1,666,230
Profits reinvested for the period		758,202	248,351

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

BOARD OF EXECUTIVE OFFICERS **José Manuel da Costa Gomes – Accountant – CRC nº 1SP219892/O-0**

Notes to the financial statements at december 31, 2018

(all amounts in thousands of reais unless otherwise stated)

1. Operations

Banco Safra S.A. and its subsidiaries (collectively referred to as "Safra", "Safra Group", "Entity", and/or "Bank") are engaged in asset, liability and accessory operations inherent in the related authorized portfolios (commercial, including foreign exchange, real estate loans, credit, financing and investment, and lease), and complementary activities among which are insurance, private pension, brokerage and distribution of securities, management of investment funds and managed portfolio operations, in compliance with current legislation and regulations.

2. Presentation of the financial statements

a) Presentation of the financial statements

The consolidated financial statements of Banco Safra S.A. and subsidiaries ("CONSOLIDATED"), approved by the Board of Directors and Audit Committee on January 31, 2019, have been prepared and are presented following the accounting practices adopted in Brazil, in accordance with Law 6,404/1976 (Brazilian Corporate Law) and the respective changes introduced by Laws 11,638/2007 and 11,941/2009, associated with the rules established by the National Monetary Council (CMN), Brazilian Central Bank (BACEN), National Council of Private Insurance (CNSP) and the Superintendence of Private Insurance (SUSEP), as applicable.

Lease operations are presented under the Financial Method, that is, at present value in the Statement of Financial Position with their respective financial income presented in the heading Credit Operations in Statement of Income. We declare that all material information of the financial statements, and only it, has been evidenced and corresponds to the one used by Management in its administration.

Based on the provisions of the sole paragraph of article 7 of BACEN Circular 3,068/2001, marketable securities classified into trading securities – Notes 3(d) and 7(a) are presented in the Statement of Financial Position, in Current Assets, regardless of their maturity dates. Similarly, the assets guaranteeing the technical reserves for insurance and private pension – Notes 3(d) and 7(b), are presented in the Statement of Financial Position as current or non-current assets, regardless of their maturity dates, proportionally to the maturity of guaranteed obligations, recorded in the line item Insurance and private pension operations – Note 10(c).

Advances on foreign exchange contracts are presented together with credit operations. The presentation of foreign exchange transactions gains or losses takes into account the income and expenses arising from the differences in exchange rates applied to foreign currency amounts.

On April 13, 2018, Banco Safra S.A. was authorized by the Brazilian Central Bank to hold control of a non-financial company that was then directly held by the Bank's parent. The objective was to streamline the corporate structure and concentrate Safra Financial Group's complementary operations. The effect on the consolidated balance of the acquired assets and liabilities is substantially represented by "Financial assets" in the amount of R$ 403,866 and "Deferred tax assets" in the amount of R$ 460,639 in assets; and tax obligations in the amount of R$ 825,675 in liabilities – Notes 14(c) and 15 (c).

From December 2018, in order to demonstrate the economic substance of transactions, the income from operations are stated net of their direct costs. Accordingly, operating costs were reclassified from the line item "Other Income (Expenses) from operations" and shown in "Net Income from Operations" in Statement of Income, and

do not affect the previously disclosed net income. The reclassified amount in 2017 totals R$ 207,356 and is substantially represented by costs of recovery and credit origination and maintenance.

b) Basis of consolidation

The asset and liability and income accounts between the parent company and its subsidiaries, as well as the unrealized gains and losses between the companies included in the consolidation, were eliminated in the consolidated financial statements. The Exclusive Investment Funds of the consolidated companies were consolidated. The securities and investments in the portfolios of these funds were classified by type of transaction and were distributed into types of securities, in the same categories to which they were originally allocated.

The entities based overseas, basically represented by the branches in the Cayman Islands and Luxembourg, are shown consolidated in the financial statements. The consolidated balances of these entities, excluding the amounts of transactions among them, were translated at the foreign exchange rate ruling at December 31 and are presented below:

	Ativo	Passivo	Patrimônio Líquido	Lucro Líquido
Total at 12.31.2018	22,057,197	18,664,408	3,392,789	239,204
Total at 12.31.2017	18,501,933	15,814,357	2,687,576	110,014

The consolidated financial statements comprise Banco Safra and its subsidiaries, including exclusive investment funds fully consolidated, highlighting:

	Ownership interests (%)	
	12.31.2018	12.31.2017
Banco J. Safra S.A.	100.00	100.00
Safra Leasing S.A. – Arrendamento Mercantil	100.00	100.00
Banco Safra (Cayman Islands) Limited.[1]	100.00	100.00
Safra Corretora de Valores e Câmbio Ltda.	100.00	100.00
Safra Asset Management Ltda.	100.00	100.00
Safra Serviços de Administração Fiduciária Ltda.	100.00	100.00
Safra Vida e Previdência S.A.	100.00	100.00
Safra Seguros Gerais S.A.	100.00	100.00
Sercom Comércio e Serviços Ltda.	100.00	100.00
SIP Corretora de Seguros Ltda.	100.00	100.00

[1] Entity based abroad.

Additionally, a 0.6% interest in the capital of consolidated non-financial entity, which as it is directly held by the Bank's own parent, is being presented as liabilities in these consolidated financial statements, in the line item "Other liabilities – Sundry" – Note13(b).

c) Functional currency

The consolidated financial statements are presented in Reais (R$), the functional currency of the Conglomerate.

3. Significant accounting policies

a) Income

Income is determined on accrual basis of accounting, that is, income and expenses are recognized in the period in which they are earned or incurred, simultaneously when they are related, regardless of the actual receipt or payment.

b) Cash Flows

I. Cash and cash equivalents: represented by cash and deposits with financial institutions, included in the heading cash, interbank deposits originally falling due in 90 days or less, the risk of change in their Fair Value being considered immaterial. Cash equivalents are amounts held for the purpose of settling short-term cash obligations and not for investments or other purposes.

II. Statement of cash flows: prepared based on the criteria set out in Technical Pronouncement CPC 03 - Statement of Cash Flows, approved by CMN Resolution 3,604/2008, which provides for the presentation of cash flows of the entity as those arising from operating, investing and financing activities, taking into account the following:

- Operating activities are the main revenue-generating activities of the entity and other activities that are neither investing nor financing activities. They include funding for financing financial intermediation and other operating activities that are typical of a financial institution;
- Investing activities are those related to the buying and selling of long-term assets and other investments not included in cash equivalents, such as held-to-maturity securities; and
- Financing activities are those that result in changes to the size and composition of the entity's and third party's capital. They include structured funding for financing the Entity itself.

Cash flows from operating activities are presented using the indirect method. Cash flows from investing and financing activities are presented based on gross payments and receipts.

c) Interbank investments

These are stated at cost, plus, when applicable, accrued income and inflation adjustment and foreign exchange gains and losses through the statement of financial position reporting date, calculated on pro rata basis.

d) Marketable securities and derivative financial instruments

In accordance with the Brazilian Central Bank (BACEN) Circular 3,068/2001, marketable securities, including those presented in the Statement of Financial Position in the line item "Funds guaranteeing technical reserves for insurance and private pension", are classified according to Management's intention into three specific categories:

- Trading: securities acquired to be actively and frequently traded. Therefore, they are shown in current assets, regardless of their maturities. They are adjusted to Fair Value against income for the period;
- Available-for-sale: securities that can be traded, but which are not acquired to be frequently traded or held to maturity. Accrued income is recognized in statement of income, and unrealized gains and losses arising from Fair Value fluctuations are recognized in a specific account in equity, net of taxes. The gains and losses on available-for-sale securities, when realized, are recognized on the trading date in the statement of income, as contra-entry to a specific account in equity; and
- Held-to-maturity: securities which the Bank has the intention and financial capacity to hold in portfolio up to their maturity. These securities are stated at cost, plus accrued income.

The decline in the Fair Value of marketable securities, below their respective adjusted costs, related to reasons considered non temporary, are reflected in income as realized losses.

The classification of marketable securities is periodically reviewed, according to the guidelines set out by Safra, taking into consideration their intended use and financial capacity, in accordance with the procedures established by BACEN Circular 3,068/2001.

Derivative financial instruments used to hedge exposures to risks by means of change to certain characteristics of financial assets and liabilities being hedged that are considered highly effective and meet all the other requirements of designation and documentation under BACEN Circular 3,082/2002, are classified as accounting hedges according to their nature:

- Market risk hedge – the hedged financial assets and liabilities, including the assets classified as available for sale and their tax effects, and respective derivative financial instruments are recorded at Fair Value, with the related gains or losses recognized in income for the period; and
- Cash flow hedge - the hedged financial assets and liabilities and the respective derivative financial

instruments are recorded at Fair Value, with the related gains or losses, net of taxes, recognized in a specific account of equity called "Carrying Value Adjustment". The non-effective hedge portion is recognized in income for the period.

The derivative financial instruments contracted at the request of customers or on its behalf that do not meet the hedge accounting criteria established by the Brazilian Central Bank, especially derivative financial instruments used to manage overall risk exposure, are recorded at Fair Value, with gains or losses recognized directly in income for the period.

e) Fair Value measurement

The methodology adopted for measuring Fair Value (probable realization value) of marketable securities and derivative financial instruments is based on the economic scenario and pricing models developed by Management, which include the gathering of average prices practiced in the market, applicable at the Statement of financial position reporting date. Accordingly, when these items are financially settled, the actual results could differ from the estimates.

The process for pricing financial instruments stated at Fair Value complies with the provisions of CMN Resolution 4,277/2013, which establishes the minimum elements to be considered in the mark to the market process. Safra calculated the mark to the market adjustments related to the pricing of the credit risk component and close-out costs. The adjustments made are recognized in the consolidated financial statements.

f) Expanded credit portfolio and allowance for credit risk

The expanded credit portfolio encompasses the credit operations and other operations that pose credit risk similar to a credit operation, such as other credit risk instruments issued by companies, guarantees, sureties, foreign exchange change in advances on foreign exchange contract transactions, plus the respective transaction costs directly attributable to the operation.

Credit operations are stated at present value based on the index and contractual interest rate, calculated on a pro rata basis through the statement of financial position reporting date. The revenues related to transactions that are 60 days or more past due are recognized in income only when received, regardless of their risk rating.

Renegotiated credit transactions are maintained at least in the same rating. Renegotiated transactions that had already been written-off are assigned "H" rating and any income from renegotiation is only recognized when actually received. When a significant amount is amortized or new material events justify changing a transaction's risk level, the transaction may be reclassified into a lower risk rating.

Credit transactions, which are assigned "H" rating, are written-off from Assets six months after they receive such rating, and then are controlled in memorandum accounts for at least five years, and while all collection procedures are not exhausted.

The assets received in connection with the debt consolidation processes, related to credit operations written-off of assets, are classified as Assets Nor for Use, and fully provisioned, because of the great likelihood of incurring losses related to their realization, given the several factors that may make impossible the disposal of the asset, such as legal restrictions, lack of legal regularization, low likelihood of sale to generate short-term liquidity at Fair Value, among others.

The amount of the full provision recorded for such Assets Not for Use is shown in the accompanying consolidated financial statements in the expense of write-down of the loss of the related credit operation. Any income is recognized only at the time of sale of assets not for use (cash basis).

To recognize the allowance for credit risk, Safra considers all transactions classified into the expanded credit portfolio concept – Note 8(a).

The allowance for credit risk is monthly recognized in compliance with the minimum allowance required in CMN Resolution 2,682/1999, which requires the assignment of ratings for transactions among nine risk levels, between "AA" (minimum risk) and "H" (maximum risk), and is also based on the analysis of credit realization risk, periodically made and reviewed by Management, which takes into account, among other elements, the past experience of borrowers, the economic outlook and the overall and specific portfolio risks.

In addition, Safra not only considers the above minimum allowance levels, but also recognizes an additional allowance for credit risk, calculated by analyzing in detail the risk of realization of credits, based on internal risk rating methodology that is periodically reviewed and approved by management.

g) Derecognition of financial instruments

In accordance with CMN Resolution 3,533/2008, financial assets are derecognized when the contractual rights to the cash flows from these assets expire, or when substantially all the risks and rewards of ownership of the instrument are transferred. When substantially all the risks and rewards are not transferred nor retained, Safra assesses the control of the instrument in order to determine whether it should be maintained in assets.

Securities linked to repurchase and assignment of credit with co-obligation are not derecognized because Safra retains substantially all the risks and rewards to the extent there is, respectively, a commitment to repurchase them at a predetermined amount or to make payments in the event of default of the original debtor of the loan transactions.

Financial liabilities are derecognized if the obligation is contractually extinguished or settled.

h) Other assets

These comprise prepaid expenses, which correspond to the use of resources whose benefits or services will occur in future periods.

i) Investments

These are stated at cost, adjusted for impairment.

j) Property and equipment in use

These correspond to own tangible assets and leasehold improvements, aimed at maintaining the entity's operations or that have such purpose for a period over one fiscal year. These are recognized at cost, net of the respective accumulated depreciation and adjusted for impairment. Such depreciations are calculated using straight-line method at annual rates based on the economic useful lives of assets, as follows: properties in use and facilities in own properties - 4%; communication and security systems, aircrafts, furniture, equipment and fixtures - 10%; and vehicles and data processing equipment - 20%.

k) Intangible assets

These correspond to identifiable non-monetary assets without physical substance, acquired or developed by the institution, aimed at maintaining the entity or exercised for this purpose. They are recognized at cost, and adjusted for impairment. The amortization of intangible assets with finite lives is recognized, monthly and on straight-line basis, over their estimated useful lives, the annual rate applied to software acquisitions and development being up to 20%, considering the contract period.

l) Impairment – non-financial assets

CMN Resolution 3,566/2008 provides the procedures applicable to the recognition, measurement and disclosure of impairment of assets and requires compliance with Technical Pronouncement CPC 01 – Impairment of Assets.

The impairment of non-financial assets is recognized as loss when the value of an asset or cash-generating unit is higher than its recoverable or realization amount. A cash-generating unit is the smallest identifiable group of assets that generates cash flows that are substantially independent of the other assets or group of assets. The impairment losses, when applicable, are recognized in income for the period when they are identified.

The values of non-financial assets are periodically reviewed at least annually to determine if there are any indications that the assets' recoverable amount or realizable value is impaired.

Accordingly, in conformity with the above standards, Safra Group's management is not aware of any material adjustments that might affect the ability to recover the non-financial assets at 12.31.2018 and 12.31.2017.

m) Funding and borrowings and onlending

These are stated at payable amounts and take into account, when applicable, the charges incurred through the statement of financial position reporting date, recognized on pro rata basis.

The incurred transaction costs basically refer to the amounts paid to third parties for intermediation, placement

and distribution of own securities. These are recorded as reduction of securities and appropriated, on pro rata basis, to the appropriate expense account, except in the cases in which the securities are measured at fair value through profit or loss.

n) Insurance, reinsurance and private pension operations

I. Receivables and payables from insurance and reinsurance operations

- Premiums receivable – refer to financial resources flowing as receipt of premiums related to insurance, recorded on the policy issue dates;
- Reinsurance assets - comprise technical reserves referring to reinsurance operations. Reinsurance operations are carried out in the regular course of activities in order to limit their potential losses. The liabilities related to reinsurance operations are presented gross of their respective recovered assets, since the existence of a contract does not exempt from obligations to the insureds;
- Deferred acquisition costs – include direct and indirect costs related to the origination of insurance. These costs, except for the commissions paid to the brokers and others, are recorded directly in income, when incurred. Commissions, on the other hand, are deferred, being recognized in income in proportion to the recognition of the revenues from premiums, that is, for the term corresponding to the insurance contract. Operations with insurers/reinsurers: the receivables basically refer to amounts receivable from claims of coinsurance and reinsurance operations. The payables refer to the portion of premiums to be passed on to insurers/reinsurers, in view of the coinsured/reinsured operations. These are recorded on the policy issue date and settled when premiums are received from insureds; and
- Insurance brokers: refer to the commissions payable to brokers. These are recorded on the policy issue date, and settled when premiums are received from insureds.

II. Credit risk

An impairment is recorded on credits from premiums receivable and insurance operations when they are over 60 days past due. The credits from reinsurance operations are impaired when they are over 180 days past due. The impairment corresponds to the total credit amount to which it refers, according to the criteria established by SUSEP Circular 517/2015.

The impairments of such credits are recorded concomitantly to writing-down the liability corresponding to the premiums to be passed on to insurance companies and/or reinsurance companies, as there is no longer expectation of receiving the premium, so there will be no expectation of passing on these amounts.

III. Technical reserves for insurance and private pension

The technical reserves for insurance and private pension are calculated based on technical actuarial notes, as provided by SUSEP, and according to the criteria established by CNSP Resolution 321/2015 and SUSEP Circular 517/2015, and further amendments.

a) Insurance:

- Unearned premium reserve (PPNG): recorded in order to cover claims and expenses to be incurred for the risks assumed on the calculation base date, regardless of its issue, corresponding to the policy period to be elapsed. It is calculated based on the commercial premium, gross of reinsurance and net of coinsurance ceded, also comprising the estimate for current risks not issued (PPNG-RVNE). Between the issue and the initial date of coverage, the policy period to elapse is equal to the policy period. After the issue and initial date of the policy period, the reserve is calculated on a daily pro rata basis. The PPNG related to retrocession transactions is recognized based on information received from the reinsurance company;
- Reserve for outstanding claims (PSL): recorded based on estimates for indemnity payments, as claim notices are received through the reporting date, and adjusted for inflation according to Superintendence of Private Insurances (SUSEP) regulations;
- Reserve for incurred but not reported losses (IBNR): recorded to cover amounts that are expected to be settled, related to losses incurred but not yet reported through the reporting date. For life insurance and comprehensive and secondary insurance lines, the reserve is calculated by means of statistic-actuarial process, which uses the past experience of the Insurance company to project the amount of losses already incurred but not yet reported to the Insurance company. For other Insurance lines, characterized for not having sufficient data to apply the statistic-actuarial methodology, the insurance company determines the amount of the reserve based on average market factors. In view of the changes in effect from December 2017, Circular 517 no longer provides standardized percentages;
- Reserve for related expenses (PDR): recorded to cover the amounts expected from expenses related to claims incurred (reported or not). The reserve calculation is made by means of statistic-actuarial process, which uses the past experience of the Insurance company to project the amount of payable expenses.

b) Private pension:

- Mathematical reserves for unvested benefits (PMBAC) and vested benefits (PMBC): recorded to cover the obligations assumed with participants/insureds, in the accumulation period (PMBAC) and benefit vesting period (PMBC), of structured plans under the fully funded regime, and according to the actuarial technical note approved by SUSEP;
- Reserve for related expenses (PDR): recorded to cover all expenses related to the settlement of indemnities and benefits, in view of the claims incurred and to be incurred (fully-funded regime).

c) Liability Adequacy Test (LAT):

The Adequacy Test is aimed at assessing the liabilities arising from the contracts of certificates of insurance plans (except for the Compulsory Bodily Injury Motor Insurance (DPVAT), Compulsory No-fault Bodily Injury for Boats Owners (DPEM) and Housing Insurance of the National Housing System (SFH)) and publicly-held private pension, considering the minimum assumptions determined by SUSEP and the Company's in-house actuaries. This test is carried out every quarter, in accordance with the criteria established by SUSEP Circular 517/2015, and further amendments.

The LAT result is the difference between (i) the current estimates of cash flows, and (ii) the sum of the carrying amount at the reporting date of the technical reserves (PPNG, PPNG-RVNE, PSL, IBNR, PMBAC and PMBC), less the deferred acquisition costs and the intangible assets directly related to the technical reserves.

For the Private Pension segment, in the LAT the interest rates and the actuarial tables contracted by the participants are taken into account (rates at 0%, 3% or 6% plus adjustment for IGPM or IPCA, and AT-1983, AT-2000 and BR-EMSsb tables). In the LAT determination, the other actuarial decrements are considered, such as: projections of redemptions (persistency table), rate of conversion into vested benefits and expected interest rate released by SUSEP (term structure of interest rates - ETTJ) according to the interest curve related to the liability's index. To calculate the estimate of the biometric variable mortality, the BR-EMS V.2015 table is considered, implemented as Improvement, according to the G scale on the Society of Actuaries (SOA) website.

For the Insurance segment, in the LAT determination the actuarial projections of expected loss ratio and administrative expenses are contained. The current estimates for cash flows are gross of reinsurance, discounted to present value based on the risk-free term structures of interest rates (ETTJ) defined by SUSEP.

In the LAT determination, the deficiency related to the unearned premium reserve, mathematical reserve for unvested benefits, and the mathematical reserve for vested benefits is recognized in the supplementary coverage reserve (PCC), and the adjustments arising from the deficiencies in the other technical reserves are made in the reserves themselves.

