

Banco Sumitomo Mitsui Brasileiro S.A.

Financial Statements as of December 31, 2018

(A free translation of the original report in Portuguese as published in Brazil containing financial statements prepared in accordance with accounting practices adopted in Brazil, applicable to institutions authorized to operate by the Central Bank of Brazil)

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Management Report

Dear Shareholders,

In compliance with the provisions of the law, we submit to your appreciation the financial statements for the year ended December 31, 2018, whose earnings in the year amounted to R\$ 42,875 (R\$ 55,613 of December 31, 2017), total assets R\$ 6,804,963 (R\$ 6,608,681 as of December 31, 2017) and the loans portfolio R\$ 1,047,721 (R\$ 1,927,687 as of December 31, 2017).

We remain at your disposal should you need any further clarifications, and we inform you that all accounting documents supporting these financial statements are at the Bank's head office.

São Paulo, March 18, 2019.



KPMG Auditores Independentes
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Independent auditors' report on the financial statements

To
The Board of Directors and Shareholders
Banco Sumitomo Mitsui Brasileiro S.A.
São Paulo - SP

Opinion

We have audited the financial statements of Banco Sumitomo Mitsui Brasileiro S.A. ("Bank"), which comprise the statement of financial position as of December 31, 2018 and the related statements of income, the Statements of changes in equity and statements of cash flows for the half and year then ended, including significant accounting policies and other explanatory information.

In our opinion, the aforementioned financial statements give a true and fair view of the financial position of Banco Sumitomo Mitsui Brasileiro S.A. as of December 31, 2018, and the performance of its operations and cash flows for the half and year then ended, in conformity with accounting practices adopted in Brazil that apply to institutions licensed to operate by the Brazilian Central Bank - Bacen.

Basis for opinion

We conducted our audit in accordance with Brazilian and international auditing standards. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in Brazil, and we have fulfilled our 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.

Other information accompanying the financial statements and auditor's report

Bank Management is responsible for the other information. The other information comprises the Management Report.

Our opinion on the financial statements does not cover the Management Report and we do not express any form of assurance conclusion thereon.



In connection with our audit of the financial statements, our responsibility is to read the Management Report and, in doing so, consider whether the report is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work that we have performed, we conclude that there is a material misstatement of this Management Report, then we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

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

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the 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 Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditors' report to the related disclosures in the 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 auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

São Paulo, March 18, 2019.

KPMG Auditores Independentes
CRC 2SP014428/O-6
Original report in Portuguese signed by
Carlos Massao Takauthi
Accountant CRC 1SP206103/O-4

Banco Sumitomo Mitsui Brasileiro S.A.

Statements of financial position

Years ended December 31, 2018 and 2017

(In thousands of reais)