IV. Income from insurance, reinsurance and private pension operations

Insurance premiums, less premiums ceded in co-insurance, and the respective acquisition costs are recognized at the

point of issue of the respective policy or invoice or policy period, as established in the SUSEP Circular 517/2015, and are recognized in income over the policy period, by recognizing the unearned premium reserve and deferred acquisition costs.

Ceded reinsurance premiums are deferred and recognized in income over the coverage period, by recording in reinsurance assets – technical reserves.

Revenues from private pension contribution are recognized when received. Income and expenses arising from DPVAT line insurance operations are recognized based on the information received from Seguradora Líder dos Consórcios do Seguro DPVAT S.A.

o) Provisions, contingent assets and liabilities, and legal obligations (tax and social security obligations)

The recognition, measurement and disclosure of provisions, contingent assets and liabilities, and legal obligations are made according to the criteria established in Technical Pronouncement CPC 25 – Provisions, Contingent Liabilities and Contingent Assets, approved by CMN Resolution 3,823/2009 and BACEN Circular Letter 3,429/2010, as described below:

(i) Contingent assets – these are possible assets arising from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events that are not fully under the control of the entity. Contingent assets are not recognized in the financial statements, but disclosed when it is probable that a gain from these assets will be realized. However, when there is evidence that the realization of the gain is practically certain, the assets are no longer classified as contingent and begin to be recognized.

(ii) Provisions and contingent liabilities: a present (legal or constructive) obligation as a result of past event, in which it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably measured, should be recognized by the entity as a provision. If the outflow of resources to settle the present obligation is not probable or cannot be reliably measured, it does not characterize a provision, but a contingent liability, the recognition not being required but only disclosed, unless the likelihood of settling the obligation is remote.

Also characterized as contingent liabilities are the possible obligations arising from past events and whose existence is confirmed only by the occurrence of one or more uncertain future events that are not fully under the control of the entity. These possible obligations should also be disclosed. The obligations are evaluated by Management, based on the best estimates and taking into consideration the opinion of legal advisors, which records a provision when the likelihood of a loss is considered probable; and discloses without recognizing the provision when the likelihood of loss is considered possible. Obligations for which there is a remote chance of loss do not require provision or disclosure. Legal obligations (tax and social security) - refer to lawsuits challenging the legality or constitutionality of certain taxes and contributions. The amount in dispute is quantified, fully provisioned and monthly updated, notwithstanding the likelihood of outflow of funds, once the certainty of non-disbursement solely depends on the recognition of the unconstitutionality of the law in effect.

The judicial deposits not linked to provisions for contingent liabilities and legal obligations are adjusted on a monthly basis.

p) Employee benefits

Recognized and evidenced according to CPC 33 (R1) – Employee benefits, regulated through CMN Resolution Nº 4,424/2015, are categorized as follows:

I. Short-term and Long-term benefits

Short-term benefits are those to be settled within twelve months. The benefits comprising this category are wages, contribution to the National Institute of Social Security, short-term absences, profit sharing and non-monetary benefits.

Safra does not have long-term benefits related to termination of employment contract other than those established by the labor union. Additionally, Safra does not give share-based payment to its key personnel or employees.

II. Termination benefits

Termination benefits are payable when the employment contract is terminated before the normal retirement date.

Safra provides medical care to its employees, as established by the labor union, as termination benefits.

III. Profit sharing

Safra recognizes a provision for payment and a profit sharing expense in income (included in the heading "Personnel expenses" in the statement of income) based on the calculation that considers the profit after certain adjustments. Safra recognizes a provision when it is contractually obliged or when there is a past practice that created a constructive obligation.

q) Taxes

Taxes are calculated at the rates below, considering, with respect to the respective tax bases, the applicable legislation for each charge.

Income tax	15.00%
Income tax surcharge	10.00%
Social contribution [1] [2]	15.00% – 20.00%
Social Integration Program (PIS) [3]	0.65%
Social Contribution on Revenues (COFINS) [3]	4.00%
Service Tax (ISS)	até 5.00%

[1] Law 13,169, of 10.6.2015, temporarily increased the Social Contribution rate applicable to financial and similar institutions from 15% to 20% over the period between 9.1.2015 and 12.31.2018. From 1.1.2019, the applicable rate was set again at 15%. As a result of the temporary increase in the social contribution rate, the current taxes were calculated at the rates of 20% from September 2015 to December 31, 2018. Safra had not recognized the effect of the 5% rate increase in the recognition of its deferred tax asset - Note 15(b-I).

[2] Non-financial subsidiaries continue to be subject to a rate of 9% for this contribution.

[3] Non-financial subsidiaries under the non-cumulative calculation regime continue to pay PIS and COFINS at the rates of 1.65% and 7.6%, respectively. The PIS and COFINS rates levied on finance income are 0.65% and 4%, respectively.

Taxes are recognized in the statement of income, except when they relate to items recognized directly in equity.

Deferred taxes, represented by deferred tax assets and liabilities, are calculated on temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax assets for temporary differences arise mainly from the fair value measurement of certain financial assets and liabilities, including derivative contracts, provisions for tax, civil and labor contingent liabilities, and allowances for loan losses (Minimum required ALL), and are recognized only when all the requirements for their recognition, established by CMN Resolution 3,059/2002, are met.

Taxes related to fair value adjustments of available-for-sale financial assets are recognized against the related adjustment in equity, and are subsequently recognized in income based on the realization of gains and losses on the respective financial assets.

r) Deferred income

These refer to the income received before the maturity of the obligation that generates it, and which appropriation, as actual income, depends only on the elapse of the term.

s) Use of accounting estimates

The preparation of financial statements requires Management to make certain estimates and adopt assumptions, on its best judgment, that affect the amounts of certain financial or non-financial assets and liabilities, income and expenses and other transactions, such as: (i) the Fair Value of certain financial assets and liabilities and derivative financial instruments; (ii) the depreciation rates of property and equipment items; (iii) amortizations of intangible assets; (iv) provisions required to cover possible risks arising from contingent liabilities; (v) deferred tax assets; (vi) allowance for loan losses; and (vii) technical reserves for insurance and private pension. The amounts of the possible settlement of these assets and liabilities, whether financial or otherwise, could be different from those estimates.

4. Cash and cash equivalents

	12.31.2018	12.31.2017
Cash	699,893	535,052
In Brazil	277,598	328,846
Abroad	422,295	206,206
Interbank deposits	400,226	–
Open market investments – Own portfolio	987,150	484,643
Foreign currency investments	2,208,198	1,963,061
Total	**4,295,467**	**2,982,756**

5. Interbank investments

	12.31.2018				12.31.2017
	Amounts by maturity				
	Up to 90 days	From 91 to 365 days	From 3 to 5 years	Total	Total
Open market investments [1]	**37,019,700**	**3,035,425**	**–**	**40,055,125**	**33,670,060**
Own portfolio - National Treasury	10,072,682	3,035,425	–	13,108,107	2,737,763
Third-party portfolio - National Treasury [2]	21,196,482	–	–	21,196,482	12,309,582
Short position – National Treasury [2]	5,750,536	–	–	5,750,536	18,622,715
Interbank deposits [3]	**485,887**	**249,111**	**1,433,801**	**2,168,799**	**1,412,352**
Foreign currency investments [1]	**2,208,198**	**–**	**–**	**2,208,198**	**1,963,061**
Regulatory adjustments - CMN Resolution 4,277/2013	**–**	**–**	**–**	**–**	**(524)**
Total at 12.31.2018	**39,713,785**	**3,284,536**	**1,433,801**	**44,432,122**	**37,044,949**
Total at 12.31.2017	**28,439,266**	**7,268,248**	**1,337,435**	**37,044,949**	

[1] Includes transactions with related parties – Note 19(b). [2] Backing for open market funding – Note 9(b). [3] Of this amount, R$ 324,742 (R$ 65,856 as at 12.31.2017) refers to operations linked to rural credit.

6. Central bank compulsory deposits

Central bank compulsory deposits are as follows:

	12.31.2018	12.31.2017
Interest bearing [1]	8,120,053	4,161,299
Non-interest bearing	81,425	213,353
Abroad	96,869	68,328
Total	**8,298,347**	**4,442,980**

[1] The income from interest-bearing compulsory deposits is R$ 320,906 (R$ 261,329 in 2017), and shown in "Income from compulsory deposits" in statement of income for the period.

7. Portfolio of marketable securities, funds guaranteeing the technical reserves for insurance and private pension and derivative financial instruments

a) Marketable securities

I. By accounting classification

	12.31.2018						12.31.2017
		Effects of Fair Value adjustment on:			Accounting classification of securities:		
	Amortized cost	Profit or loss	Equity	Fair Value	Trading	Available-for-sale	Fair Value
Securities portfolio	**37.085.992**	**467.321**	**8.323**	**37.561.636**	**21.684.113**	**15.877.523**	**42.853.373**
Government securities	**20.130.893**	**202.376**	**–**	**20.333.269**	**20.333.269**	**–**	**33.175.197**
National Treasury	19.912.816	203.572	–	20.116.388	20.116.388	–	32.895.779
National treasury bills	4.446.634	79.806	–	4.526.440	4.526.440	–	14.945.535
National treasury notes – Note 7(e)	4.547.794	122.535	–	4.670.329	4.670.329	–	12.787.024
Financial treasury bills	10.918.388	1.231	–	10.919.619	10.919.619	–	5.163.220
Brazilian government securities - Abroad	–	–	–	–	–	–	54.488
US government securities	218.077	(1.196)	–	216.881	216.881	–	224.930
Securities Issued by Financial Institutions	**2.321.757**	**11.325**	**457**	**2.333.539**	**1.339.815**	**993.724**	**1.509.339**
Shares	–	–	–	–	–	–	150
Investment fund quotas	106.171	–	–	106.171	106.171	–	6.713
Bank Deposit Certificate	1.233.644	–	–	1.233.644	1.233.644	–	1.157.686
Agribusiness credit notes and house loan bills	16.212	–	–	16.212	–	16.212	14.746
Eurobonds	965.730	11.325	457	977.512	–	977.512	330.044
Fair value hedge – Note 7(e)	926.882	11.325	–	938.207	–	938.207	330.044
Other	38.848	–	457	39.305	–	39.305	–
Securities issued by Companies	**14.633.342**	**253.620**	**7.866**	**14.894.828**	**11.029**	**14.883.799**	**8.168.837**
Shares	184.079	1.150	3.693	188.922	11.029	177.893	194.014
Investment fund quotas	–	–	–	–	–	–	43.451
Other credit risk instruments – Note 8(a-I)	14.449.263	252.470	4.173	14.705.906	–	14.705.906	7.931.372
Eurobonds	4.169.117	38.771	2.805	4.210.693	–	4.210.693	1.748.202
Fair value hedge – Note 7(e)	4.027.838	38.771	–	4.066.609	–	4.066.609	1.654.091
Other	141.279	–	2.805	144.084	–	144.084	94.111
Debentures	7.686.978	213.699	–	7.900.677	–	7.900.677	4.799.954
Fair value hedge – Note 7(e)	4.488.611	213.699	–	4.702.310	–	4.702.310	–
Other	3.198.367	–	–	3.198.367	–	3.198.367	4.799.954
Promissory notes	1.390.040	–	–	1.390.040	–	1.390.040	1.220.401
Certificates of agribusiness receivables, rural certificates, and others	1.203.128	–	1.368	1.204.496	–	1.204.496	162.815
Credit risk – Notes 3(f) and 8(a)	**–**	**(105.538)**	**–**	**(105.538)**	**–**	**(105.538)**	**(453.459)**
Regulatory adjustments –CMN Resolution 4,277/2013 – Note 3(e)	**–**	**(230)**	**–**	**(230)**	**(230)**	**–**	**(194)**
Total at 12.31.2018	**37.085.992**	**361.553**	**8.323**	**37.455.868**	**21.683.883**	**15.771.985**	**42.399.720**
Total at 12.31.2017	**42.640.807**	**(289.952)**	**48.865**	**42.399.720**	**31.338.568**	**11.061.152**	
Securities portfolio	42.640.807	163.701	48.865	42.853.373	31.338.762	11.514.611	
Government securities	32.941.498	189.260	44.439	33.175.197	30.130.762	3.044.435	
Securities issued by Financial Institutions	1.512.835	(3.496)	–	1.509.339	1.164.549	344.790	
Securities issued by Companies	8.186.474	(22.063)	4.426	8.168.837	43.451	8.125.386	
Credit risk – Notes 3(f) and 8(a)	–	(453.459)	–	(453.459)	–	(453.459)	
Regulatory adjustments – CMN Resolution 4,277/2013 – Note 3(e)	–	(194)	–	(194)	(194)	–	

II. Per maturity

	12.31.2018						
		Amounts by maturity					
	Fair Value	Up to 90 days	From 91 to 365 days	From 1 to 2 years	From 2 to 3 years	From 3 to 5 years	Over 5 years
Securities portfolio	37,561,636	897,300	4,044,981	2,632,385	9,188,450	7,104,323	13,694,197
Government securities	20,333,269	265,463	2,341,019	1,347,702	6,579,199	3,724,226	6,075,660
Securities issued by Financial Institutions	2,333,539	81,377	–	7,903	1,241,953	613,548	388,758
Securities issued by Companies	14,894,828	550,460	1,703,962	1,276,780	1,367,298	2,766,549	7,229,779
Credit risk – Notes 3(f) and 8(a)	(105,538)	(13,878)	(16,429)	(18,409)	(10,820)	(16,740)	(29,262)
Regulatory adjustments – CMN Resolution 4,277/2013 – Note 3(e)	(230)	(230)	–	–	–	–	–
Total at 12.31.2018	**37,455,868**	**883,192**	**4,028,552**	**2,613,976**	**9,177,630**	**7,087,583**	**13,664,935**
Trading securities	21,684,113	382,662	2,341,019	1,347,702	7,812,844	3,724,226	6,075,660
Available-for-sale securities	15,877,523	514,638	1,703,962	1,284,683	1,375,606	3,380,097	7,618,537
Credit risk – Notes 3(f) and 8(a)	(105,538)	(13,878)	(16,429)	(18,409)	(10,820)	(16,740)	(29,262)
Regulatory adjustments – CMN Resolution 4,277/2013 – Note 3(e)	(230)	(230)	–	–	–	–	–

	12.31.2017						
		Amounts by maturity					
	Fair Value	Up to 90 days	From 91 to 365 days	From 1 to 2 years	From 2 to 3 years	From 3 to 5 years	Over 5 years
Securities portfolio	42,853,373	598,366	4,801,506	10,951,862	1,845,375	16,993,231	7,663,033
Government securities	33,175,197	288,279	4,066,147	8,784,860	1,009,451	13,798,898	5,227,562
Securities issued by Financial Institutions	1,509,339	6,863	9	14,737	–	1,157,686	330,044
Securities issued by Companies	8,168,837	303,224	735,350	2,152,265	835,924	2,036,647	2,105,427
Credit risk – Notes 3(f) and 8(a)	(453,459)	(15,656)	(9,872)	(36,379)	(14,715)	(83,508)	(293,329)
Regulatory adjustments – CMN Resolution 4,277/2013 – Note 3(e)	(194)	(194)	–	–	–	–	–
Total at 12.31.2017	**42,399,720**	**582,516**	**4,791,634**	**10,915,483**	**1,830,660**	**16,909,723**	**7,369,704**
Trading securities	31,338,762	338,595	3,574,830	8,039,552	899,075	13,441,003	5,045,707
Available-for-sale securities	11,514,611	259,771	1,226,676	2,912,310	946,300	3,552,228	2,617,326
Credit risk – Notes 3(f) and 8(a)	(453,459)	(15,656)	(9,872)	(36,379)	(14,715)	(83,508)	(293,329)
Regulatory adjustments – CMN Resolution 4,277/2013 – Note 3(e)	(194)	(194)	–	–	–	–	–

III. Per characteristic

	12.31.2018					12.31.2017
		Linked to				
	Own portfolio	Restricted repurchase agreements and Securities related to unrestricted repurchase agreements – Note 9(b) [2]	Subject to guarantees provided [1]	Central Bank	Total	Total
Securities portfolio	21,986,810	12,912,329	1,900,911	761,586	37,561,636	42,853,373
Government securities	9,981,923	7,735,084	1,854,676	761,586	20,333,269	33,175,197
National treasury	9,765,042	7,735,084	1,854,676	761,586	20,116,388	32,895,779
Brazilian government securities - Abroad	–	–	–	–	54,488	54,488
US government securities	216,881	–	–	–	216,881	224,930
Securities issued by Financial Institutions	2,287,304	–	46,235	–	2,333,539	1,509,339
Securities issued by Companies	9,717,583	5,177,245	–	–	14,894,828	8,168,837
Shares	188,922	–	–	–	188,922	194,014
Investment fund quotas	–	–	–	–	–	43,451
Other credit risk instruments – Note 8(a-II)	9,528,661	5,177,245	–	–	14,705,906	7,931,372
Credit risk – Additional allowance – Notes 3(f) and 8(b)	(105,538)	–	–	–	(105,538)	(453,459)
Regulatory adjustments – CMN Resolution 4,277/2013 – Note 3(e)	(230)	–	–	–	(230)	(194)
Total at 12.31.2018	**21,881,042**	**12,912,329**	**1,900,911**	**761,586**	**37,455,868**	**42,399,720**
Total at 12.31.2017	**25,359,134**	**15,007,169**	**1,523,888**	**509,529**	**42,399,720**	

[1] Refers to guarantee of derivative financial instrument transactions made in stock exchange in the amount of R$ 1,599,483 (R$ 789,869 as at 12.31.2017), realized in the clearing and depository corporation in the amount of R$ 228,897 (R$ 659,453 as at 12.31.2017) and civil and labor appeals - Note 14(c) in the amount of R$ 72,531 (R$ 74,566 as at 12.31.2017).
[2] As at 12.31.2017, it includes Securities related to unrestricted repurchase agreements in the amount of R$ 3,769,753.

IV. Changes in marketable securities

	Available for sale	
	01.01 to 12.31.2018	01.01 to 12.31.2017
Balance at the beginning of the period	**11,514,611**	**10,584,633**
Foreign exchange variations abroad	617,628	62,724
Acquisition in the period	15,045,780	10,143,463
Sales in the period	(7,516,014)	(7,157,933)
Redemptions and receipt of interest	(1,869,839)	(3,241,574)
Transfer of category [1]	(2,736,058)	–
Write-down of loss	(339,437)	–
Profit or loss	1,201,394	1,098,705
Interest income	915,973	1,001,618
Dividend income	15,905	24,245
Profit (loss) on sale – Note 12(a)	(27,497)	93,301
Eurobonds – Fair Value hedge	(48,835)	5,007
Other securities – Note 17(d-I and II)	21,338	88,294
Changes in fair value for the period – Fair Value hedge – Note 7(e)	297,013	(20,459)
Debentures	213,699	–
Eurobonds	83,314	–
Adjustments from changes in fair value – Equity – Note 7(d)	(40,542)	24,593
Balance at the end of the period	**15,877,523**	**11,514,611**

[1] The Safra made the reclassification of marketable securities (government securities) from available for sale to trading, in the amount of R$ 2,736,058, in order to integrate them into a portfolio of securities of the same nature acquired in the first half of 2018, with the recognition of the shortage in profit or loss, net of tax effects, of R$ (16,679) – Note 17(d – I and II), according to the rules established by BACEN Circular 3,068/2001.

b) Funds guaranteeing technical reserves for insurance and private pension

	12.31.2018							12.31.2017
		Amounts by maturity						
	Fair Value	Up to 90 days	From 91 to 365 days	From 1 to 2 years	From 2 to 3 years	From 3 to 5 years	Over 5 years	Fair Value
Private pension	14,539,441	267,392	1,299,100	3,255,529	1,656,239	4,805,343	3,255,838	11,911,901
Repurchase agreements	22,859	–	–	–	–	–	22,859	86,715
Debentures	–	–	–	–	–	–	–	35,056
Government securities	22,859	–	–	–	–	–	22,859	51,659
Government securities – National Treasury	14,072,346	34,492	1,283,600	3,183,057	1,532,875	4,805,343	3,232,979	11,320,952
National Treasury Bills	4,274,131	–	1,248,668	2,100,380	302,755	622,328	–	3,588,281
Financial Treasury Bills	6,486,655	34,492	–	972,230	1,216,521	2,436,965	1,826,447	4,599,967
National Treasury Notes	3,311,560	–	34,932	110,447	13,599	1,746,050	1,406,532	3,132,704
Corporate securities	445,326	233,990	15,500	72,472	123,364	–	–	515,438
Shares	233,990	233,990	–	–	–	–	–	75,931
Bank certificates of deposit	138,864	–	15,500	–	123,364	–	–	115,769
Debentures	72,472	–	–	72,472	–	–	–	323,738
Other	(1,090)	(1,090)	–	–	–	–	–	(11,204)
Insurance - Government securities – National Treasury – National	214,479	–	214,479	–	–	–	–	225,480
DPVAT fund quotas – Government securities	168,335	168,335	–	–	–	–	–	165,024
Total at 12.31.2018 – Note 10(b)	**14,922,255**	**435,727**	**1,513,579**	**3,255,529**	**1,656,239**	**4,805,343**	**3,255,838**	**12,302,405**
Total at 12.31.2017 – Note 10(b)	**12,302,405**	**508,592**	**555,751**	**1,684,384**	**2,251,045**	**4,178,790**	**3,123,843**	

c) Derivative financial instruments (assets and liabilities)

The use of derivative financial instruments in the Conglomerate has the following main objectives:

- provide to its customers fixed income structured products and products that hedge their assets and liabilities against possible risks, substantially from currency and interest rate fluctuations, and
- outweigh the risks taken by Safra in the following operations (economic hedges and/or accounting hedge – Note 7(e)):
  - credit operations and funding contracted at fixed rates and other funding – Notes 8 and 9; and
  - investments abroad – together with interbank transactions for future settlement, the foreign currency derivatives are employed to minimize the effects on income of exposure to the foreign exchange variations of investments abroad. These derivatives are contracted with a higher value to include their tax effects - "over hedge".