Assets	Note	2018	2017	Liabilities	Note	2018	2017
Current		4,638,413	5,209,968	Current		3,618,118	3,753,392
Cash and banks		49,279	31,275	Deposits	13	<u>2,177,316</u>	<u>2,158,562</u>
Interbank funds applied	5	<u>2,855,901</u>	<u>2,046,396</u>	Demand deposits		97,032	78,239
Money market		1,790,436	1,715,224	Interbank deposits		19,088	-
Interfinancial deposits		301,887	83,052	Time deposits		2,060,273	2,080,320
Foreign currency		763,578	248,120	Foreign-currency deposits		923	3
Marketable securities and derivative financial instruments		<u>593,078</u>	<u>974,516</u>	Money market funding	14	<u>-</u>	<u>218,092</u>
Own portfolio	6.a	458,821	172,625	Own portfolio		-	218,092
Subject to repurchase agreements		-	218,304	Interbranch accounts		<u>44,476</u>	<u>50,876</u>
Subject to guarantees	6.d	125,956	582,751	Third-party funds in transit		44,476	50,876
Derivative Financial Instruments	6.b	8,301	836	Borrowings	15.a	<u>388,354</u>	<u>433,666</u>
Interbank transactions		<u>41,325</u>	<u>566,569</u>	Foreign currency borrowings		388,354	433,666
Central Bank of Brazil deposits		1,788	5,158	Local on-lendings	15.c	<u>-</u>	<u>19,504</u>
Collections in transit		58	-	BNDES/Exim		-	-
Domestic correspondents		-	13	Domestic onlending - BNDES/FINAME		-	19,504
Interbank onlending	7	39,483	563,195	Foreign on-lendings	15.b	<u>449,889</u>	<u>570,236</u>
Provision for losses on interbank on-lendings	7	(4)	(1,797)	On-lending borrowings from abroad		449,889	570,236
Loans	8	<u>615,869</u>	<u>1,158,132</u>	Derivative financial instruments	6.b	<u>17,449</u>	<u>37,730</u>
Private sector		616,578	1,168,899	Derivative financial instruments		17,449	37,730
Allowance for doubtful accounts		(709)	(10,767)	Other liabilities		<u>540,634</u>	<u>264,726</u>
Other accounts receivable		<u>481,668</u>	<u>432,297</u>	Collection of taxes		308	336
Foreign exchange portfolio	9	471,958	420,266	Foreign exchange portfolio	9	398,862	147,914
Accounts receivable		2,547	2,257	Due to shareholders	18.b	3,126	37,686
Trading and Brokerage of Securities		1,653	635	Tax and social security	16.a	53,278	43,418
Other	10	5,544	9,575	Due in connection with securities dealing		6,362	3,365
Allowance for other possible loan losses		(34)	(436)	Subordinated debt	16.c	5,908	3,681
Assets received in settlement of debt	11	<u>1,293</u>	<u>783</u>	Other	16.b	72,790	28,326
Prepaid expenses		1,258	742			<u>2,200,170</u>	<u>1,952,313</u>
Inventory material		35	41	Noncurrent liabilities			
Noncurrent assets		<u>2,157,222</u>	<u>1,392,800</u>	Local on-lendings	15.c	<u>5,924</u>	<u>7,090</u>
Interbank funds applied	5	<u>348,815</u>	<u>329,425</u>	Domestic onlending - BNDES/FINAME		5,924	7,090
Interfinancial deposits		348,815	329,425	Foreign on-lendings	15.b	<u>1,308,349</u>	<u>1,108,041</u>
Marketable securities and derivative financial instruments		<u>1,209,221</u>	<u>444,360</u>	On-lending borrowings from abroad		1,308,349	1,108,041
Own portfolio	6.a	731,158	346,248	Derivative financial instruments	6.b	<u>109,552</u>	<u>128,640</u>
Subject to guarantees	6.d	465,042	52,599	Derivative financial instruments		109,552	128,640
Derivative Financial Instruments	6.b	13,021	45,513	Other liabilities		<u>776,345</u>	<u>708,542</u>
Interbank Accounts	7	<u>191,743</u>	<u>64,479</u>	Tax and social security	16.a	-	12,760
Interbank onlending		191,773	64,494	Subordinated debt	16.c	774,960	661,600
Provision for losses on interbank on-lendings		(30)	(15)	Other	16.b	1,385	34,182
Loans	8	<u>351,862</u>	<u>492,678</u>	Deferred income		<u>3,715</u>	<u>4,082</u>
Private sector		352,603	493,981	Deferred income		3,715	4,082
Allowance for doubtful accounts		(741)	(1,303)	Shareholders' equity		<u>982,960</u>	<u>898,894</u>
Other accounts receivable	10	<u>55,321</u>	<u>61,290</u>	Capital	18	<u>793,819</u>	<u>758,819</u>
Other		55,321	61,290	Domestic		2	2
Assets received in settlement of debt	11	<u>259</u>	<u>568</u>	Foreign		793,817	758,817
Prepaid expenses		259	568	Profit reserves		187,590	144,715
Permanent assets		<u>9,328</u>	<u>5,913</u>	Mark-to-market of securities	6.a	(628)	(70)
Investment		<u>123</u>	<u>122</u>	Adjustment Actuarial Liabilities	24	(6,440)	(5,322)
Other investments in Brazil		123	122	Exchange variance adjustments to overseas investments		8,619	752
Fixed assets in use	12	<u>2,685</u>	<u>3,506</u>	Total liabilities		<u>6,804,963</u>	<u>6,608,681</u>
Other fixed assets		9,595	9,433			(0)	-
Accumulated depreciation		(6,910)	(5,927)				
Intangible assets		<u>6,520</u>	<u>2,285</u>				
Intangible Assets		16,373	11,003				
Accumulated amortization		(9,853)	(8,718)				
Total assets		<u>6,804,963</u>	<u>6,608,681</u>				

See the accompanying notes to the financial statements.

Banco Sumitomo Mitsui Brasileiro S.A.

Income statements

Financial years ended December 31, 2018 and 2017 and the half ended December 31, 2018

(In thousand of reais, except profit per lot of thousand shares)

	Note	2018		2017
		2 nd half	Year	Year
Financial operations revenue		195,879	688,216	438,639
Loans	20.a	54,146	154,223	160,218
Securities income	20.b	115,127	243,432	365,195
Income on financial derivatives	20.c	(8,159)	156,264	(94,975)
Foreign exchange funding expenses	20.d	34,765	134,297	8,201
Financial operations expenses		(129,871)	(539,204)	(293,406)
Deposits, money market and interbank funds	20.e	(64,261)	(138,535)	(218,246)
Borrowings and pass-throughs	20.f	(67,902)	(411,691)	(89,803)
Allowance for doubtful accounts	8.e	2,292	11,022	14,643
Gross income on financial operations		66,008	149,012	145,233
Other operating income (expenses)		(37,709)	(69,298)	(62,617)
Service fee income	20.g	14,495	32,497	30,942
Personnel expenses	20.h	(35,107)	(68,160)	(56,921)
Other administrative expenses	20.i	(17,950)	(33,394)	(32,763)
Tax expenses	20.j	(5,101)	(10,474)	(11,187)
Other operating revenue	20.k	10,254	16,757	23,131
Other operating expenses	20.l	(4,300)	(6,524)	(15,819)
Operating income		28,299	79,714	82,616
Nonoperating income	20.m	29	138	(148)
Income before taxation		28,328	79,852	82,468
Income and social contribution taxes	19	(13,210)	(34,435)	(24,768)
Income Tax		(5,826)	(13,941)	(10,200)
Social Contribution		(4,865)	(11,198)	(8,171)
Deferred Assets		(2,519)	(9,296)	(6,397)
Statutory profit-sharing		(1,339)	(2,542)	(2,087)
Net income for the year / half		13,779	42,875	55,613
Interest on shareholders' equity		-	-	40,000
Number of shares		758,820	793,820	706,992
Net income per lot of a thousand shares - R\$		18.16	54.01	78.66

See the accompanying notes to the financial statements.

Banco Sumitomo Mitsui Brasileiro S.A.

Statements of changes in equity

Financial years ended December 31, 2018 and 2017 and the half ended December 31, 2018

(In thousands of reais)

	Note	Profit reserve			Asset and liability valuation adjustments			Profit / (Losses) losses	Total
		Capital realized	Legal	Statutory	Own	Adjustment	Actuarial Liabilities	Exchange variance adjustments to overseas investments	
Balances at December 31, 2016		706,992	6,406	121,719	(462)	(234)		-	834,421
Capital Increase		51,827	-	-	-	-	-	-	51,827
Reversal of Reserves		-	-	-	-	-	-	-	-
Dividends not distributed		-	-	-	-	-	-	-	-
Mark-to-market of securities and derivatives		-	-	-	392	-	-	-	392
*Adjustment actuarial liabilities		-	-	-	-	(5,088)	-	-	(5,088)
Exchange variance adjustments to overseas investments Resolution 4524		-	-	-	-	-	-	-	-
Net income for the year				-	-	-	-	55,613	55,613
Legal reserve	18.c	-	2,781	-	-	-	-	(2,781)	-
Statutory reserve	18.d	-	-	13,809	-	-	-	(12,832)	977
Interest on shareholders' equity		-	-	-	-	-	-	(40,000)	(40,000)
Balances at December 31, 2017		758,819	9,187	135,528	(70)	(5,322)	752	-	898,894
Capital Increase		35,000	-	-	-	-	-	-	35,000
Reversal of Reserves		-	-	-	-	-	-	-	-
Dividends not distributed		-	-	-	-	-	-	-	-
Mark-to-market of securities and derivatives		-	-	-	(558)	-	-	-	(558)
Adjustment actuarial liabilities						(1,118)			(1,118)
Exchange variance adjustments to overseas investments Resolution 4524							7,867		7,867
Net income for the year								42,875	42,875
Legal reserve	18.c	-	2,144	-	-	-	-	(2,144)	-
Statutory reserve	18.d	-	-	40,731	-	-	-	(40,731)	-
Interest on shareholders' equity		-	-	-	-	-	-	-	-
Balances at December 31, 2018		793,819	11,331	176,259	(628)	(6,440)	8,619	-	982,960
Balances at June 30, 2018		793,819	10,642	163,168	(130)	(5,585)	8,391		970,305
Capital Increase									-
Reversal of Reserves									
Mark-to-market of securities and derivatives		-	-	-	(498)	-	-	-	(498)
*Adjustment actuarial liabilities						(855)			(855)
Exchange variance adjustments to overseas investments Resolution 4524		-	-	-	-	-	228	-	228
Net income for the year		-	-	-	-	-	-	13,780	13,780
Legal reserve	18.c	-	689	-	-	-	-	(689)	(0.025)
Statutory reserve	18.d	-	-	13,091	-	-	-	(13,091)	0.025
Interest on shareholders' equity		-	-	-	-	-	-	-	-
Balances at December 31, 2018		793,819	11,331	176,259	(628)	(6,440)	8,619	(0)	982,960

Banco Sumitomo Mitsui Brasileiro S.A.