The positions of Banco Safra and subsidiaries are monitored by an independent control area, which uses a specific risk management system, with calculation of VaR (Value at Risk) with confidence level at 99%, stress tests, back testing and other technical resources. The Group has a Market Risk Committee, formed by high-ranking executives, which meets weekly to discuss about the economic outlook, and a Treasury and Risk Committee, formed by the Executive Committee members, which meets quarterly to thoroughly discuss about the market risk management aspects, as well as review the risk limits, strategies and profit or loss.

I. Asset and liability accounts

1) By type of operation

				12.31.2018						12.31.2017
				Amounts by maturity						
Assets	Amortized cost	Fair Value adjustment	Fair Value	Up to 90 days	From 91 to 365 days	From 1 to 2 years	From 2 to 3 years	From 3 to 5 years	Over 5 years	Fair Value
Non Deliverable Forward – NDF	**35,571**	**1,514**	**37,085**	**17,323**	**17,209**	**1,860**	588	105	–	**4,257**
Option premiums	**235,610**	**(111,125)**	**124,485**	**49,504**	**14,780**	**43,598**	16,603	–	–	**214,305**
Bovespa Index and Shares	81,678	(18,030)	63,648	2,393	6,319	38,380	16,556	–	–	30,922
Foreign currency	77,441	(50,924)	26,517	14,140	7,860	4,470	47	–	–	140,923
Interbank Deposit (DI) Index	53,804	(52,154)	1,650	301	601	748	–	–	–	41,665
Shares	22,687	9,983	32,670	32,670	–	–	–	–	–	795
Forward - Purchases receivable – Government securities	**149,815**	**(16,296)**	**133,519**	**133,519**	–	–	–	–	–	–
Swap – Amounts receivable	**341,347**	**102,436**	**443,783**	**143,432**	**133,297**	**36,374**	**6,225**	**12,610**	**111,845**	**234,054**
Interest rate	104,902	(5,795)	99,107	35,478	14,903	21,677	6,225	8,190	12,634	119,017
Foreign currency	236,445	108,231	344,676	107,954	118,394	14,697	–	4,420	99,211	114,059
Other	–	–	–	–	–	–	–	–	–	978
Credit derivatives – CDS	**68,735**	–	**68,735**	**44,344**	**24,209**	**182**	–	–	–	**48,692**
Futures	–	–	–	–	–	–	–	–	–	**3,199**
Credit risk – Notes 3(f) and 8(a)	–	**(189)**	**(189)**	**(189)**	–	–	–	–	–	**(241)**
Total at 12.31.2018	**831,078**	**(23,660)**	**807,418**	**387,933**	**189,495**	**82,014**	**23,416**	**12,715**	**111,845**	**504,266**
Total at 12.31.2017	**540,029**	**(35,763)**	**504,266**	**126,528**	**261,790**	**45,789**	**56,136**	**6**	**14,017**	

				12.31.2018						12.31.2017
				Amounts by maturity						
Liabilities	Amortized cost	Fair Value adjustment	Fair Value	Up to 90 days	From 91 to 365 days	From 1 to 2 years	From 2 to 3 years	From 3 to 5 years	Over 5 years	Fair Value
Non-Deliverable Forward – NDF	**(26,891)**	**(7,835)**	**(34,726)**	**(20,322)**	**(13,904)**	**(169)**	**(331)**	–	–	**(13,716)**
Option premiums	**(205,940)**	**109,182**	**(96,758)**	**(17,323)**	**(12,901)**	**(47,593)**	**(17,152)**	**(1,789)**	–	**(213,454)**
Bovespa Index and Shares	(81,947)	19,004	(62,943)	(2,672)	(6,987)	(44,734)	(6,761)	(1,789)	–	(27,695)
Foreign currency	(22,334)	1,962	(20,372)	(13,498)	(5,313)	(1,226)	(335)	–	–	(143,407)
Interbank Deposit (DI) Index	(97,704)	85,113	(12,591)	(301)	(601)	(1,633)	(10,056)	–	–	(41,748)
Shares	(3,955)	3,103	(852)	(852)	–	–	–	–	–	(604)
Forward	**(149,815)**	**16,296**	**(133,519)**	**(133,519)**	–	–	–	–	–	**(9,075)**
Purchases payable – Government securities	–	–	–	–	–	–	–	–	–	10,085
Sales deliverable – Government securities	(149,815)	16,296	(133,519)	(133,519)	–	–	–	–	–	(19,160)
Swap – amounts payable	**(373,941)**	**(58,476)**	**(432,417)**	**(116,973)**	**(155,839)**	**(45,596)**	**(12,670)**	**(2,328)**	**(99,011)**	**(177,315)**
Interest rate	(87,466)	(63,095)	(150,561)	(8,842)	(12,538)	(27,081)	(10,555)	(2,263)	(89,282)	(79,865)
Foreign currency	(286,475)	4,619	(281,856)	(108,131)	(143,301)	(18,515)	(2,115)	(65)	(9,729)	(97,062)
Other	–	–	–	–	–	–	–	–	–	(388)
Credit derivatives – CDS	**(59,896)**	–	**(59,896)**	**(39,920)**	**(19,976)**	–	–	–	–	**(49,539)**
Regulatory Adjustments - CMN Resolution 4,277/2013 – Note 3(e)	–	**(8,364)**	**(8,364)**	**(8,364)**	–	–	–	–	–	**(6,657)**
Total at 12.31.2018	**(816,483)**	**50,803**	**(765,680)**	**(336,421)**	**(202,620)**	**(93,358)**	**(30,153)**	**(4,117)**	**(99,011)**	**(469,756)**
Total at 12.31.2017	**(489,941)**	**20,185**	**(469,756)**	**(113,892)**	**(261,425)**	**(35,532)**	**(52,577)**	**4,602**	**(10,932)**	

2) By counterparty at Fair Value

	Asset		Liability	
	12.31.2018	**12.31.2017**	**12.31.2018**	**12.31.2017**
Financial institutions	359,026	130,610	(312,306)	(113,451)
B3	53,499	188,183	(25,469)	(195,926)
Legal entities	170,375	130,052	(231,444)	(115,887)
Individuals	224,707	55,662	(188,097)	(37,835)
Credit risk – Notes 3(f) and 8(a) and Regulatory Adjustments - CMN 4,277/2013 – Note 3(e)	(189)	(241)	(8,364)	(6,657)
Total	**807,418**	**504,266**	**(765,680)**	**(469,756)**

II. Breakdown by notional amount

1) By type of operation

	12.31.2018							12.31.2017
	Amounts by maturity							
	Up to 90 days	From 91 to 365 days	from 1 to 2 years	From 2 to 3 years	From 3 to 5 years	Over 5 years	Total	Total
Non Deliverable Forward – NDF	**1,125,490**	**792,646**	**65,188**	**30,584**	**3,700**	**–**	**2,017,608**	**1,328,329**
Long position	950,121	668,881	58,698	30,584	3,700	–	1,711,984	1,027,965
Short position	175,369	123,765	6,490	–	–	–	305,624	300,364
Options	**2,649,908**	**2,330,354**	**5,728,807**	**1,198,488**	**–**	**–**	**11,907,557**	**41,107,188**
Long position	1,563,715	1,150,617	2,892,650	36,600	–	–	5,643,582	20,257,465
Shares	171,000	1,781	–	–	–	–	172,781	6,568
Interbank Deposit (DI) Index	36,765	41,345	2,522,672	–	–	–	2,600,782	17,534,709
Bovespa Index	52,453	143,573	196,547	34,415	–	–	426,988	555,566
Foreign currency	1,303,497	963,918	173,431	2,185	–	–	2,443,031	2,160,622
Short position	1,086,193	1,179,737	2,836,157	1,161,888	–	–	6,263,975	20,849,723
Shares	171,000	1,781	–	–	–	–	172,781	4,888
Interbank Deposit (DI) Index	465,408	211,120	2,717,370	1,139,700	–	–	4,533,598	18,687,503
Bovespa Index	–	–	109,128	18,541	–	–	127,669	24,276
Foreign currency	449,785	966,836	9,659	3,647	–	–	1,429,927	2,133,056
Forward	**149,891**	**–**	**–**	**–**	**–**	**–**	**149,891**	**15,577,431**
Long position - Foreign currency	–	–	–	–	–	–	–	7,431,883
Obligations for sales to be delivered	149,891	–	–	–	–	–	149,891	8,145,548
Foreign currency	–	–	–	–	–	–	–	8,145,548
Government securities	149,891	–	–	–	–	–	149,891	–
Swap								
Assets	15,255,258	12,459,105	798,954	720,184	352,244	2,668,599	32,254,344	16,727,187
Interest rate	571,893	777,930	606,157	720,184	84,941	945,320	3,706,425	3,958,302
Foreign currency	14,679,878	11,681,175	192,797	–	267,303	1,723,279	28,544,432	12,732,035
Others	3,487	–	–	–	–	–	3,487	36,850
Liabilities	15,255,258	12,459,105	798,954	720,184	352,244	2,668,599	32,254,344	16,727,187
Interest rate	253,154	522,587	529,118	691,884	122,676	2,449,705	4,569,124	2,567,681
Foreign currency	15,002,104	11,936,518	269,836	28,300	229,568	218,894	27,685,220	14,157,826
Others	–	–	–	–	–	–	–	1,680
Futures	**26,034,814**	**29,973,715**	**8,639,776**	**6,735,029**	**4,681,981**	**2,791,990**	**78,857,305**	**86,542,021**
Long position	1,933,672	290,294	369,665	3,966,125	1,442,553	692,864	8,695,173	15,878,833
Interest rate	82,637	140,609	247,008	3,966,125	950,843	605,749	5,992,971	6,025,642
Currency coupon	1,200,942	139,350	122,657	–	491,710	87,115	2,041,774	9,186,561
Foreign currency	286,276	10,335	–	–	–	–	296,611	276,652
Bovespa Index	363,817	–	–	–	–	–	363,817	389,978
Short position	24,101,142	29,683,421	8,270,111	2,768,904	3,239,428	2,099,126	70,162,132	70,663,188
Interest rate	15,445,006	19,369,442	5,590,033	1,951,003	1,590,563	658,534	44,604,581	54,870,592
Currency coupon	5,483,430	4,820,396	2,403,551	566,808	1,435,497	1,420,069	16,129,751	14,507,688
Foreign currency	3,046,860	5,493,583	276,527	251,093	213,368	20,523	9,301,954	1,284,908
Bovespa Index	125,846	–	–	–	–	–	125,846	–
Credit derivatives – CDS – Received risk – Note 7(c-III)	**2,150,420**	–	–	–	–	–	**2,150,420**	**2,271,107**
Structured funding – Note 9	**2,504,225**	**3,022,611**	**1,178,174**	**690,117**	**517,686**	**15,506**	**7,928,319**	**22,963,026**
Options – Short position	1,805,022	1,623,723	1,167,244	660,909	25,860	–	5,282,758	20,841,143
Bovespa Index	425,138	398,376	834,464	660,909	25,860	–	2,344,747	2,417,967
Foreign currency	1,379,884	1,225,347	332,780	–	–	–	2,938,011	18,423,176
Swap – Assets/Liabilities – Interest rate	–	–	10,930	29,208	491,826	15,506	547,470	–
Credit derivatives – CDS – Transferred risk – Note 7(c-III)	699,203	1,398,888	–	–	–	–	2,098,091	2,121,883
Total at 12.31.2018	**49,870,006**	**48,578,431**	**16,410,899**	**9,374,402**	**5,555,611**	**5,476,095**	**135,265,444**	**186,516,289**
Total at 12.31.2017	**84,334,399**	**67,883,036**	**17,343,527**	**13,223,979**	**2,680,459**	**1,050,889**	**186,516,289**	

2) Trading location by counterparties

	12.31.2018					12.31.2017
Location	**B3**	**Financial institutions**	**Legal entities**	**Individuals**	**Total notional amount**	**Total notional amount**
B3	82,445,554	30,212,232	14,709,220	3,649,927	131,016,933	182,123,300
Over the counter – abroad	–	4,248,511	–	–	4,248,511	4,392,989
Total at 12.31.2018	**82,445,554**	**34,460,743**	**14,709,220**	**3,649,927**	**135,265,444**	**186,516,289**
Total at 12.31.2017	**52,551,178**	**107,397,475**	**18,392,425**	**8,175,211**	**186,516,289**	

III. Credit derivatives – CDS

Banco Safra makes use of derivative financial instruments of credit in order to offer its customers, through issue of Structured CD – Note 9(d), opportunities to diversify their investment portfolios.

Banco Safra held the following positions in credit derivatives, shown at their notional amounts:

	12.31.2018	12.31.2017
Credit swap whose underlying assets - Marketable securities[1]		
Received risks	2,150,420	2,271,107
Transferred risks	(2,098,091)	(2,121,883)
Total net of exposure received/(transferred)	**52,329**	**149,224**

[1] Transferred and received risks refer to the same issuers.

During the period no credit event related to the events provided in the contracts occurred.

No material effect was produced on the calculation of minimum requirements of regulatory capital at 12.31.2018, according to CMN Resolution 4,193/2013.

c) Developments of changes in Fair Value adjustments

	01.01 to 12.31.2018				
		Changes in the period			
			Effects on:		
	Balance at beginning of the period	Foreign exchange gains or losses and Other	Profit (loss)	Equity – Note 17(d-I)	Balance at the end of the period
Trading securities and Obligations related to unrestricted securities	114,293	(171)	(110,921)	–	3,201
Trading securities	189,267	(171)	14,430	–	203,526
Obligations related to unrestricted securities	(74,974)	–	(125,351)	–	(200,325)
Available-for-sale securities (1) – Note 7(a-IV) and 17(d-I)	48,865	–	–	(40,542)	8,323
Gov. securities	45,865	–	–	(45,865)	–
Eurobonds	(1,922)	–	–	5,184	3,262
Other securities	4,922	–	–	139	5,061
Derivative financial instruments (assets/liabilities) [2]	(8,680)	1,351	43,025	–	35,696
Regulatory Adjustments - CMN Resolution 4,277/2013 – Note 3(e)	(7,616)	–	(1,167)	–	(8,783)
Interbank deposits	(524)	–	524	–	–
Marketable securities	(194)	–	(36)	–	(230)
Derivative financial instruments (assets/liabilities) [2]	(6,898)	–	(1,655)	–	(8,553)
Fair Value hedge – Note 7(e)	237,273	13,583	83,519	–	334,375
Fixed Portfolio	200,251	–	(85,763)	–	114,488
Repurchase agreements – fixed rate	–	–	5,152	–	5,152
IPCA Portfolio	–	–	92,907	–	92,907
Marketable securities – Available for sale – Eurobonds (1) – Note 7(a-IV)	(25,566)	(7,652)	83,314	–	50,096
Structured funding – Structured CD	16,984	4,622	(8,708)	–	12,898
Liabilities for marketable securities abroad	(3,229)	3,271	3,133	–	3,175
Subordinated debt	48,833	13,342	(6,516)	–	55,659
Total at 12.31.2018	**384,135**	**14,763**	**14,456**	**(40,542)**	**372,812**
Total at 12.31.2017	**180,223**	**1,303**	**178,016**	**24,593**	**384,135**

[1] The Fair Value adjustment of available-for-sale securities totals R$ 58,419 (R$ 23,299 as at 12.31.2017) – Note 7(a-I).

[2] The Fair Value adjustment of derivative financial instruments totals R$ 27,143 (R$ (15,578) in 2017) – Note 7(c-I(1)), including Regulatory Adjustments - CMN Resolution 4,277/2013.

e) *"Hedge"* de ativos e passivos financeiros

The aim of the accounting hedge relations designated by Safra is to hedge the fair value of assets and liabilities, arising from the risk of fluctuation in benchmark interest rate (CDI or Libor) or foreign exchange variations, as the case may be.

	Fair Value		MTM being hedged – Note 7(d)		Hedge derivative instrument	Notional amount	
Strategy – Market Risk Hedge	**12.31.2018**	**12.31.2017**	**12.31.2018**	**12.31.2017**		**12.31.2018**	**12.31.2017**
Fixed Portfolio	29,671,079	23,508,213	114,488	200,251	–	(25,690,853)	(23,591,587)
Assets – Credit Portfolio – Note 8(a-I)	35,566,355	26,655,428	342,047	279,417	–	–	–
Liabilities – Funding	(5,895,276)	(3,147,215)	(227,559)	(79,166)	–	–	–
Deposits – Note 9(a)	(130,024)	(172,117)	(1,507)	(1,077)	–	–	–
Open market funding – Own securities – Note 9(b)	–	(63,913)	–	(1,415)	–	–	–
Funds from acceptance and issue of securities – Funds from financial bills, bills of credit and similar notes – Note 9(c)	(4,503,102)	(2,160,562)	(165,151)	(57,867)	–	–	–
Certificate of structured operations	(875,100)	(638,026)	(14,665)	(7,783)		–	–
Subordinated debt	(387,050)	(112,597)	(46,236)	(11,024)		–	–
Repurchase agreements – fixed rate	12,671,112	–	5,152	–	Futuros DI	(9,364,500)	–
Repurchase agreements – Note 5	12,744,526	–	5,333	–	–	–	–
Open market funding – Note 9(b)	(73,414)	–	(181)	–	–	–	–
IPCA Portfolio [1]	1,669,136	–	92,907	–	Futuros DAP + Swap, Líquido	(1,655,150)	–
Asset - Marketable securities – Available for sale – Debentures – Note 7(a-I)	4,702,310	–	213,699	–	–	–	–
Liabilities – Funding	(3,033,174)	–	(120,792)	–	–	–	–
Funds from acceptance and issue of securities	(1,459,334)	–	(45,415)	–	–	–	–
Subordinated debt	(1,573,840)	–	(75,377)	–	–	–	–
Marketable securities – Available for sale – Eurobonds – Note 7(a-I)	5,004,816	1,984,135	50,096	(25,566)	Swap Pré x Libor	(5,335,310)	(2,071,595)
Structured funding - Structured CD – Note 9(d)	(1,357,622)	(1,608,884)	12,898	16,984	Swap Pré x Libor	1,469,923	1,708,389
Liabilities for marketable securities abroad – Note 9(c)	(2,036,927)	(290,014)	3,175	(3,229)	–	2,246,606	295,938
US$ 500,000 – 02.08.2018	(1,701,188)	–	4,355	–	Swap Pré x Libor	1,905,670	–
CHF 100,000 – 12.12.2014	(335,739)	(290,014)	(1,180)	(3,229)	Swap Pré x Libor	340,936	295,938
Subordinated debt – Note 9(f)	(3,163,691)	(2,745,687)	55,659	48,833	–	3,237,654	2,603,947
US$ 500,000 – 01.27.2011	(2,001,314)	(1,754,954)	49,502	41,982	Swap Pré x Libor	2,043,458	1,658,111
US$ 300,000 – 06.06.2014	(1,162,377)	(990,733)	6,157	6,851	Swap Pré x Libor	1,194,196	945,836
Total	**42,457,903**	**20,847,763**	**334,375**	**237,273**	–	**(35,091,630)**	**(21,054,908)**

[1] As at 12.31.2018, Banco Safra designated derivative financial instruments indexed to the Broad National Consumer Price Index (IPCA) for hedging purposes. This strategy is aimed at economically hedging the fair value of assets and liabilities from the risk of fluctuation of such index. Accordingly, the hedged assets and liabilities, which used to be recognized at amortized cost, are recognized at fair value in income. The hedging derivative instruments are stated net of the hedged items recognized at fair value in income – Government securities – NTN-B in the amount of R$ 4,281,184 – Note 7(a-I) and R$ (2,913,435) – Note 9(b).

The effectiveness of accounting hedges designated by Safra is in accordance with the provisions of BACEN Circular 3,082/2002.

8. Credit portfolio

a) Expanded credit portfolio and allowance for credit risk

I. Breakdown

12.31.2018						
				Allowance for credit risk		
	Amortized cost	Fair Value Adjustment	Amortized cost and Fair Value	Minimum Required	Additional	Total
Expanded credit portfolio	**106,455,270**	**598,690**	**107,053,960**	**(1,622,267)**	**(1,357,590)**	**(2,979,857)**
Transactions with credit characteristics	85,926,745	598,690	86,525,435	(1,470,278)	(1,357,590)	(2,827,868)
Credit operations – Note 8(b)	71,477,482	342,047	71,819,529	(1,458,623)	(1,263,707)	(2,722,330)
Other credit risk instruments – Note 7(a-I and III)	14,449,263	256,643	14,705,906	(11,655)	(93,883)	(105,538)
Guarantees and sureties – Note 8(h)	20,528,525	–	20,528,525	(151,989)	–	(151,989)

12.31.2017						
				Allowance for credit risk		
	Amortized cost	Fair Value Adjustment	Amortized cost and Fair Value	Minimum Required	Additional	Total
Expanded credit portfolio	**87,461,376**	**256,866**	**87,718,242**	**(1,996,187)**	**(1,195,736)**	**(3,191,923)**
Transactions with credit characteristics	68,327,473	256,866	68,584,339	(1,853,480)	(1,195,736)	(3,049,216)
Credit operations – Note 8(b)	60,373,550	279,417	60,652,967	(1,500,257)	(1,095,500)	(2,595,757)
Other credit risk instruments – Note 7(a-I and III)	7,953,923	(22,551)	7,931,372	(353,223)	(100,236)	(453,459)
Guarantees and sureties – Note 8(h)	19,133,903	–	19,133,903	(142,707)	–	(142,707)

II. Changes in allowance for credit risk

	Total allowance as at 01.01.2018	Foreign exchange variations abroad	(Increase) / Reversal	Write-down of loss	Total allowance as at 12.31.2018
Minimum allowance required	(1,996,187)	(1,693)	(570,961)	946,574	(1,622,267)
Credit operations	(1,500,257)	(2,646)	(562,857)	607,137	(1,458,623)
Other credit risk instruments – Note 7(a)	(353,223)	953	1,178	339,437	(11,655)
Guarantees and sureties – Note 8(h)	(142,707)	–	(9,282)	–	(151,989)
Additional allowance	(1,195,736)	–	(161,854)	–	(1,357,590)
Credit operations	(1,095,500)	–	(168,207)	–	(1,263,707)
Other credit risk instruments – Note 7(a)	(100,236)	–	6,353	–	(93,883)
Total allowance of the expanded credit portfolio as at 12.31.2018 – Note 8(a-I)	**(3,191,923)**	**(1,693)**	**(732,815)**	**946,574**	**(2,979,857)**
Total allowance of the expanded credit portfolio as at 12.31.2017 – Note 8(a-I)	**(3,002,527)**	**(3,017)**	**(1,039,704)**	**853,325**	**(3,191,923)**
Minimum allowance required	(1,832,896)	(3,017)	(1,013,599)	853,325	(1,996,187)
Additional allowance	(1,169,631)	-	(26,105)	–	(1,195,736)

b) Breakdown of the portfolio and allowance of credit operations by risk level

	12.31.2018										12.31.2017
Risk levels	**AA**	**A**	**B**	**C**	**D**	**E**	**F**	**G**	**H**	**Total**	**Total**
Borrowings, Financing and Discounted receivables	21,097,487	1,492,351	2,298,054	704,897	764,789	21,301	20,094	17,027	678,064	27,094,064	21,936,722
Foreign trade	16,418,436	1,056,532	526,414	136,510	107,595	–	10,934	2,930	25,424	18,284,775	17,115,529
Directed Credit	2,065,869	200,642	163,097	53,782	2,450	141	–	3,538	44,237	2,533,756	2,390,169
Rural and agroindustrial financing	1,828,765	158,461	149,031	23,648	–	–	–	1,029	1,127	2,162,061	1,986,163
Real estate	237,104	42,181	14,066	30,134	2,450	141	–	2,509	43,110	371,695	404,006
Onlending	2,990,853	187,178	123,385	8,530	2,468	–	372	18	22,226	3,335,030	5,043,961
Financing and Consumer	1,384,881	16,339,332	1,512,613	558,619	87,181	59,596	48,515	29,841	189,724	20,210,302	13,875,030
Payroll advance loan	14,990	8,260,346	193,463	23,247	15,759	17,248	13,168	10,012	82,473	8,630,706	6,023,923
Direct consumer credit	474,838	7,979,840	1,245,541	522,281	68,823	40,615	24,701	19,187	99,594	10,475,420	6,665,943
Lease	681,952	67,877	39,734	7,724	931	1,442	9,952	337	3,645	813,594	949,185
Other	213,101	31,269	33,875	5,367	1,668	291	694	305	4,012	290,582	235,979
Other credits	–	–	–	–	–	–	–	–	19,555	19,555	12,139
Total portfolio at 12.31.2018	**43,957,526**	**19,276,035**	**4,623,563**	**1,462,338**	**964,483**	**81,038**	**79,915**	**53,354**	**979,230**	**71,477,482**	**60,373,550**
Past due [1]	–	–	281,617	215,768	124,929	58,158	39,004	30,574	360,785	1,110,835	
Not past due [2]	43,957,526	19,276,035	4,341,946	1,246,570	839,554	22,880	40,911	22,780	618,445	70,366,647	
Minimum allowance required	(3,754)	(100,205)	(71,907)	(65,233)	(132,771)	(26,601)	(41,463)	(37,459)	(979,230)	(1,458,623)	
Specific [1]	–	–	(2,881)	(6,651)	(13,197)	(17,844)	(19,826)	(21,513)	(360,785)	(442,697)	
General [2]	(3,754)	(100,205)	(69,026)	(58,582)	(119,574)	(8,757)	(21,637)	(15,946)	(618,445)	(1,015,926)	
Additional allowance	(168,841)	(88,447)	(64,428)	(97,120)	(772,566)	(33,400)	(23,019)	(15,886)	–	(1,263,707)	
Total allowance at 12.31.2018	**(172,595)**	**(188,652)**	**(136,335)**	**(162,353)**	**(905,337)**	**(60,001)**	**(64,482)**	**(53,345)**	**(979,230)**	**(2,722,330)**	
Total portfolio at 12.31.2017	**42,018,208**	**13,553,615**	**2,190,182**	**671,152**	**569,275**	**60,054**	**78,072**	**79,289**	**1,153,703**	**60,373,550**	
Past due [1]	–	–	267,576	124,354	58,820	32,566	27,738	23,348	529,982	1,064,384	
Not past due [2]	42,018,208	13,553,615	1,922,606	546,798	510,455	27,488	50,334	55,941	623,721	59,309,166	
Minimum allowance required	(6,235)	(68,634)	(32,656)	(30,823)	(83,166)	(20,239)	(42,826)	(61,974)	(1,153,704)	(1,500,257)	
Specific [1]	–	–	(2,730)	(3,801)	(6,594)	(10,185)	(14,617)	(17,104)	(529,981)	(585,012)	
General [2]	(6,235)	(68,634)	(29,926)	(27,022)	(76,572)	(10,054)	(28,209)	(44,870)	(623,723)	(915,245)	
Additional allowance	(153,046)	(62,724)	(29,556)	(338,857)	(440,412)	(26,482)	(27,128)	(17,295)	–	(1,095,500)	
Total allowance at 12.31.2017	**(159,281)**	**(131,358)**	**(62,212)**	**(369,680)**	**(523,578)**	**(46,721)**	**(69,954)**	**(79,269)**	**(1,153,704)**	**(2,595,757)**	

[1] Past Due and Specific ALL – transactions that have installments more than 14 days past due. [2] Not past due and General ALL – transactions not in arrears and/or installments no more than 14 days past due.

c) Allowance for loan losses over the period

I. Breakdown of the portfolio and the minimum allowance for loan losses required

	12.31.2018					
	Credit Portfolio			**Minimum Allowance Required**		
	Past due	**Not past due**	**Total**	**Specific**	**General**	**Total**
Borrowings, Financing and Discounted receivables	267,119	26,826,945	27,094,064	(175,359)	(726,110)	(901,469)
Foreign trade	39,323	18,245,452	18,284,775	(23,612)	(46,717)	(70,329)
Directed credit	5,707	2,528,049	2,533,756	(2,583)	(50,804)	(53,387)
Rural and agroindustrial financing	1,127	2,160,934	2,162,061	(1,127)	(5,241)	(6,368)
Real estate	4,580	367,115	371,695	(1,456)	(45,563)	(47,019)
Onlending	3,453	3,331,577	3,335,030	(3,424)	(22,425)	(25,849)
Financing and consumer	794,946	19,415,356	20,210,302	(237,432)	(150,602)	(388,034)
Payroll advance loan	253,280	8,377,426	8,630,706	(93,649)	(53,393)	(147,042)
Direct consumer credit	529,182	9,946,238	10,475,420	(138,456)	(85,956)	(224,412)
Lease	7,008	806,586	813,594	(2,638)	(8,098)	(10,736)
Other	5,476	285,106	290,582	(2,689)	(3,155)	(5,844)
Other credits	287	19,268	19,555	(287)	(19,268)	(19,555)
Total at 12.31.2018	**1,110,835**	**70,366,647**	**71,477,482**	**(442,697)**	**(1,015,926)**	**(1,458,623)**
Total at 12.31.2017	**1,064,384**	**59,309,166**	**60,373,550**	**(585,012)**	**(915,245)**	**(1,500,257)**

II. Changes in the minimum allowance required for credit operations

	Total allowance at 01.01.2018	**Foreign exchange variations abroad**	**(Increase)/ Reversal**	**Write-down of Loss**	**Total allowance at 12.31.2018**
Borrowings, Financing and Discounted receivables	(955,745)	–	(252,159)	306,435	(901,469)
Foreign trade	(67,109)	(2,646)	(35,925)	35,351	(70,329)
Directed credit	(160,639)	–	67,086	40,166	(53,387)
Rural and agroindustrial financing	(2,675)	–	(3,893)	200	(6,368)
Real estate	(157,964)	–	70,979	39,966	(47,019)
Onlending	(60,713)	–	25,235	9,629	(25,849)
Financing and consumer	(244,856)	–	(345,025)	201,847	(388,034)
Payroll advance loan	(92,507)	–	(155,936)	101,401	(147,042)
Direct consumer credit	(118,519)	–	(186,747)	80,854	(224,412)
Lease	(26,598)	–	1,125	14,737	(10,736)
Other	(7,232)	–	(3,467)	4,855	(5,844)
Other credits	(11,195)	–	(22,069)	13,709	(19,555)
Total minimum allowance required at 12.31.2018 – Note 8(c-I)	**(1,500,257)**	**(2,646)**	**(562,857)**	**607,137**	**(1,458,623)**
Total minimum allowance required at 12.31.2017 – Note 8(c-I)	**(1,499,052)**	**(712)**	**(853,818)**	**853,325**	**(1,500,257)**

d) Renegotiated transactions and credit recoveries

	Portfolio	**Allowance**	**%**
Past due	**74,913**	**74,839**	**99.9**
Past due transactions:			
From 15 to 30 days	18,124	18,050	99.6
From 31 to 60 days	28,755	28,755	100.0
From 61 to 90 days	26,032	26,032	100.0
From 91 to 180 days	1,621	1,621	100.0
From 181 to 365 days	381	381	100.0
Not past due	**388,624**	**379,111**	**97.6**
Total at 12.31.2018	**463,537**	**453,950**	**97.9**
Total at 12.31.2017	**620,199**	**598,943**	**96.6**

The credit recoveries for the period amounted to R$ 746,131 (R$ 646,444 in 2017).

e) Breakdown of the portfolio by maturity of credit operations

	12.31.2018	12.31.2017
PAST DUE	**1,110,835**	**1,064,384**
Operações Vencidas:		
From 15 to 30 days	357,714	353,089
From 31 to 60 days	287,932	347,909
From 61 to 90 days	132,250	129,820
From 91 to 180 days	186,831	135,490
From 181 to 365 days	146,108	98,076
NOT PAST DUE	**70,366,647**	**59,309,166**
Past due – Up to 14 days past due	309,097	146,464
Falling due:		
From 1 to 30 days	10,859,081	7,562,195
From 31 to 60 days	6,771,455	6,008,007
From 61 to 90 days	4,315,086	3,821,156
From 91 to 180 days	10,259,029	10,998,211
From 181 to 365 days	9,550,438	9,733,195
From 1 to 2 years	11,540,619	9,509,996
From 2 to 3 years	7,413,133	5,377,852
From 3 to 5 years	6,328,999	4,638,709
Over 5 years	3,019,710	1,513,381
TOTAL	**71,477,482**	**60,373,550**

The balance of transactions more than 60 days past due, non-accrued, amounts to R$ 465,189 (R$ 363,386 as at 12.31.2017) and more than 90 days past due amounts to R$ 332,939 (R$ 233,566 as at 12.31.2017).

f) Breakdown of credit portfolio by sector

	12.31.2018	12.31.2017
Private sector:		
Rural	1,366,513	1,671,198
Industry	18,459,999	16,375,615
Commerce	12,175,849	11,919,644
Financial intermediation	1,163,386	365,604
Other Services	16,359,846	15,107,141
Individuals	19,926,405	13,369,138
Housing	2,025,484	1,565,210
Total	**71,477,482**	**60,373,550**

g) Credit concentration

	12.31.2018	12.31.2017
01st to 10th largest customers	9,361,279	10,320,929
11th to 50th largest customers	10,063,205	8,896,039
51st to 100th largest customers	5,951,664	4,918,353
100 largest customers	**25,376,148**	**24,135,321**
Other customers	46,101,334	36,238,229
Total	**71,477,482**	**60,373,550**

h) Credit commitments (off balance)

Off balance amounts related to financial guarantee contracts are as follows:

	12.31.2018	12.31.2017
Guarantees, sureties and other guarantees provided [1] [2]	20,528,525	19,133,903
AA	19,969,113	18,736,516
A	267,967	104,529
B	115,477	87,623
C	22,532	47,665
D	6,605	13,221
E	–	14,538
H	146,831	129,811
Granted limits [3]	14,836,198	17,574,667
Total	**35,364,723**	**36,708,570**
Contractual term:		
Up to 90 days	13,084,131	15,258,325
From 91 to 365 days	9,553,505	9,123,999
From 1 to 2 years	4,556,176	4,193,049
From 2 to 3 years	1,653,757	1,436,034
From 3 to 5 years	3,147,026	2,947,930
Over 5 years	3,370,128	3,749,233

[1] The amount of the allowance recognized for Guarantees, sureties and other guarantees provided is R$ (151,989) (R$ (142,707) as at 12.31.2017) – Notes 3(f), 8(a) and 11.

[2] The guarantees provided generated an income amounting to R$ 340,698 (R$ 346,731 in 2017) – Note 12(d).

[3] Basically refer to credit limits granted but not used, characterized by the option for cancellation by Safra, the average term being 90 days.

9. Funding, borrowings and onlending and managed assets

	12.31.2018							12.31.2017
	Amounts by maturity							
	Up to 90 days	From 91 to 365 days	From 1 to 2 years	From 2 to 3 years	From 3 to 5 years	Over 5 years	Total	Total
Funds from customerss	**26,853,704**	**31,773,765**	**13,889,300**	**7,505,364**	**4,614,513**	**2,201,636**	**86,838,282**	**66,587,235**
Deposits [1] (a)	10,612,011	7,275,590	608,415	59,964	12,528	478	18,568,986	11,032,635
Open market funding (b)	3,766,923	999,557	2,844	2,182	–	–	4,771,506	10,928,444
Own securities	20,576	47,749	2,844	2,182	–	–	73,351	8,268,268
Corporate securities – Debentures	3,746,347	951,808	–	–	–	–	4,698,155	2,660,176
Funds from acceptance and issue of securities – Funds from financial bills, bills of credit and similar notes (c)	11,581,477	22,550,239	12,125,662	6,347,698	3,424,007	517,172	56,546,255	38,634,017
Structured funding – Note 7(c-II(1)) (d)	514,657	470,499	857,708	696,988	522,631	15,877	3,078,360	3,609,155
Fixed income [2]	92,105	77,604	19,339	–	–	–	189,048	1,156,349
Certificate of structured operations	422,552	392,895	838,369	696,988	522,631	15,877	2,889,312	2,452,806
Subordinated debt (f)	378,636	477,880	294,671	398,532	655,347	1,668,109	3,873,175	2,382,984
Funds from market	**2,686,467**	**12,087,812**	**2,022,447**	**3,329,282**	**3,565,155**	**1,708,464**	**25,399,627**	**22,532,127**
Deposits (a)	599,091	1,003,893	86,083	–	–	–	1,689,067	1,640,425
Interbank deposits	181,242	674,426	2,380	–	–	–	858,048	570,162
Time deposits	417,849	329,467	83,703	–	–	–	831,019	1,070,263
Structured funding – Structured CD – Note 7(c-II(1)) (d)	675,259	919,857	618,365	270,988	534,749	–	3,019,218	2,737,628
Open market funding – Own securities (b)	–	–	–	–	–	–	–	10,827
Funds from acceptance and issue of securities (c)	76,777	571,732	349,539	493,226	2,329,880	–	3,821,154	1,197,355
Liabilities for marketable securities abroad	504	335,235	–	–	1,701,188	–	2,036,927	356,253
Funds from financial bills, bills of credit and similar notes	76,273	236,497	349,539	493,226	628,692	–	1,784,227	841,102
Subordinated debt (f)	61,190	–	1,076	1,952,396	12,527	1,413,905	3,441,094	2,810,136
Borrowings and onlending (e)	1,274,150	9,592,330	967,384	612,672	687,999	294,559	13,429,094	14,135,756
Total funding	**29,540,171**	**43,861,577**	**15,911,747**	**10,834,646**	**8,179,668**	**3,910,100**	**112,237,909**	**89,119,362**
Open market funding [3] (b)	35,084,272	–	–	–	–	–	35,084,272	43,183,761
Consolidated private pension funds [4] (g)	–	–	–	–	–	–	14,539,441	11,911,901
Managed funds (g)	–	–	–	–	–	–	70,945,346	71,018,607
Total managed assets at 12.31.2018	**64,624,443**	**43,861,577**	**15,911,747**	**10,834,646**	**8,179,668**	**3,910,100**	**232,806,968**	**215,233,631**
Total managed assets at 12.31.2017	**59,279,873**	**39,982,167**	**18,935,035**	**6,901,938**	**4,456,454**	**2,747,656**	**215,233,631**	

[1] It does not include time deposits with the market and interbank deposits. [2] Transactions made with derivative financial instruments– Options. [3] It does not include own securities. [4] Recorded in liabilities with insurance and private pension operations – Note 10(b).

a) Deposits

	12.31.2018							12.31.2017
	Amounts by maturity							
	Up to 90 days	From 91 to 365 days	From 1 to 2 years	From 2 to 3 years	From 3 to 5 years	Over 5 years	Total	Total
Demand deposits	1,293,058	–	–	–	–	–	1,293,058	895,691
Savings deposits	2,213,006	–	–	–	–	–	2,213,006	1,932,484
Interbank deposits [1]	181,242	674,426	2,380	–	–	–	858,048	570,162
Time deposits	7,523,796	7,605,057	692,118	59,964	12,528	478	15,893,941	9,274,723
Total at 12.31.2018	**11,211,102**	**8,279,483**	**694,498**	**59,964**	**12,528**	**478**	**20,258,053**	**12,673,060**
Total at 12.31.2017	**5,678,236**	**5,612,531**	**1,195,114**	**174,339**	**12,315**	**525**	**12,673,060**	

[1] Of this amount, R$ 440,111 (R$ 373,929 as at 12.31.2017) refers to operations linked to rural credit.

b) Open market funding

	12.31.2018				12.31.2017
	Amounts by maturity				
	Up to 90 days	From 91 to 365 days	Over 365 days	Total	Total
Own portfolio	11,410,520	999,557	5,026	12,415,103	23,122,962
Own securities	20,576	47,749	5,026	73,351	8,279,095
Subject to repurchase agreements	11,389,944	951,808	–	12,341,752	14,843,867
Restricted	11,372,988	951,808	–	12,324,796	11,160,946
Government securities – National Treasury – Note 7(a-II)	7,626,641	–	–	7,626,641	8,500,770
Corporate securities – Debentures	3,746,347	951,808	–	4,698,155	2,660,176
Unrestricted – Government securities – National Treasury – Note 7(a-II)	16,956	–	–	16,956	3,682,921
Thirty-party portfolio – Note 5	27,440,675	–	–	27,440,675	31,000,070
Repurchase agreements – Government securities – National Treasury	21,286,265	–	–	21,286,265	12,311,415
Obligations related to unrestricted securities [1]	6,154,410	–	–	6,154,410	18,688,655
National Treasury Bills	2,637,815	–	–	2,637,815	9,493,081
National Treasury Notes – Note 7(e)	3,516,595	–	–	3,516,595	9,195,574
Total at 12.31.2018	**38,851,195**	**999,557**	**5,026**	**39,855,778**	**54,123,032**
Total at 12.31.2017	**44,547,670**	**9,332,655**	**242,707**	**54,123,032**	

[1] The amount of mark-to-market adjustment is R$ 200,325 (R$ 74,974 as at 12.31.2017) – Note 7(d).

c) Funds from acceptance and issue of securities

I. Breakdown

	12.31.2018							12.31.2017
	Amounts by maturity							
	Up to 90 days	From 91 to 365 days	From 1 to 2 years	From 2 to 3 years	From 3 to 5 years	Over 5 years	Total	Total
Funds from financial bills, credit bills and similar notes	11,657,750	22,786,736	12,475,201	6,840,924	4,052,699	517,172	58,330,482	39,475,119
Financial bills	4,123,979	6,782,442	8,135,905	5,253,365	1,994,829	55,402	26,345,922	18,655,820
IPCA – Hedge – Note 7(e)	183,174	332,146	145,530	187,877	446,922	4,776	1,300,425	–
Other	3,940,805	6,450,296	7,990,375	5,065,488	1,547,907	50,626	25,045,497	18,655,820
Commercial leasing bills	6,564,501	13,362,657	2,330,738	578,129	59,410	6,788	22,902,223	13,388,436
Agribusiness credit notes	752,025	2,334,982	1,729,136	876,095	1,863,391	454,101	8,009,730	6,087,262
Mortgage bills	108,784	37,085	117,251	32,898	–	–	296,018	340,845
House loan bills	108,461	269,570	162,171	100,437	135,069	–	775,708	1,001,840
IPCA – Hedge – Nota 7(e)	130	24,979	20,684	16,274	96,842	–	158,909	–
Others	108,331	244,591	141,487	84,163	38,227	–	616,799	1,001,840
Debentures	–	–	–	–	–	881	881	916
Liabilities for marketable securities abroad	504	335,235	–	–	1,701,188	–	2,036,927	356,253
CHF 100,000 – 12.12.2014 – Fixed (1.5% p.a.) – Hedge – Note 7(e) [1]	504	335,235	–	–	–	–	335,739	290,014
US$ 20,000 – 06.18.2013 – Fixed (3.3% p.a.)	–	–	–	–	–	–	–	66,239
US$ 500,000 – 02.08.2018 – Fixed (4.12% p.a.) – "Hedge" – Nota 7(e) [1]	–	–	–	–	1,701,188	–	1,701,188	–
Total at 12.31.2018	**11,658,254**	**23,121,971**	**12,475,201**	**6,840,924**	**5,753,887**	**517,172**	**60,367,409**	**39,831,372**
Total at 12.31.2017	**5,759,448**	**13,276,773**	**14,269,689**	**4,993,175**	**1,012,478**	**519,809**	**39,831,372**	

[1] Includes incurred transaction costs of R$ (5,279) (R$ (910) as at 12.31.2017) – Note 3(m).

II. Movements

	01.01. to 12.31.2018			01.01. to 12.31.2017		
	Funds from financial bills, bills of credit and similar notes	Liabilities for marketable securities abroad	Total	Funds from financial bills, bills of credit and similar notes	Liabilities for marketable securities abroad	Total
At the beginning of the period	**39,475,119**	**356,253**	**39,831,372**	**21,056,485**	**1,510,379**	**22,566,864**
Foreign exchange variations abroad	–	251,520	251,520	–	97,754	97,754
Funding	83,932,916	1,699,952	85,632,868	42,004,599	–	42,004,599
Redemptions	(68,508,381)	(341,480)	(68,849,861)	(26,311,636)	(1,303,682)	(27,615,318)
Interest paid	(1,153)	(6,227)	(7,380)	(192)	–	(192)
Appropriation to income	3,431,981	76,909	3,508,890	2,725,863	51,802	2,777,665
Interest – Note 12(b)	3,279,282	80,042	3,359,324	2,726,610	36,397	2,763,007
Variation in Fair Value adjustment – Note 7(e)	152,699	(3,133)	149,566	(747)	15,405	14,658
At the end of the period	**58,330,482**	**2,036,927**	**60,367,409**	**39,475,119**	**356,253**	**39,831,372**

d) Structured funding

	12.31.2018							12.31.2017
	Amounts by maturity							
	Up to 90 days	From 91 to 365 days	From 1 to 2 years	From 2 to 3 years	From 3 to 5 years	Over 5 years	Total	Total
Fixed income	92,105	77,604	19,339	–	–	–	189,048	1,156,349
Certificate of structured operations	422,552	392,895	838,369	696,988	522,631	15,877	2,889,312	2,452,806
Structured CD	675,259	919,857	618,365	270,988	534,749	–	3,019,218	2,737,628
Hedge – Note 7(e)	176,763	475,888	337,524	129,857	237,590	–	1,357,622	1,608,884
Others	498,496	443,969	280,841	141,131	297,159	–	1,661,596	1,128,744
Total at 12.31.2018	**1,189,916**	**1,390,356**	**1,476,073**	**967,976**	**1,057,380**	**15,877**	**6,097,578**	**6,346,783**
Total at 12.31.2017	**1,117,094**	**2,160,548**	**1,525,568**	**903,924**	**609,650**	**29,999**	**6,346,783**	

e) Borrowings and onlending

	12.31.2018							12.31.2017
	Amounts by maturity							
	Up to 90 days	From 91 to 365 days	From 1 to 2 years	From 2 to 3 years	From 3 to 5 years	Over 5 years	Total	Total
Foreign borrowings [1]	660,492	8,713,708	232,488	–	–	–	9,606,688	8,860,882
Domestic onlending	395,222	878,622	734,896	612,672	687,999	294,559	3,603,970	5,237,111
National Treasury	136,022	154,839	32,628	–	–	–	323,489	266,552
BNDES	105,678	318,902	331,195	293,942	335,669	153,532	1,538,918	2,719,081
FINAME	153,522	404,881	371,073	318,730	352,330	141,027	1,741,563	2,251,478
Others borrowings	218,436	–	–	–	–	–	218,436	37,763
Total at 12.31.2018	**1,274,150**	**9,592,330**	**967,384**	**612,672**	**687,999**	**294,559**	**13,429,094**	**14,135,756**
Total at 12.31.2017	**2,124,766**	**9,599,660**	**923,550**	**571,401**	**638,093**	**278,286**	**14,135,756**	

[1] Credit facilities for financing imports and exports.

f) Subordinated debt

I. Breakdown of balance by security and rate

Securities/rates	12.31.2018	12.31.2017
Financial bills – LF	**4,150,578**	**2,447,433**
– CDI (100% to 115.35%) + (interest from 0.77% p.a. to 1.62% p.a.)	2,132,552	1,278,107
– IGPM + (interest from 3.89% p.a. to 6.68% p.a.)	9,752	8,610
– IPCA + (interest from 4.22% p.a. to 8.82% p.a.) – Hedge – Note 7(e)	1,573,840	1,003,854
– Fixed (10.21% p.a. to 17.66% p.a.)	387,050	112,596
– Selic	47,384	44,266
Medium term notes – Hedge – Note 7(e)	**3,163,691**	**2,745,687**
– US$ 300,000 at 7.00% p.a. – Perpetual – Note 19(b)	1,162,377	990,733
– US$ 500,000 at 6.75% p.a.	2,001,314	1,754,954
Total [1]	**7,314,269**	**5,193,120**

[1] Transactions with half-yearly and quarterly interest payments.

II. Breakdown of balance by characteristic and maturity

	12.31.2018				12.31.2017
	Approved at BACEN		In process		
Securities	Without termination clause	With termination clause	of approval at BACEN [1]	Total	Total
2019	763,540	85,905	7,068	856,513	785,512
2020	31,831	243,578	20,336	295,745	256,283
2021	2,001,314	404,702	–	2,406,016	2,111,058
2022	5,367	130,228	–	135,595	116,018
2023	–	512,247	20,033	532,280	268,222
2024	–	366,389	–	366,389	336,774
2025	–	776,633	174,733	951,366	215,167
2026	–	227,340	33,227	260,567	29,868
2027	–	93,368	–	93,368	83,485
2028	–	179,881	72,678	252,559	–
2033	–	1,494	–	1,494	–
Perpetual	–	1,162,377	–	1,162,377	990,733
Total at 12.31.2018	**2,802,052**	**4,184,142**	**328,075**	**7,314,269**	**5,193,120**
Total at 12.31.2017	**2,483,411**	**2,372,857**	**336,852**	**5,193,120**	

[1] The 2019 and 2020 securities do not have termination clause and total R$ 27,404 (R$ 23,909 as at 12.31.2017).

III. Movements

	01.01 to 12.31.2018	01.01 to 12.31.2017
At the beginning of the periodo	**5,193,120**	**4,510,166**
Foreign exchange variations abroad	440,155	38,841
Funding	1,352,678	461,766
Redemptions	(33,792)	–
Interest paid	(200,631)	(180,254)
Appropriation to income	562,739	362,601
Interest – Note 12(c)	445,634	361,622
Variation in Fair Value adjustment – Hedge – Note 7(e)	117,105	979
At the end of the period	**7,314,269**	**5,193,120**

g) Managed funds

Safra Group, together with related party companies, is responsible for administering, managing and distributing investment fund quotas, as follows:

	12.31.2018	12.31.2017
Managed funds [1]	70,945,346	71,018,607
Funds of investment in quotas	104,582,147	96,413,343
Consolidated exclusive funds	8,388,324	10,114,570
Consolidated private pension funds – Note 10(b)	14,539,441	11,911,901
Total equity of funds	**198,455,258**	**189,458,421**
Total equity of managed portfolio	**1,560,993**	**710,801**

[1] Includes quotaholders with related parties in the amount of R$ 3,142,349 (R$ 3,929,904 as at 12.31.2017).

The revenue from fund management, administration and distribution of such fund quotas, recorded in the heading "Revenue from services", totals R$ 1,059,680 (R$ 845,846 in 2017) – Note 12(d). When the income from related parties is included, in the amount of R$ 73,454 (R$ 73,621 in 2017) – Note 19(b) the income totals R$ 1,133,134 (R$ 919,467 in 2017).

10. Insurance, reinsurance and private pension operations

a) Receivables from insurance and reinsurance operations

	12.31.2018	12.31.2017
Receivables of premiums – Note 10(a-I(2))	54,335	52,428
Premiums receivable – Note 10(a-I(1))	53,515	49,224
Premiums of risks in force and not issued	1,964	5,493
Credit risk	(1,144)	(2,289)
Operating receivables from insurance and reinsurance	4,358	8,691
Gross amount	9,066	13,181
Credit risk	(4,708)	(4,490)
Reinsurance assets – Technical reserves – Note 10(a-II)	35,734	38,490
Deferred acquisitions costs	270	1,329
Total – Note 11	**94,697**	**100,938**

I. Premiums receivable

1) Breakdown

	12.31.2018			12.31.2017
	Past due [1]	Not past due [2]	Total	Total
Past due:	686	4,081	4,767	3,903
From 01 to 30 days	193	3,723	3,916	2,655
From 31 to 60 days	195	358	553	874
From 61 to 120 days	298	–	298	359
Over 121 days	–	–	–	15
Falling due:	458	48,290	48,748	45,321
From 01 to 30 days	91	6,140	6,231	11,930
From 31 to 60 days	73	4,219	4,292	4,889
From 61 to 120 days	70	6,649	6,719	6,706
From 121 to 180 days	60	4,802	4,862	4,340
From 181 to 365 days	103	10,605	10,708	6,942
From 1 to 2 years	59	9,575	9,634	5,219
From 2 to 3 years	2	4,880	4,882	2,680
From 3 to 5 years	–	1,416	1,416	2,347
Over 5 years	–	4	4	268
Total in 12.31.2018	**1,144**	**52,371**	**53,515**	**49,224**
Total in 12.31.2017	**2,289**	**46,935**	**49,224**	

[1] Policies with installments more than 60 days past due are fully provisioned. [2] Policies without installments past due and/or with installments up to 60 days past due.

2) Changes during the period

	01.01 to 12.31.2018	01.01 to 12.31.2017
At the beginning of the period	**52,428**	**25,852**
(+) Written premiums and risks in force but not issued [1]	275,399	313,884
(-) Receipts	(278,933)	(291,155)
(+) Variation in credit risks	1,144	446
(+) Interest on receipt of premiums	4,297	3,401
At the end of the period	**54,335**	**52,428**

[1] Does not include reinsurance premium to be passed on in the amount of R$ 21,781 (R$ 28,566 as at 12.31.2017).

3) Change in credit risk

	01.01. to 12.31.2018						01.01. to 12.31.2017
		Operations with					
	Premiums receivable	Insurance companies	Reinsurance companies	Subtotal	Payables for insurance and reinsurance operations [1]	Total [2]	Total
At the beginning of the period	**(2,289)**	**(587)**	**(3,904)**	**(4,491)**	**685**	**(6,095)**	**(6,744)**
Constituição/ (Reversão)	1,144	(109)	(108)	(217)	(400)	527	649
At the end of the period	**(1,145)**	**(696)**	**(4,012)**	**(4,708)**	**285**	**(5,568)**	**(6,095)**

[1] Includes transfers of premiums/commissions to brokers, and insurance and reinsurance companies, and IOF on unpaid premiums. [2] Note 12(e).

II. Reinsurance assets – Technical reserves – Change

	01.01 to 12.31.2018					01.01 to 12.31.2017
	PPNG	PSL [1]	IBNR	PCC [2]	Total	Total
At the beginning of the period	**22,730**	**7,043**	**1,949**	**6,768**	**38,490**	**28,045**
Changes in technical reserves	(1,213)	2,506	946	(261)	1,978	18,457
Recovery	–	(4,924)	–	–	(4,924)	(8,394)
Inflation adjustment	–	190	–	–	190	382
At the end of the period	**21,517**	**4,815**	**2,895**	**6,507**	**35,734**	**38,490**

[1] Includes 11 (21 as at 12.31.2017) legal claims of R$ 2,646 (R$ 3,453 as at 12.31.2017). [2] Nota 10(d-I).

b) Funds guaranteeing technical reserves for insurance and private pension operations

	12.31.2018	12.31.2017
Marketable securities – Notes 3(d) and 7(b)	**14,922,255**	**12,302,405**
Quotas of funds PGBL/VGBL	**14,539,441**	**11,911,901**
Repurchase agreements	22,859	86,715
Marketable securities	14,517,672	11,836,390
Other	(1,090)	(11,204)
Other securities	**382,814**	**390,504**
Quotas of funds – Linked to Technical Reserve	214,479	225,480
Quotas of investments funds – DPVAT agreement	168,335	165,024
Receivables from reinsurance operations – Note 10(a-II) [1]	**14,217**	**15,760**
Credit rights – Insurance premium receivable	**11,005**	**12,146**
Total – Note 10(c-I(2))	**14,947,477**	**12,330,311**

[1] The amount shown net of Unearned Premium Reserve of R$ (21,517) (R$ (22,730) as at 12.31.2017), was not offered as asset to reduce technical reserves.

c) Insurance and private pension operations (liabilities)

The insurance and private pension operations are as follows:

	12.31.2018	12.31.2017
Technical reserves – Note 10(c-I(1))	14,900,972	12,272,792
Private pension	14,561,873	11,930,334
Insurance	170,884	177,655
DPVAT agreement [1]	168,215	164,803
Payables for insurance and reinsurance operations	16,857	22,480
Commissions and other insurance liabilities	4,374	9,451
Credit risk	(251)	(626)
Total	**14,921,952**	**12,304,097**

[1] Comprised by outstanding claims reserve in the amount of R$ 20,887 (R$ 24,223 as at 12.31.2017), IBNR in the amount of R$ 146,631 (R$ 139,660 as at 12.31.2017) and unearned premium reserve in the amount of R$ 697 (R$ 920 as at 12.31.2017).

I. Technical reserves

1) Breakdown

	Insurance		Private Pension		Total	
	12.31.2018	12.31.2017	12.31.2018	12.31.2017	12.31.2018	12.31.2017
PMBAC and PMBC	–	–	14,539,717	11,911,831	14,539,717	11,911,831
PPNG	128,191	136,794	–	–	128,191	136,794
PSL	17,410	18,625	–	–	17,410	18,625
DPVAT agreement	168,215	164,803	–	–	168,215	164,803
IBNR	5,034	3,307	–	–	5,034	3,307
Supplementary reserve – Note 10(d-I)	20,249	18,929	22,156	18,503	42,405	37,432
PCC	20,249	18,929	2,824	165	23,073	19,094
PDR	–	–	19,332	18,338	19,332	18,338
Total	**339,099**	**342,458**	**14,561,873**	**11,930,334**	**14,900,972**	**12,272,792**

2) Coverage

	12.31.2018	12.31.2017
Funds guaranteeing technical reserves for insurance and private pension operations – Note 10(b)	14,947,477	12,330,311
Technical reserves – Note10(c-I(1))	(14,900,972)	(12,272,792)
Coverage surplus	**46,505**	**57,519**

3) Changes in the mathematical reserve for private pensions

	01.01. to 12.31.2018	01.01. to 12.31.2017
At the beginning of the period	**11,930,334**	**8,645,862**
Contributions	1,012,292	1,219,868
Net transfers accepted	1,662,215	1,717,435
Redemptions	(856,245)	(671,165)
Benefits paid	(657)	(487)
Financial adjustment – Note 10(e)	810,010	1,017,575
Change in reserves	3,924	1,246
Supplementary coverage (PCC) and related expenses reserve (PDR) – Note 10(d)	3,614	1,246
Other	310	–
At the end of the period	**14,561,873**	**11,930,334**

4) Change in the mathematical reserve for insurance

	01.01. to 12.31.2018					
		Claims				
	PPNG	PSL, IBNR and PDR	PSL and PDR judicial	Sub Total	PCC – Note 10(d-II)	Total
At the beginning of the period 01.01.2018	**136,794**	**8,427**	**13,505**	**21,932**	**18,929**	**177,655**
Incurred claims	–	6,254	254	6,508	–	6,508
Change in estimate	–	(430)	(576)	(1,006)	–	(1,006)
Change in technical reserves	(8,603)	916	1,353	2,269	1,374	(4,960)
Paid claims	–	(8,767)	(1,187)	(9,954)	–	(9,954)
Inflation adjustment	–	–	2,695	2,695	(54)	2,641
Balance at the end of the period 12.31.2018	**128,191**	**6,400**	**16,044**	**22,444**	**20,249**	**170,884**

d) Supplementary Coverage Reserve (PCC) and Liability Adequacy Test (LAT) – Note 3(n-III(c))

I. Breakdown

	12.31.2018	12.31.2017
Assets – Reinsurance assets – Note 10(a-II)	**6,507**	**6,768**
Liabilities	**(42,405)**	**(37,432)**
Technical reserves – Insurance – Personal – Note 10(c-I(1))	(20,249)	(18,929)
Technical reserves – Private Pension – Note 10(c-I(1))	(22,156)	(18,503)
Supplementary coverage (PCC) and related expenses reserve (PDR) – Net	**(35,898)**	**(30,664)**

II. Effects on income

	2018	2017
Reinsurance operations - Note 10(a-II)	(261)	579
Insurance operations - Note 10(c-I(4))	(1,374)	(2,194)
Gains and losses on private pension - Note 10(c-I(3))	(3,614)	(1,246)
Supplementary coverage (PCC) and related expenses reserve (PDR) - Net - Note 12(e)	**(5,249)**	**(2,861)**

e) Insurance and private pension operations

	2018	2017
Income from financial intermediation	15,499	21,698
Finance income from insurance and private pension operations – Note 12(a)	828,569	1,040,507
Finance expenses from insurance and private pension operations – Note 12(b) [1]	(813,070)	(1,018,809)
Income from insurance, reinsurance and private pension operations – Note 12(d)	254,612	240,214
Income from private pension fund management services – Note 9(g)	104,867	24,383
Total	**374,978**	**286,295**

[1] Substantially represented by mathematical adjustment of private pension – Note 10(c-I(3)).

11. Other financial assets and liabilities

	12.31.2018		12.31.2017	
	Assets	Liabilities	Assets	Liabilities
Foreign exchange portfolio – Note 11(a)	246,424	319,446	1,146,563	1,148,365
Collection of taxes and similar	–	12,702	–	16,341
Negotiation and intermediation of securities – Note 11(b)	680,304	644,195	401,248	594,266
Interbank and interdepartmental transactions	62	223,762	57	283,671
Amounts receivable/(payable) – Acquirer [1]	2,033,967	2,024,190	669,759	526,394
Others	243,215	449,421	149,322	375,807
Provision for guarantees and sureties – Notes 8(a-I and II) and 8(h)	–	151,989	–	142,707
Income receivable – Commission on funds and guarantees and sureties	148,518	–	47,038	–
Receivables from insurance and reinsurance operations-Note 10(a)	94,697	–	100,938	–
Credit card administration obligations	–	236,048	–	198,975
Other	–	61,384	1,346	34,125
Total	**3,203,972**	**3,673,716**	**2,366,949**	**2,944,844**

[1] Refer to the acquiring market operations – "Safra Pay" started-up in 2017.

a) Foreign exchange portfolio

	12.31.2018		12.31.2017	
	Assets	Liabilities	Assets	Liabilities
Foreign Exchange purchases pending settlement (M.E.) and Payables for foreign exchange purchase (M.N.)	213,578	226,971	786,436	787,636
Foreign Exchange variations [1]	(13,392)	–	(1,200)	–
Interbank for ready settlement	192,085	192,085	774,140	774,140
Other	34,885	34,886	13,496	13,496
Receivables for foreign exchange sales (M.N.) and Foreign Exchange sales pending settlement (M.E.)	32,846	92,475	360,127	360,729
Foreign Exchange variations	–	2,064	–	(194)
Interbank for ready settlement	–	–	165,395	165,395
Financial	10,505	10,505	188,835	188,835
(-) Advances received	(58,692)	–	(4,412)	–
Import	77,487	77,487	4,266	4,266
Other	3,546	2,419	6,043	2,427
Total	**246,424**	**319,446**	**1,146,563**	**1,148,365**

[1] The foreign exchange gains on advance on foreign exchange contract transactions - Note 3(f) amount to R$ 148,979 (R$ 38,549 as at 12.31.2017) and was shown in the line item Other credits – Credit operations - Note 8.

b) Negotiation and intermediation of securities

	12.31.2018	12.31.2017
ASSETS	**680,304**	**401,248**
Debtors pending settlement [1]	172,157	119,402
Cash from registry and settlement [1]	301,527	226,993
Margin of derivatives abroad	56,289	39,108
Financial assets and commodities pending settlement	150,331	15,745
LIABILITIES	**644,195**	**594,266**
Creditors pending settlement [1]	293,655	421,929
Cash from registry and settlement [1]	300,515	160,635
Financial assets and commodities pending settlement	49,266	11,646
Other	759	56

[1] Refers mainly to transactions on stock exchanges recorded by Safra Corretora de Valores e Câmbio Ltda.

12. Revenue, expenses and income from operations

a) Financial intermediation income

	2018	2017
Credit operations	7,352,607	6,782,426
Marketable securities	5,500,477	8,611,279
Interbank investments	2,468,285	5,252,924
Open market investments	2,318,317	5,074,282
Interbank deposits	111,659	166,275
Investments abroad	38,309	12,367
Marketable securities – Security portfolio	3,032,192	3,358,355
Government securities	2,020,846	2,507,976
Securities issued by Financial institutions and Companies	1,011,346	850,379
Finance income from insurance and private pension operations – Note 10(e)	828,569	1,040,507
Income from compulsory deposits	320,906	261,329
Other financial income	8,559	12,553
Total interest income	**14,011,118**	**16,708,094**

b) Financial intermediation expenses

	2018	2017
Funds obtained in the market	(7,795,455)	(10,782,638)
Deposits	(767,488)	(715,555)
Own issue – Open-market	(152,665)	(1,267,075)
Open market funding	(2,701,155)	(5,166,304)
Own portfolio	(589,803)	(1,348,720)
Third-party's portfolio	(1,192,700)	(2,780,476)
Obligations related to unrestricted securities	(918,652)	(1,037,108)
Funds from acceptance and issue of securities	(3,359,324)	(2,763,007)
Funds from financial bills, bills of credit and similar notes – Note 9(c-II)	(3,279,282)	(2,726,610)
Liabilities for marketable securities abroad – Note 9(c-II)	(80,042)	(36,397)
Subordinated debt – Note 9(f-III)	(445,634)	(361,622)
Structured funding	(319,717)	(468,163)
Direct Funding Expenses	(49,472)	(40,912)
Borrowings and onlending	(555,372)	(555,228)
Borrowings abroad	(265,151)	(138,327)
Domestic onlending	(279,598)	(398,166)
Other borrowings	(10,623)	(18,735)
Finance expenses from insurance and private pension operations – Note 10(e)	(813,070)	(1,018,809)
Other finance expenses – Note 14(c)	(134,015)	(144,048)
Total interest expenses	**(9,297,912)**	**(12,500,723)**

c) Income from derivative financial instruments

	2018	2017
Foreign Exchange sales pending settlement (M.E.)	(342,518)	(15,618)
Derivatives ("Accrual") - Note 3(d)	(217,226)	(99,736)
Swap	(51,648)	11,995
Futures	(202,704)	(152,811)
Other	37,126	41,080
Realized and unrealized income from financial instruments	32,117	154,461
Mark-to-market adjustments of marketable securities and derivative financial instruments in income - Not Realized	14,456	175,185
Mark-to-market adjustments of futures transactions	(78,289)	(74,833)
Profit/(Loss) in the sale of securities - Realized	95,950	54,109
Trading and derivatives	123,447	(39,192)
Available-for-sale – Note 7(a-IV)	(27,497)	93,301
Total – Note 18(f-II)	**(527,627)**	**39,107**

d) Revenue from service and bank fees

	2018	2017
Investment fund custody and portfolio management services – Note 9(g)	1,059,680	845,846
Portfolio brokerage, custody and placement services	231,561	169,233
Guarantees provided and guarantees and sureties – Note 8(h)	340,698	346,731
Current account services	77,064	83,126
Collection services	59,970	62,975
Credit operations	181,760	164,625
Acquirer	89,194	1,951
Other	524	202
Total	**2,040,451**	**1,674,689**

e) Insurance, reinsurance and private pension operations

	2018	2017
Revenue from retained premiums, net	260,491	277,453
Premium revenue – Note 10 (a-I(2))	253,618	284,106
Change in technical reserves	6,873	(6,653)
Claim revenue and expenses	(1,567)	(4,394)
Acquisition costs – Note 19(b)	2,948	(3,205)
Credit risk – Note 10(a-I(3))	527	649
Reinsurance contingencies – Note 14(c)	–	(25,913)
Gains and losses on supplementary reserve – Note 10(d-II)	(5,873)	(3,658)
Supplementary coverage reserve	(4,293)	(1,591)
Related expenses reserve	(1,580)	(2,067)
Other income and expenses [1]	(1,914)	(718)
Total – Note 10(e)	**254,612**	**240,214**

[1] Includes the income net of DPVAT agreement.

13. Other asset, liability and income accounts

a) Other receivables - Sundry

	12.31.2018	12.31.2017
Debtors for deposits in guarantee of contingent liabilities	280,429	276,578
Tax and social security contingent liabilities and legal obligations [1]	168,938	145,709
Civil, labor – Note 14(c)	111,491	130,869
Taxes and contributions to be offset	215,957	272,736
Other	12,110	7,794
Total	**508,496**	**557,108**

[1] The amounts linked to tax and social security contingent liabilities and legal obligations are disclosed in Note 14(c).

b) Other liabilities - Sundry

	12.31.2018	12.31.2017
Provision for payables	566,484	466,784
Other	60,917	72,334
Total	**627,401**	**539,118**

c) Personnel expenses

	2018	2017
Remuneration and profit sharing	(1,563,243)	(1,368,605)
Benefits	(163,172)	(127,882)
Payroll charges	(379,918)	(314,901)
Information security	(186,167)	(184,995)
Employee termination	(39,166)	(41,371)
Total	**(2,331,666)**	**(2,037,754)**

d) Administrative expenses

	2018	2017
Facilities and Rents – Note 19(b)	(180,724)	(177,314)
Depreciation and amortization – Note 16(b)	(91,289)	(66,636)
Data processing and telecommunications	(153,004)	(93,334)
Third-party services	(39,951)	(46,242)
Travel	(84,135)	(64,936)
Financial system services	(12,653)	(19,282)
Surveillance, security and transport services	(44,899)	(36,830)
Publicity and advertising	(38,650)	(30,270)
Other	(34,247)	(33,000)
Total	**(679,552)**	**(567,844)**

14. Contingent assets and liabilities and legal obligations – tax and social security

a) Contingent assets

There is no contingent asset to be disclosed.

b) Provisions and contingents liabilities

These are quantified as follows:

I. Civil lawsuits

Are represented mainly by indemnity claims for pecuniary damage and/or pain and suffering due to issues related to direct consumer credit operations, collections and loans, protests of notes, inclusion of customer data in credit restriction databases and elimination of inflation effects in connection with economic plans on savings account balances. Civil lawsuits are evaluated when a court notice is received and are classified as mass, when related to similar causes with insignificant amount, or as special, when there is a peculiarity in the lawsuit filed, arising from the significance of the amount involved, or from matter with corporate importance or different from ordinary lawsuits. The provision recorded for mass lawsuits is calculated on a monthly basis at the average historical cost of payments of lawsuits settled in the last 12 months, also considering the average fees paid in the same period and claims settled with favorable outcome. This average cost is updated quarterly and multiplied by the amount of lawsuits in progress in the portfolio on the last business day of the month. The special lawsuits are individually evaluated concerning the likelihood of loss, and are periodically reviewed and quantified based on progress, on the evidence submitted and/or case law in accordance with the evaluation of management and internal legal counsel. A provision is recognized for lawsuits classified as a probable loss.

II. Labor claims

Are filed to claim alleged labor rights derived from the labor legislation specifically relating to professional category, especially overtime. These labor claims are evaluated when a court notice is received, and are classified as technically evaluated. The claims are evaluated individually by likelihood of loss, and are periodically reviewed and quantified based on progress, on the evidence submitted and case law in accordance with the evaluation of management and internal legal counsel. A provision is recognized insofar as the probability of loss is considered probable, and adjusted by average ticket (claims with risk under one million reais) and special cases (claims with risk above one million reais) based on the considered risk, and both with the amount effectively paid for claims over the past 24 months. These adjustments are quarterly and annually recalculated. The provision arising from technical evaluation is adjusted by the amounts of the judicial deposits. The full amount of the deposits is provisioned by in cash.

III. Tax and social security proceedings

Are mainly represented by administrative proceedings and lawsuits related to municipal and federal taxes. They are individually quantified when the notice of the administrative proceedings is received, based on the amou-

nts assessed and are adjusted monthly. The provision is recognized at the full amount for proceedings classified as probable loss. The legal obligation is recognized notwithstanding the risk classification of the loss.

IV. Other risks

Contingent liabilities quantified and provisioned per individual evaluation, basically represented by Salary Variations Compensation Fund (FCVS) provisions and Reinsurance.

c) The provisions recognized and the related changes were as follows:

	01.01 to 12.31.2018					01.01 to 12.31.2017
	Civil	Labor	Tax and social security contingent liabilities and legal obligations [3]	Other	Total	Total
At the beginning of the period 01.01.2018	**418,932**	**447,117**	**360,047**	**124,798**	**1,350,894**	**1,242,565**
Adjustment/Charges [1]	19,085	35,269	6,662	17,129	78,145	95,891
Changes in the period reflected in income [2]	87,905	140,010	15,994	–	243,909	256,028
Increase / (Reversal)	98,830	149,947	28,297	–	277,074	351,463
Reversal due to favorable decision	(10,925)	(9,937)	(12,303)	–	(33,165)	(95,435)
Payment	(75,924)	(171,113)	(68,746)	–	(315,783)	(245,410)
Other changes – Note 2(a)	–	350	118,552	1,073	119,975	1,820
At the end of the period at 12.31.2018	**449,998**	**451,633**	**432,509**	**143,000**	**1,477,140**	**1,350,894**
Guarantee deposits [4]	41,355	70,136	152,916	–	264,407	
Guarantee securities [5]	–	72,531	–	–	72,531	
Total amounts guaranteed at 12.31.2018	**41,355**	**142,667**	**152,916**	**–**	**336,938**	
Guarantee deposits [4]	41,050	89,819	35,103	–	165,972	
Guarantee securities [5]	–	74,566	–	–	74,566	
Total amounts guaranteed at 12.31.2017	**41,050**	**164,385**	**35,103**	**–**	**240,538**	

[1] Recorded in "Other financial expenses". [2] The changes in the civil, tax and labor contingencies are recorded in "Other operating expenses". [3] The main proceedings involving tax and social security contingent liabilities and legal obligations are as follows: (i) Payroll charges on prior notice and 1/3 of vacation pay of R$ 33,168 (R$ 27,050 as at 12.31.2017), Accident prevention factor (FAP) – Dispute over the legality of the FAP, in the amount of R$ 38,489 (R$ 37,465 as at 12.31.2017); (ii) Services Tax (ISS) on banking activities - a number of tax assessment notices and proceedings related to the tax levied on revenues from banking activities, which should not be mistaken for the price for services rendered, amounting to R$ 51,846 (R$ 60,412 as at 12.31.2017); (iii) Deductibility of the loan portfolio in the amount of R$ 47,442 (R$ 45,697 as at 12.31.2017); and (iv) Basically refers to the claim regarding the levy of PIS and COFINS on income from interest on capital in the amount of R$ 99,888. [4] Note 13(a). [5] Note 7(a-III).

The amount of the contingent liabilities classified as a possible loss related to civil lawsuits, not recognized, is R$ 56,069 (R$ 52,333 as at 12.31.2017). There is no labor contingent liability and tax and social security proceedings classified as possible loss.

15. Taxes

a) Breakdown of income tax and social contribution expenses

I. Reconciliation of income tax and social contribution expenses

	2018	2017
Profit before income tax and social contribution	**2,895,349**	**2,638,484**
Charges (income tax and social contribution) at standard rates – Note 3(q)	(1,302,907)	(1,187,317)
Permanent (additions) deductions	**553,316**	**463,414**
Effect of foreign exchange variations in investments abroad	188,848	17,104
Interest on capital	294,607	294,812
Non-deductible expenses, net of non-taxable income	43,659	21,151
Deferred tax assets not recognized in the period / recognized in previous periods and other	26,202	130,347
Income tax and social contribution for the period – Note 18(f-II)	**(749,591)**	**(723,903)**

II. Tax expenses of operations

	2018	2017
PIS / COFINS	(390,912)	(351,223)
Service tax (ISS)	(96,793)	(79,757)
Total – Note 18(f-II)	**(487,705)**	**(430,980)**

b) Deferred taxes

I. Origin of deferred income tax and social contribution assets

	Balance at 01.01.2018	Increase / (Reversal)	Realization	Other changes – Note 2(a)	Balance at 12.31.2018
Provision for contingent liabilities	479,655	130,368	(111,521)	132,000	630,502
Allowance for credit risk	1,125,736	61,137	(237,828)	–	949,045
Fair Value adjustment of derivative financial instruments	–	78,489	–	–	78,489
Other	154,197	36,827	(17,674)	–	173,350
Total deferred tax assets for temporary differences	**1,759,588**	**306,821**	**(367,023)**	**132,000**	**1,831,386**
Tax loss and social contribution loss carryforwards	38,796	84,510	-	213,940	337,246
Total deferred tax assets at 12.31.2018	**1,798,384**	**391,331**	**(367,023)**	**345,940**	**2,168,632**
Total deferred tax assets at 12.31.2017	**1,865,089**	**385,888**	**(452,593)**	**–**	**1,798,384**

The balance of deferred tax assets for temporary differences, not recognized at the rate of 40%, amounted to R$ 542,889 (R$ 502,406 as at 12.31.2017), and refers to deferred tax assets arising from the recognition of Additional ALL (Credit operations and Other credit risk instruments).

II. Deferred tax liabilities

	12.31.2018	12.31.2017
Excess depreciation	168,483	204,823
Fair Value adjustment of derivative financial instruments	66,559	56,601
Fair Value adjustment of available-for-sale securities – Note 17(d-I)	1,890	18,710
Other	6,656	20,614
Total	**243,588**	**300,748**

III. Expected realization of deferred tax assets for temporary differences, income tax and social contribution loss carryforwards and deferred taxes on the amount in excess

	Deferred tax assets				
Realization year	Temporary differences	Tax and social contribution loss carryforwards	Total	Provision for deferred taxes and contributions	Net deferred taxes
2019	494,072	84,527	578,599	(93,937)	484,662
2020	717,591	92,980	810,571	(14,708)	795,863
2021	296,158	55,827	351,985	(16,031)	335,954
2022	136,287	40,405	176,692	(20,343)	156,349
2023	82,776	43,394	126,170	(17,579)	108,591
2024 to 2028	104,502	20,113	124,615	(80,990)	43,625
Total	**1,831,386**	**337,246**	**2,168,632**	**(243,588)**	**1,925,044**
Present value [1]	**1,668,281**	**302,124**	**1,970,405**	**(206,723)**	**1,763,698**

[1] For adjustment to present value, the CDI projected interest rate for future periods was used, net of tax.

The technical study on realization of Deferred Tax Assets is reviewed every six months, supporting the totality of recognized amounts. The calculations were made under the terms of Art. 6 of CMN Resolution 3,059/2002.

c) The tax and social security obligations are shown below

	12.31.2018	12.31.2017
Income tax and social contribution payable	381,859	271,910
Taxes and contributions collectible	176,536	149,736
Special Tax Regularization Program (PERT) [1]	693,170	43,777
Total	**1,251,565**	**421,646**

[1] At 12.31.2018, refers to the debits payable in installments established by Law 13,496/2017, and consolidated through a non-financial company acquired on April 13, 2018.

16. Property and equipment in use and intangible assets

a) Breakdown

	12.31.2018			12.31.2017		
	Cost	Accumulated depreciation / amortization	Property and equipment, net	Cost	Accumulated depreciation / amortization	Property and equipment, net
Property and equipment	**545,641**	**(168,568)**	**377,073**	**374,686**	**(121,493)**	**253,193**
Facilities, furniture and equipment in use	183,783	(48,390)	135,393	164,671	(35,499)	129,172
IT and data processing equipment	240,057	(86,669)	153,388	124,463	(58,233)	66,230
Property and equipment in progress	42,635	–	42,635	8,497	–	8,497
Other	79,166	(33,509)	45,657	77,055	(27,761)	49,294
Intangible assets – Software	**232,430**	**(91,080)**	**141,350**	**213,729**	**(79,772)**	**133,957**

b) Changes

	Property and equipment		Intangible assets	
	2018	2017	2018	2017
Balance at the beginning of the period	**253,193**	**194,623**	**133,957**	**93,816**
Acquisitions	177,109	90,612	49,750	77,891
Write-off for disposals	(3,076)	(1,896)	–	–
Foreign exchange variations and transfers	(1,240)	(1,080)	19	(180)
Depreciation / amortization expenses – Note 13(d)	(48,913)	(29,066)	(42,376)	(37,570)
Balance at the end of the period	**377,073**	**253,193**	**141,350**	**133,957**

17. Equity

a) Shares

Banco Safra S.A.'s capital is represented by 15,301 (15,301 as at 12.31.2017) registered shares, with no par value, out of which 7,651 (7,651 as at 12.31.2017) are common shares and 7,650 (7,650 as at 12.31.2017) are preferred shares.

At the Annual and Extraordinary Shareholders' Meeting held on December 14, 2018, the increase in the company's capital was approved, pending approval from BACEN, in the amount of R$ 2,063,650, R$ 774,296 of revenue reserves and R$ 1,289,354 related to receivables from Dividends and Interest on capital– Note 17(b). Additionally, the repurchase of one registered common share of the Company was authorized, with the use of profit held in Special Reserve and without reduction in Capital.

Ownership interest:

Shareholders	Amount	%
Joseph Yacoub Safra (resident abroad)	15,296	99.97
Non-controlling interests	4	0.03
Treasury	1	–
Total	**15,301**	**100.00**

b) Dividends and Interest on capital

The stockholders are entitled to an annual minimum mandatory dividend, as provided in the Bylaws, equivalent to 1% and 2% of the capital corresponding to common and preferred shares, respectively.

At the Annual and Extraordinary Shareholders' Meeting held on December 14, 2018 dividends in the amount of R$ 732,873 and interest on capital in the amount of R$ 654,683 were declared, which deducted for Withholding Income Tax results in the net total of R$ 556,481, retained for capital increase – Note 17(a).

c) Revenue reserves

	12.31.2018	12.31.2017
Reservas de lucros	**1,069,185**	**1,086,001**
Legal	122,466	195,820
Special [1]	946,719	890,181

[1] Reserve recognized to enable the saving of resources for future contribution of these funds to capital, payment of interim dividends, maintaining operating margin compatible with the development of the company's operations and / or expansion of its activities.

d) Carrying value adjustment of available-for-sale financial assets

I. Changes in adjustment of the financial assets:

	01.01. to 12.31.2018	01.01. to 12.31.2017
At the beginning of the period	**30,155**	**17,663**
Adjustment from changes in fair value – Notes 7(a-IV) and 17(d-II)	(23,722)	12,492
Available-for-sale securities – Note 7(d)	(40,542)	24,593
Change in fair value in the period	(2,525)	112,887
Transfer of category – Note 7(a-IV)	(16,679)	-
Profit /(loss) on sale of securities – Note 7(a-IV)	(21,338)	(88,294)
Tax effect	16,820	(12,101)
At the end of the period	**6,433**	**30,155**
Gross amount – Notes 7(a-I) and (d)	8,323	48,865
Tax effect – Note 15(b)	(1,890)	(18,710)

II. Statement of comprehensive income:

	2018	2017
Net income	**2,145,758**	**1,914,581**
Available-for-sale financial assets – Note 17(d-I)	(23,722)	12,492
Net change in unrealized gains / (losses)	(18,157)	57,341
Change in period at fair value	(2,525)	112,887
Transfer of category - Note 7(a-IV)	(16,679)	–
Tax effect	1,047	(55,546)
Realized gains transferred to income for the period	(5,565)	(44,849)
Profit /(loss) on sale of securities – Note 7(a-IV)	(21,338)	(88,294)
Tax effect	15,773	43,445
Comprehensive income	**2,122,036**	**1,927,073**

18. Risk and capital management

Banco Safra carries out risk management by using the methodology of three lines of defense, and has a set of procedures, aligned with the best market practices, that ensure the compliance with legal and regulatory provisions and its internal policies.

On Banco Safra's website (www.safra.com.br), information on risk management frameworks, established by BACEN Circular 3,678/13 and capital management framework, established by Bacen Resolution 3,988/11, revised by CMN Resolution 4,557/17, is available.

The CMN Resolution 4,553/2017 divided financial institutions into five segments, according to the level of assets and relevance of international activities, Banco Safra being classified as S2. The CMN Resolution 4,557/2017 introduced the concept of integrated risk management, which involves the interrelationship between the processes of finance, business, and risk and capital management. It is also worthy of note that, in compliance with the regulation, the Superior Risk Committee was created, comprising three members, and aimed at assisting the Board of Directors in fulfilling its responsibilities related to the integrated risk and capital management. In addition, the appointment of the Chief Risk Officer (CRO) was formalized, who will report to the Superior Risk Committee and Board of Directors, as well as the creation of an integrated risk management unit. A Formal Risk Appetite Statement (RAS) is also included in Safra's risk management framework, and considers the key indicators, metrics and principles that guide the carry out of Safra's businesses and risk control. The RAS is periodically monitored by the Executive Officers and Superior Risk Committee, and approved by the Board of Directors.

Banco Safra will proceed with the Internal Capital Adequacy Assessment Process (ICAAP), giving continuity to the process initiated in 2012. This process, regulated by the Brazilian Central Bank, involves the evaluation of all procedures and processes related to risk and capital management in all hierarchical levels, including a forward-looking capital plan for a minimum period of three years. In addition, Safra participates, together with the other outstanding financial institutions, in the Bottom-Up Stress Test (TEBU) of the Brazilian Central Bank, which started in 2017. The objective of these processes is to bring greater solidity and security to the National Financial System, besides anticipating possible adjustments necessary to maintain the proper functioning of the market.

a) Credit risk

As defined in Art. 21 of Resolution 4,557/2017, credit risk is the possibility of incurring losses associated with the (i) breach, by the counterparty, of its obligations under the agreed-upon terms, (ii) devaluation, reduction in expected remunerations and gains on financial instrument arising from the impairment of the credit quality of the counterparty, intervening party or other mitigating instrument, (iii) restructuring of financial instruments, or (iv) recovery costs of exposures characterized as problem assets. The credit risk definition comprises, among others:

I. the credit risk of the counterparty, understood as the possibility of breach, by a certain counterparty, of the obligations related to the settlement of transactions that involve the negotiation of financial assets, including those related to the settlement of derivative financial instruments;

II. the country risk, understood as the possibility of losses associated with the breach of financial obligations under the terms agreed-upon by the borrower or counterparty located abroad as a result of the actions taken by the government of the country where the borrower or counterparty is located, and the transfer risk, understood as the possibility of encountering obstacles to exchange remittance of the received amounts;

III. the possibility of incurring disbursements for meeting guarantees, sureties, co-obligations, credit commitments or other transactions of similar nature; and

IV. the possibility of losses associated with the breach of financial obligations under the terms agreed-upon by the intermediary or appropriate party of credit operations.

With the intention of maintaining Banco Safra's credit risk at levels consistent with the traditional conservatism and recognized agility in decision making, it has management policies which main characteristic is the adjustment of the credit product to the customer profile.

Additionally, Banco Safra has a Credit Risk Management Committee, which concentrates the Credit Risk governance to ensure the overview of the credit cycle. To ensure the necessary independence for its operations, this committee is comprised of the CRO, Executive Officers and Superintendents with the following responsibilities: (i) analyze in detail the credit portfolios, (ii) follow up the concentration limits, (iii) define methodologies for calculating credit risk and stress testing, (iv) define the metrics for determining risk, (v) guarantee the strategic alignment among the areas and a systemic view of Credit Risk, (vi) guarantee a forum for technical

discussion to make the evaluation of impacts regarding significant changes in policies, credit model and strategies involving credit cycle, (vii) follow up the performance of the Conglomerate's credit portfolio, in order to guarantee its quality, as well as reformulate policies, if necessary, (viii) approve the key indicators to control exceptions to policies, (ix) follow up the performance of the score models used in the decision-making process, and (x) follow the criteria adopted for stress testing and the obtained results.

b) Liquidity risk

It is defined, in Art. 37 of Resolution 4,557/2017, as (i) the possibility that the Entity is not able to efficiently meet its expected and unexpected current and future obligations, including those arising from the link to guarantees, not affecting its daily operations, and without incurring significant losses; and (ii) the possibility that the Entity is not able to negotiate a position at market price, because of its large size in relation to the usual transaction volume or in view of any discontinuity in the market.

In Banco Safra, liquidity risk management is aimed at managing its cash flow to assure the solvency of the commitments assumed taking into account at least four liquidity scenarios: Basic, Run Off, Stress and Hard Stress, and is widely supported by internal policies that meet the regulation in effect.

In addition, Asset and Liability Management Committees (ALCO) are held, which relies on the participation of the CRO, Executive Officers and Superintendents, quarterly, and is aimed at (i) liquidity risk management, (ii) evaluation of cash flow projections , and (iii) analysis of the liquidity risk in alternative scenarios, including stress situations.

c) Market risk

As defined in Art. 25 of Resolution 4,557/2017, market risk is the possibility of incurring losses arising from fluctuations in the market values of the instruments held by the Entity. It includes (i) the risk of change in interest rates and stock prices, for instruments classified into trading portfolio; and (ii) the risk of change in foreign exchange and commodity prices, for instruments classified into trading or banking portfolio.

In relation to the IRRBB, Art. 28 of the aforementioned Resolution defines as current or prospective risk of the impact of adverse changes in interest rates on the capital and income of the Financial Entity, for instrument classified into the banking portfolio.

Banco Safra's market risk management is structured to guarantee that the risk of extreme losses, arising from price fluctuations, is duly controlled, remaining within the operating limits set by the senior management, according to the Entity's internal policies.

For such purpose, Banco Safra has the Finance and Treasury Committee, formed by the CRO, Executive Officers and Superintendents, which meets at least monthly to take resolutions on accounting hedge and regulatory, methodology and new product issues that involve Treasury strategies and the Risk and Finance areas. Additionally, it addresses Market Risk management aspects, by setting and reviewing operating limits, following up metrics in effect, besides taking resolutions on possible extrapolations of limits or triggers and approval of New Products of Treasury Strategy. Its attributions are (i) follow up the use of market risk limits, (ii) approval of accounting hedge strategies and their effectiveness tests, (iii) follow up the amounts noted in embedded losses and gains, (iv) discussion about proposals for methodology or limit review related to market risk.

Banco Safra maintains its total exposure to market risks according to the limits set in the Risk Appetite Statement (RAS). In addition, Banco Safra performs the market risk management by using operating limits and other practices that maintain the exposure levels consistent with its internal standards and policies, that are as follows: (i) VaR (Value at Risk), (ii) Stress Testing, (iii) Stop Loss, (iv) Year Equivalent and DV01, (v) Notional, (vi) Consumption of market risk capital in relation to total capital, and (vii) delta EVE and delta NII.

d) Sensitivity analysis (Trading and Banking Portfolio)

In accordance with the criteria for classification of operations provided in CMN Resolution 3,464/2007, BACEN Circular 3,354/2007 and the Basel II New Capital Accord, financial instruments are divided into Trading and Banking portfolios.

Trading Portfolio comprises all operations, including derivatives, held with the intent of trading or hedging other financial instruments of this strategy. They are transactions for resale, obtaining price difference benefits, either actual or expected, or for arbitrage. This portfolio has strict limits and is controlled on a daily basis by the risk areas.

Banking portfolio covers all operations that do not fit into Trading portfolio, and are typically banking operations of the Entity's business lines and the respective hedges that may or may not be made through the use of derivative financial instruments.

The sensitivity analysis below is a simulation that does not take into consideration management's power to respond to the considered scenarios, which would certainly mitigate the losses that would be incurred. In addition to this, the impact presented below does not represent accounting losses as the methodology used is not based on Safra's accounting practices.

Trading portfolio at 12.31.2018

		Scenarios		
Risk factors	**Risk of Variation in**	**1**	**2**	**3**
Stocks	Variation in stock prices	(2,098)	(52,459)	(104,918)
Commodities	Variation in commodity prices	(5)	(126)	(251)
Coupon and currencies	Foreign currency coupon rate and foreign exchange rate variation	(113)	(4,273)	(8,397)
Fixed income	Variation in interest rates denominated in real	(2)	(1,128)	(1,581)
Options	Variation in the market value of options	(1,172)	(29,973)	(59,863)
	Total	**(3,390)**	**(87,959)**	**(175,010)**

Trading and Banking portfolio at 12.31.2018

		Scenarios		
Risk factors	**Risk of Variation in**	**1**	**2**	**3**
Stocks	Variation in stock prices	(2,098)	(52,459)	(104,918)
Commodities	Variation in commodity prices	(5)	(126)	(251)
Coupon and currencies	Foreign currency coupon rate and foreign exchange rate variation	(3,599)	(129,645)	(257,909)
Fixed income	Variation in interest rates denominated in real	(954)	(169,845)	(329,921)
Options	Variation in the market value of options	(1,172)	(29,973)	(59,863)
	Total	**(7,828)**	**(382,048)**	**(752,862)**

The sensitivity analysis was carried out using the following scenarios:

- Scenario 1: Stress of one basis point in the interest rates, and 1% in price variations based on market information (B3, Anbima etc.). Example: the Real / Dollar rate used was R$ 3.9102 and the 1 year fixed rate was 6.56% p.a.
- Scenario 2: Stress of 25% in the respective curves or prices, based on the market. Example: the Real / Dollar rate used was R$ 4.8394 and the 1 year fixed rate was 8.19% p.a.
- Scenario 3: Stress of 50% in the respective curves or prices, based on the market. Example: the Real / Dollar rate used was R$ 5.8073 and the 1 year fixed rate was 9.82% p.a.

e) Fair value of financial assets and liabilities

I. Methodology for calculating Fair value:

The fair value of financial instruments is determined based on the price that would be received to sell an asset or paid to transfer a liability in a transaction conducted between independent participants at the measurement date, without bias. There are different levels of data that must be used to measure the fair value of financial instruments: the observable data that reflects quoted prices for identical assets or liabilities in active markets (Level 1), the data that is directly or indirectly observable as similar assets or liabilities (Level 2), identical assets or liabilities in illiquid markets and unobservable market data that reflect the very assumptions of Safra when pricing an asset or liability (Level 3). It maximizes the use of observable inputs and minimizes the use of unobservable inputs to determine fair value.

To arrive at an estimate of fair value of a financial instrument measured based on unobservable markets, which includes, for example, low-liquidity financial instruments, Safra first determines the appropriate model to be adopted, based on all material information, including but not limited to, yield curves, interest rates, volatilities, difference between quoted and effective prices, prices of interest in capital or debt, exchange rates and credit curves.

In the case of financial instruments not traded in stock exchange, Safra uses its best judgment to determine the appropriate level of adjustments for determining a market price that best reflect the probable realization value of the financial instrument, taking into account the counterparty's credit quality, the actual amount of credit, liquidity constraints and unobservable parameters when relevant. Although it is believed that the valuation techniques are appropriate and consistent with those in the market, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date and / or settlement date.

II. Classification by level of financial assets and liabilities at fair value

	12.31.2018 [1]		
	Level 1	**Level 2**	**Total**
Securities Portfolio [2] – Note 7(a-I)	**20,344,298**	**17,217,338**	**37,561,636**
Government securities	20,333,269	–	20,333,269
Securities issued by Financial Institutions	–	2,333,539	2,333,539
Securities issued by Companies	11,029	14,883,799	14,894,828
(–) Securities designated to Hedge Market Risk [3]	–	**(5,004,816)**	**(5,004,816)**
Funds guaranteeing technical reserves for insurance and private pension – Note 7(b)	**14,922,255**	–	**14,922,255**
Private pension	14,539,441	–	14,539,441
Repurchase agreements	22,859	–	22,859
Government securities - National treasury	14,072,346	–	14,072,346
Corporate securities	445,326	–	445,326
Other	(1,090)	–	(1,090)
Insurance - Government securities – National treasury – National Treasury Bills	214,479	–	214,479
DPVAT fund quotas – Government securities	168,335	–	168,335
Derivative financial instruments – Assets – Note 7(c-I(1))	**133,519**	**673,899**	**807,418**
Non Deliverable Forward – NDF	–	37,085	37,085
Option premiums	–	124,485	124,485
Forward – Government securities	133,519	–	133,519
Swap – amounts receivable	–	443,783	443,783
Credit derivatives (CDS)	–	68,735	68,735
Credit risk – Notes 3(f) and 8(a)	–	(189)	(189)
Derivative financial instruments – Liabilities – Note 7(c-I(1))	**(133,519)**	**(632,161)**	**(765,680)**
Non-deliverable forwards (NDF)	–	(34,726)	(34,726)
Option premiums	–	(96,758)	(96,758)
Forward – Government securities	(133,519)	–	(133,519)
Swap – amounts payable	–	(432,417)	(432,417)
Credit derivatives (CDS)	–	(59,896)	(59,896)
Regulatory adjustments – CMN Resolution 4,277/2013	–	(8,364)	(8,364)
Obligations related to unrestricted repurchase agreements – Gov. securities – Note 9(b)	**(6,154,410)**	–	**(6,154,410)**
Strategy – Market risk hedge - Note 7(e)	–	**42,457,903**	**42,457,903**
Fixed rate portfolio		29,671,079	29,671,079
Assets – Credit operations – Note 8(a-I)	–	35,566,355	35,566,355
Liabilities – Funding	–	(5,895,276)	(5,895,276)
Repurchase agreements – fixed rate	–	12,671,112	12,671,112
IPCA portfolio	–	1,669,136	1,669,136
Asset – Marketable securities – Available for sale – Debentures – Note 7(a-I)	–	4,702,310	4,702,310
Liabilities – Funding	–	(3,033,174)	(3,033,174)
Marketable securities – Available for sale – Eurobonds – Note 7(a-I)	–	5,004,816	5,004,816
Structured funding – Structured CD	–	(1,357,622)	(1,357,622)
Liabilities for marketable securities abroad	–	(2,036,927)	(2,036,927)
Subordinated debt – Medium term notes	–	(3,163,691)	(3,163,691)

[1] No transaction was classified into level 3.

[2] Of these amounts, R$ 21,684,113 refer to trading securities (R$ 20,344,298 classified in level 1 and R$ 1,339,815 in level 2) and R$ 15,877,523 refer to available-for-sale securities (R$ 15,877,523 in level 2).

[3] Reclassification of the amount related to the securities designated to hedge market risk (Eurobonds).

f) Foreign exchange exposure

The amounts of exposure to gold, foreign currency, and assets and liabilities subject to foreign exchange variations, including derivative financial instruments and permanent investments abroad, reported to the legal authorities are:

I. Statement of financial position

PER CURRENCY		12.31.2018		
Assets	**BRL**	**Strong currencies [1]**	**Other currencies**	**Total**
Cash	164,294	525,448	10,151	699,893
Central Bank compulsory deposits	8,201,479	96,868	–	8,298,347
Interbank investments, Marketable securities and Derivative financial instruments	74,797,457	7,897,951	–	82,695,408
Funds guaranteeing technical reserves for insurance and private pension	14,922,255	–	–	14,922,255
Transactions with credit characteristics	58,734,312	10,362,887	–	69,097,199
Other financial assets	2,868,724	335,248	–	3,203,972
Other receivables and Other assets	2,712,646	11,574	–	2,724,220
Property and equipment and Intangible assets	525,614	23	–	525,637
Total Assets	**162,926,781**	**19,229,999**	**10,151**	**182,166,931**
Long position- Future foreign exchange coupon - Note 7(c-II(1))	13,236,012	2,041,774	–	15,277,786
Futures	227,867	1,451,750	–	1,679,617
NDF - Note 7(c-II(1))	305,624	1,711,984	–	2,017,608
Foreign Exchange swap	311,329	194,707	–	506,036
SWAP and SCS	1,840,348	10,058,049	30,861	11,929,258
Off Balance – Assets	**15,921,180**	**15,458,264**	**30,861**	**31,410,305**
Total Assets as at 12.31.2018 (A)	**178,847,961**	**34,688,263**	**41,012**	**213,577,236**
Liabilities	**BRL**	**Strong currencies [1]**	**Other currencies**	**Total**
Funds from funding and open-market funding and Derivative financial instruments	128,898,737	19,189,123	1	148,087,861
Insurance and private pension operations	14,921,952	–	–	14,921,952
Other financial liabilities	3,439,474	234,171	71	3,673,716
Other liabilities and Deferred income	3,683,876	7,866	–	3,691,742
Total Liabilities	**150,944,039**	**19,431,160**	**72**	**170,375,271**
Short position - Future foreign exchange coupon - Note 7(c-II(1))	2,041,774	13,236,012	–	15,277,786
Futures	98,803	1,554,264	26,550	1,679,617
NDF - Note 7(c-II(1))	1,298,984	718,624	–	2,017,608
Foreign exchange swap	194,707	311,329	–	506,036
SWAP and SCS	10,088,910	1,840,348	–	11,929,258
Off Balance – Liabilities	**13,723,178**	**17,660,577**	**26,550**	**31,410,305**
Total Liabilities at 12.31.2018 (B)	**164,667,217**	**37,091,737**	**26,622**	**201,785,576**
Net exposure – Equity (C) = (A) – (B)	**14,180,744**	**(2,403,474)**	**14,390**	**11,791,660**
"Over Hedge" of investment abroad – Note 18(f-II)	(2,739,772)	2,739,772	–	–
Net position – Long/(Short) as at 12.31.2018	**11,440,972**	**336,298**	**14,390**	**11,791,660**
Net position – Long/(Short) as at 12.31.2017	**10,134,888**	**(455,185)**	**88,845**	**9,768,548**

[1] Strong currencies are considered to be the US dollar, Canadian dollar, euro, Swiss franc, yen, and pond Sterling, the same concept adopted by Circular Bacen 3,641/2013, which provides for the procedures to make the calculation of the amount of risk-weighted assets for the assets subject to foreign exchange exposure.

II. "Over Hedge" of *investments abroad*

To ensure 100% of the effectiveness of the foreign exchange hedge of investments abroad, Safra contracts an amount sufficiently greater of derivatives in relation to the foreign exchange exposure posed ("Over Hedge"), in order to offset, in income, the corresponding tax effects. The foreign exchange exposure adjustment for this position is regulated by BACEN Circular 3,641/2013.

The foreign exchange variations of the excess of purchased derivatives ("Over Hedge") are recorded as derivative income, as provided in the rules, affecting the gross financial margin of the entity.

Given the economic rationale of the operation, the statement of income lines, reclassified considering the foreign exchange hedge strategy adopted by Safra, are as follows Safra:

	2018			2017		
	Recorded	***Over hedge adjustment***	**Adjusted balance**	**Recorded**	***Over hedge adjustment***	**Adjusted balance**
INCOME (EXPENSES) FROM DERIVATIVE FINANCIAL INSTRUMENTS – NOTE 12(A)	(527,627)	379,444	(148,183)	39,107	30,320	69,427
TAX EXPENSES OF OPERATIONS – NOTE 15(A-II)	(487,705)	(37,107)	(524,812)	(430,980)	(2,965)	(433,945)
NET INCOME FROM OPERATIONS	**6,165,177**	**342,337**	**6,507,514**	**5,477,022**	**27,355**	**5,504,377**
INCOME BEFORE TAXES	**2,895,349**	**342,337**	**3,237,686**	**2,638,484**	**27,355**	**2,665,839**
INCOME TAX AND SOCIAL CONTRIBUTION – Note 15(a-I)	(749,591)	(342,337)	(1,091,928)	(723,903)	(27,355)	(751,258)
NET INCOME	**2,145,758**	–	**2,145,758**	**1,914,581**	**–**	**1,914,581**

g) Operational risk

Defined by Art. 32 of Resolution 4,557/2017, operational risk is the possibility of incurring losses resulting from external events or failure, deficiency or inadequacy of internal processes, people and systems. Among the operational risk events, the following is included: (i) internal frauds, (ii) external frauds, (iii) labor claims and deficient occupational safety, (iv) inappropriate practices related to customers, products and services, (v) damages to own physical assets or asset in use by the Entity, (vi) situations that cause disruption to the Entity's activities, (vii) failures in the Information Technology (IT) systems, processes or infrastructure, and (viii) failures in the execution, timing and management of the Entity's activities.

This definition included the legal risk associated with the inadequacy or deficiency in the contracts signed by the Entity, sanctions in view of the breach of legal provisions, and damages to third parties arising from the activities performed by the Entity.

In Banco Safra, the Operational Risk governance is structured not only by policies, processes and procedures, but also by the dissemination of the culture of operational risk prevention in its entire organization, and awareness of each employee, regardless of position or duty, of everybody's responsibility for risk management during the performance of their duties in day-to-day activities.

In addition, the Operational and Compliance Risk Management Committee (CGROC), which relies on the participation of the CRO, Executive Officers and Superintendents, meets quarterly, or in a shorter period if necessary, and takes resolutions on matters related to Operational Risk, Internal Controls, Compliance, Money Laundering Prevention, Reputation Risk and Social and Environmental Risk.

The Operational Risk area is an independent control unit (UC), segregated from the unit that performs internal audit activities, and is also responsible for the application of the methodology described in the document "Classification of the Critical Level of Outsourced Services" and Going Concern Management.

h) Underwriting risk

According to Art. 35 of CNSP Resolution 321, underwriting risk is defined as the possibility of incurring losses which may be contrary to the overseen institution's expectations directly or indirectly associated with the technical bases used for the calculation of premiums, contributions, quotas and technical reserves.

Safra has a risk underwriting policy that describes all the rules on risk analysis and acceptance, besides the guidelines for the risks subject to previous analysis, as well as the excluded risks.

Risk assessment involves the activities described below:

I. Creation of new products;
II. Devising of acceptance policies;
III. Negotiation of Reinsurance arrangements and of conditions and fee for individual policies;
IV. Follow-up and assessment of the co-insurance conditions; and
V. Technical support to customers and representatives.

Banco Safra also adopts a policy on transfer of risks in reinsurance and coinsurance, thus preventing claims with low rates and high value from affecting the stability

of income. The changes in life or mortality expectations, which directly affect the assumed risk, are controlled through a periodical follow-up carried out by the actuarial area of Safra and its result is reflected, if necessary, in the adjustments of technical reserves.

The main insurance lines operated by Safra are: comprehensive, D&O, surety bond, other property and casualty, credit life insurance, accident and life insurance and DPVAT. In the private pension segment, the main products are: VGBL and PGBL.

The main business risk of insurance operations is the loss ratio change. The main business risks of private pension operations are the change in interest rate, life expectancy, and the likelihood of conversion of the accumulated fund into income.

i) Capital management

Banco Safra's capital management aim is to manage the Prudential Conglomerate's equity in view of the risks associated with its operations.

It includes the following aspects:

- Fulfillment of the regulatory requirements of the banking markets where it operates;
- Safeguard its operating capacity so that it continues providing return to stockholders; and
- Maintenance of a solid capital base to support the development and sustainability of its business.

Capital adequacy and the use of regulatory capital are monitored by Banco Safra, through techniques based on guidelines established by the Basel Committee, as implemented by the Brazilian Central Bank (BACEN), for oversight purposes. The required information is submitted to the appropriate body on a monthly basis.

The bank authority requires that each Bank or group of bank institutions maintain a minimum regulatory capital of 10.5%. Banco Safra's regulatory capital is divided into two tiers (I and II) and additional capital buffer:

Tier I capital - share capital, retained earnings and reserves set up for the appropriation of retained earnings of funding instruments eligible to Additional Capital – Tier I;

Tier II capital - funding instruments eligible to Tier II Capital; and

Additional capital buffer, comprising the following portions: Capital Conservation Buffer, Countercyclical Buffer, and Systemic Important Institution Buffer, considering that only the Capital Conservation Buffer is currently required. The Systemic Important Institution Buffer is not applicable to Banco Safra, as it is classified as S2.

Risk-weighted assets are measured according to the nature of each asset and its contra-entry, reflecting estimated market, operational, and credit risks and other associated risks. A similar treatment is adopted for the exposure that is not accounted for, with some adjustments being made to reflect the more contingent nature of potential losses.

19. Related-party transactions

a) Management remuneration

In corporate documents recorded for 2018, the annual total management's remuneration is set at R$ 137,950 (R$ 134,200 in 2017). The remuneration received by management amounts to R$ (119,791) (R$ (119,298) in 2017).

The Group does not have any long-term benefits, termination benefits, or share-based payment arrangements for any key management personnel.

b) Related-party transactions

Transactions between related parties are disclosed in accordance with CMN Resolution 4,636/2018. These are arm's length transactions, in the sense that their amounts, terms and average rates are those usual in the market on the respective dates.

Intercompany transactions were eliminated for the purposes of the consolidated financial statements and continue to be considered void of risk.

	Assets / (liabilities)		Income / (Expenses)	
	12.31.2018	12.31.2017	2018	2017
Cash – Note 4	**224,897**	**134,423**	**1**	**53**
Grupo J. Safra Sarasin	207,274	122,816	1	53
Safra National Bank of New York	17,623	11,607	–	–
Foreign currency investments – Note 5 – Safra National Bank of New York	**1,677,401**	**1,665,024**	**35,459**	**4,408**
Demand deposits /savings deposits – Note 9(a)	**(15,163)**	**(13,404)**	–	–
Time deposits – Note 9(a)	**(603,245)**	**(988,065)**	**(15,348)**	**(3,323)**
Grupo J. Safra Sarasin	(230,563)	(253,230)	(1,365)	(1,429)
Safra National Bank of New York	(372,682)	(734,835)	(13,983)	(1,894)
Open-market funding – Debentures – Note 9(b)	–	**(576)**	–	**(632)**
Funds from acceptance and issue of securities – Note 9(c)	**(126,754)**	**(67,186)**	**(11,300)**	**(2,293)**
Funds from financial bills, bills of credit and similar notes	(126,754)	(947)	(11,300)	(100)
Commercial leasing bills	(125,258)	-	(11,250)	–
Debentures	(934)	(947)	(12)	(99)
Bank deposit certificate	(562)	(512)	(38)	(22)
Liabilities for marketable securities abroad – Grupo J. Safra Sarasin	–	(66,239)	–	(2,193)
Negotiation and intermediation of securities (Assets and Liabilities) – Note 11(b)	**(1,000)**	**158**	–	–
Safra Securities	–	324	–	–
Other companies	(1,000)	(166)	–	–
Subordinated debts –Note 9(f) – Andromeda Global Strategy Fund Ltd. – Exclusive Fund	**(1,162,377)**	**(990,733)**	**(77,280)**	**(67,273)**
Insurance commissions – Canárias Corretora de Seguros S.A.	**(2)**	**(13)**	**(63)**	**(98)**
Other	**38**	–	**3,739**	**2,196**
Administrative expenses	–	–	**(113,268)**	**(109,251)**
Rent expenses – Note 13(d)	–	–	(113,058)	(109,139)
Exton Participações Ltda.	–	–	(39,634)	(39,611)
J. Safra Participações Ltda.	–	–	(21,467)	(22,304)
Kiama S.A.	–	–	(33,575)	(29,112)
Lebec Participações Ltda.	–	–	(10,013)	(9,996)
Other companies	–	–	(8,369)	(8,116)
Other	–	–	(210)	(112)
Rental income – Casablanc Representação e Participação Ltda.	–	–	**102**	**102**
Operations with investment funds – Note 9(g)				
Open market investments – Gov. securities – Note 5	–	1,686,513	4,907	41,901
Open market funding – Gov. securities – Note 9(b)	(26,875,397)	(15,256,997)	(767,623)	(2,257,485)
Funds from acceptance and issue of securities - Financial bills [1] – Note 9(c)	(2,137,055)	(1,107,351)	(76,734)	(45,159)
Revenue from management and administration of investment funds	–	–	1,133,134	919,467
Consolidated companies – Note 9(g)	–	–	1,059,680	845,846
Related parties – Note 9(g)	–	–	73,454	73,621

[1] Of this amount, R$ 386,882 (R$ 360,267 as at 12.31.2017) refers to subordinated financial bills.

20. Other information

a) Insurance policy

Banco Safra and its subsidiaries, despite having a reduced risk level in view of the physical non-concentration of assets, have the policy of insuring their amounts and assets at amounts considered adequate to cover any possible claims.

b) Audit committee

The Audit Committee ("Committee") of Banco Safra S.A., is a statutory body that operates on permanent basis in compliance with the provisions of Resolution 3,198, of 05.27.2004, of the National Monetary Council ("CMN") and Resolution 312, of 06.16.2014, of the National Council of Private Insurance ("CNSP").

The Committee shall directly report to the Board of Directors and is composed of 5 (five) members, of which 03 (three) are executive officers of the Company and 02 (two) are independent members.

Summary report of audit committee

The Audit Committee ("Committee") of Banco Safra S/A, hereinafter referred to as "SAFRA", is a permanent statutory body that operates in accordance with the National Monetary Council Resolution (CMN) 3,198, of May 27, 2004, and the National Council of Private Insurance (CNSP) Resolution 312, of June 16, 2014.

The Committee directly reports to the Board of Directors, which is comprised of five members, of which three are Executive Officers of the Company and two are independent members.

The Committee undertakes its activities based on the provisions of its internal rules and bylaws.

Among the evaluation and oversight works carried out in the second half of 2018, the Committee held periodic monthly meetings with agendas established beforehand, as follows:

a) Holding of meetings with the Internal and External Audits aimed at analyzing the works performed by them;
b) Approval of the Financial Statements of Banco Safra and its subsidiaries (Corporate Consolidated) and individual companies;
c) Approval of the Consolidated Financial Statements of the Company according to the IFRS and of the Prudential Conglomerate;
d) Examination of the Ombuds report about measures for correcting or improving procedures and routines, as a result of the analysis of the complaints received;
e) Ratification from the Executive Officer responsible for the Ombuds Service that there was no case of whistleblowing of material frauds over the period;
f) Participation of the independent members of this Audit Committee in the Operational and Compliance Risk Management Committee (CGROC), where the following themes were addressed: (i) Internal Controls; (ii) IT Internal Controls; (iii) Operational Risk; (iv) Social and Environmental Risk; and (v) Support to Regulatory Authorities and External Audit; and (vi) Money Laundering Prevention;
g) Examination of the Risk Management Framework and Capital Management Framework, according to CMN Resolution 4,557/17, art. 45, paragraph 7;
h) Examination of the Compliance Policy, according to CMN Resolution 4,595/17, item VIII of art. 5;
i) Approval of the planning of Audit Committee meetings for the year 2019;
j) Approval of the work plan of the Internal and External Audits for the year 2019;
k) Keeping up with, follow-up and monthly reporting of the issues pointed out by Regulatory Bodies, the External Audit, and the Operational Risk and Internal Controls areas, by means of the Regular Internal Controls Committee (CCI); and
l) Keeping up with and follow-up of the results of the inspections of the Brazilian Central Bank (BACEN).

In view of the results of the works it carried out, the Audit Committee recommends that the Board of Directors approve the consolidated financial statements dated January 31, 2019, related to the period ended December 31, 2018.

São Paulo, January 31, 2019.

Independent auditor's report

To the Management and Shareholders of
Banco Safra S.A.

Opinion

We have audited the accompanying consolidated financial statements of Banco Safra S.A. and its subsidiaries ("Consolidated" or "Banco Safra"), which comprise the consolidated balance sheet as at December 31, 2018, and the related consolidated statements of income, of changes in equity and of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Banco Safra S.A. and its subsidiaries as at December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended, in accordance with accounting practices adopted in Brazil applicable to financial institutions authorized to operate by the Central Bank of Brazil - BACEN.

Basis for opinion

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report. We are independent of Banco Safra and its subsidiaries in accordance with the relevant ethical requirements in the Code of Ethics for Professional Accountants and the professional standards issued by the Brazilian Federal Accounting Council (CFC), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key audit matters ("KAM")

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

Hedge accounting

Why is it a KAM?

Banco Safra held derivatives designated as hedging instruments of fair value hedge to protect it against market change on foreign currency and/or interest rate, including a portfolio hedge of interest rate risk (see note 7.(e) to the consolidated financial statements). According to Circular BACEN 3082/02, to designate and maintain hedge accounting, Banco Safra has to meet certain conditions on a cumulative basis, such as providing evidence of the transaction effectiveness since its inception and during its course. Due to the matter complexity and high-level estimates in measuring fair values of hedged financial assets and financial liabilities, we dedicated significant efforts in the audit work, including involvement of senior members of our audit team to analyze the hedge effectiveness and adequacy of the documentation, policies, designated transactions and effectiveness tests.

How the KAM was addressed in our audit?
Our audit procedures included, but were not limited to: (a) understanding, together with Management, the hedge and macro hedge strategies implemented at Banco Safra; (b) analyzing the designation documentation and policies prepared by Management with respect to hedging structures, including the hedged risk description, and detailed transaction information, stressing the risk management process and methodology applied to assess the hedge effectiveness since the transaction inception; (c) analyzing the hedge structure effectiveness tests designed by Management; and (d) reviewing the financial statements, considering the minimum disclosures required, as shown in note 7 to the consolidated financial statements.

Conclusion from the assessment
Considering the policy, the criteria adopted to meet the strategies and the processes of effectiveness analysis of the structures and the hedge accounting disclosures made by Management, the result of our procedures was considered appropriate in the context of the consolidated financial statements taken as a whole.

Impairment of financial assets and extended loan portfolio - lending transactions and securities issued by the private sector (private securities)
Why is it a KAM?
Banco Safra held credit operations and investment in private securities held to collect cash flows from interest and principal of these financial assets, similarly to credit operations (extended credit portfolio). Accordingly, credit risks are treated similarly to the credit operations when assessing credit losses on those securities (impairment). For this reason, Banco Safra develops models of allowance for credit losses for the Group's credit transactions and investments in private securities, recognizing, when necessary, an allowance to cover the credit risk deriving from its credit portfolio and private securities as shown in notes 3.f) and 8 to the consolidated financial statements. In view of the complexity of the model of allowance for loan losses, the use of estimates and high level of judgment by Management when determining the allowances recognized, we dedicated significant efforts in the audit work, including by involving the work of senior members of our team, because we considered the matter as relevant to our audit work.

How the KAM was addressed in our audit?
Our audit procedures included, but were not limited to: (a) understanding the provisioning criteria adopted by Banco Safra for the extended credit portfolio; (b) reading Banco Safra's provisioning policy adopted for the extended credit portfolio; (c) involving experts in reviewing the models used; (d) reviewing and testing internal controls over the rating assignment process; (e) analyzing the provisioning criteria designed for credit portfolio on a sample basis; (f) analyzing the total provisioning level of portfolios and challenging the criteria used in the Banco Safra's policy; and (g) conducting a research, on a sample basis, on the default of these issuers in the market and at Banco Safra with respect to private securities.

Conclusion from the assessment
Considering the policy and the criteria adopted by Management to determine the allowance for loan losses, the result of our procedures was considered appropriate in the context of the consolidated financial statements taken as a whole.

Fair value of financial instruments
Why is it a KAM?
Banco Safra applies a methodology for calculating the market value of financial instruments developed internally, when there are no observed trading prices in the active market, or the assets have a low trading volume that does not represent the active market due to the low liquidity of the securities. The determination of the market value of financial instruments was considered a focus area in our audit due to its relevance in the context of the consolidated financial statements, the use of Management's judgment and the use of pricing techniques based on internal models that take into account observable data or market benchmarks. These financial instruments are substantially represented by derivative financial instruments and private securities. Disclosures on the fair value pricing methodology are included in note 3.e) to the consolidated financial statements.

How the KAM was addressed in our audit?
Our audit procedures included, but were not limited to: (a) understanding and testing the relevant internal controls to the determination of market value, recognition and disclosure of these financial instruments; (b) analyzing the mark-to-market policy with respect to the criteria for defining the existence of an active market; (c) verifying, on a sample basis, the low trading volume in front of the volume of total issuance of such securities; (d) understanding the mark-to-market methodology developed internally; and (e) reperforming the calculation on a sample basis.

Conclusion from the assessment
Considering the policy and the criteria adopted by Management in measuring the market value of these financial instruments, the result of our procedures was considered appropriate in the context of the consolidated financial statements taken as a whole.

Information technology environment
Why is it a KAM?
Banco Safra's operations rely on an information technology environment and infrastructure capable of supporting a high number of transactions daily processed in its information systems that are used to feed its accounting records. The information technology-related processes, associated to its controls, may possibly pose risks in relation to the processing and generation of critical information, including that used in the preparation of consolidated financial statements, which justify our consideration as a focus area in our audit in the context of the consolidated financial statements.

How the KAM was addressed in our audit?
With the support of our system audit specialists, we assessed the design of the general controls over the processing environment and tested the operating effectiveness of these controls related to information security, system development and maintenance and computing operation related to the infrastructure that supports Banco Safra's business.

Conclusion from the assessment
Based on the information technology environment processes and controls, associated with the abovementioned tests conducted, we consider the outcome of our procedures as appropriate in the context of the consolidated financial statements taken as a whole.

Other matters
Statements of value added
The consolidated statement of value added ("DVA") for the year ended December 31, 2018, prepared under Management's responsibility and presented as supplemental information, was subject to audit procedures performed together with the audit of the consolidated financial statements of Banco Safra and its subsidiaries. In forming our opinion, we evaluated whether this statement is reconciled with the financial statements and accounting records, as applicable, and whether its form and content are in accordance with the criteria set out in technical pronouncement CPC 09 - Statement of Value Added. In our opinion, this statement of value added was appropriately prepared, in all material respects, in accordance with the criteria set out in such technical pronouncement and is consistent in relation to the consolidated financial statements taken as a whole.

Other information accompanying the consolidated financial statements and the independent auditor's report
Management is responsible for such other information that comprises the Management Report, obtained prior to this report date, and the 2018's Annual Report, which should be provided after this report date.

Our opinion on the financial statements does not cover the Management Report and the 2018's Annual Report and we do not express, and will not express, any form of audit conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other

information identified above and, in doing so, consider whether such other information is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of such other information obtained prior to this report date, we will be required to report such fact. We have nothing to report in this regard.

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

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

In preparing the consolidated financial statements, Management is responsible for assessing Banco Safra and its subsidiaries' ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in the preparation of the consolidated financial statements, unless Management either intends to liquidate Banco Safra and its subsidiaries or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with Brazilian and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit conducted in accordance with Brazilian and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of Banco Safra.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of Banco Safra to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Banco Safra to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and, when applicable, related safeguards.

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

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

São Paulo, February 4, 2019

DELOITTE TOUCHE TOHMATSU
Auditores Independentes – CRC nº 2SP011609 /O-8

Luiz Carlos Oseliero Filho
Engagement Partner – CRC nº 1SP234751/O-6

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Safra

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Safra

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