Statements of cash flows

Financial years ended December 31, 2018 and 2017 and the half ended December 31, 2018

(In thousands of reais)

	Bank		
	2018		2017
	2 nd Half	Year	Year
Cash flows from operating activities			
Net income in the half/year before tax and profit sharing	28,328	79,852	82,468
Items including not affecting cash flow:			
Depreciation and amortization	1,334	2,362	1,894
Provision for (reversal of) contingencies	3,019	4,374	534
Allowance (reversal of allowance) for doubtful accounts	(2,292)	(11,022)	(14,643)
Statutory profit-sharing	(1,339)	(2,542)	(2,087)
Income and social contribution taxes	(13,210)	(34,435)	(24,768)
Provision for (reversal of) guarantees	905	(98)	2,287
Provisions (reversals) for interbank onlending	(3,247)	(1,867)	(198)
Increase (Decrease) adjustment equity instruments and securities and CVM 600	(1,126)	6,190	(4,779)
Net income before changes in working capital	12,373	42,814	40,708
Change in assets and liabilities:			
(Increase) Decrease in interbank funding	(13,368)	(238,224)	(6,517)
(Increase) Decrease in securities	(386,097)	(408,110)	(390,171)
(Increase) Decrease in interbank accounts	551,807	396,102	103,742
(Increase) Decrease in loans	441,882	693,730	573,395
(Increase) Decrease in other receivables	666,015	(42,793)	(46,259)
(Increase) Decrease in Other Assets received in settlement of debt	52	(202)	(137)
Increase (Decrease) in Deposits	(226,872)	18,756	484
Increase (Decrease) in money market funding	(21,701)	(218,092)	197,684
Increase (Decrease) in interbank accounts	13,088	(6,401)	26,743
Increase (Decrease) in other obligations	(345,602)	245,476	(69,955)
Increase (Decrease) in derivative financial instruments	(5,741)	(14,342)	55,198
Increase (Decrease) in deferred income	(1,145)	(368)	533
Increase (decrease) in onlending and loan obligations	(442,323)	13,979	(1,005,891)
Income and social contribution taxes paid	(4,623)	(18,464)	(12,600)
Net cash provided by (used in) operating activities	237,744	463,861	(533,043)
Cash flows from investing activities:			
Sale/acquisition of PPE in use (-)	(28)	(404)	(115)
Additions to intangible assets (-)	(284)	(5,370)	(43)
Net cash provided by (used) in investment activities	(312)	(5,774)	(158)
Cash flows from financing activities:			
Increase (decrease) in subordinated debt instruments eligible for capital	4,180	115,587	10,206
Interest on equity	-	-	51,827
Capital Increase	-	35,000	-
Net cash from (used in) financing activities	4,180	150,587	62,033
Net increase (decrease) in cash and cash equivalents	241,612	608,674	(471,168)
Cash and banks	46,391	31,275	11,898
Interbank funds applied	2,315,290	1,963,344	2,453,889
Cash and cash equivalents at beginning of half/year	2,361,681	1,994,619	2,465,787
Cash and banks	49,279	49,279	31,275
Interbank funds applied	2,554,014	2,554,014	1,963,344
Cash and cash equivalents at end of half/year	2,603,293	2,603,293	1,994,619
Net increase (decrease) in cash and cash equivalents	241,612	608,674	(471,168)

See the accompanying notes to the financial statements.

Notes to the financial statements

(In thousands of Reais)

1 Operations

Banco Sumitomo Mitsui Brasileiro S.A. (the “Bank”) is a multiple service bank authorized to operate commercial portfolios, including foreign-exchange and investment portfolios, by National Monetary Council (CMN) Resolution 1524/88.

In the financial year ended December 31, 2018 it was resolved and approved to close the investment funds in which the bank has a responsibility as administrator.

On January 18, 2012, the Bank received authorization from the Central Bank of Brazil to open a branch in the Cayman Islands. The documents approving the opening of this branch were issued on January 8, 2013. The Bank effectively initiated its operations at the branch in September 2013. The accounting balances of the foreign branches have been included in the financial statements.

2 Presentation and preparation of the financial statements

The financial statements have been prepared and disclosed herein in accordance with Brazilian accounting practices, considering the changes required by Law 11638/07 and Law 11941/08, together with the standards and instructions issued by the Central Bank of Brazil (BACEN) through the Accounting Chart for Institutions of the National Financial System (COSIF).

Price assumptions and estimates for purposes of recording in the accounting and determining asset and liability values were used in the preparation of these financial statements. Accordingly, the results recorded upon the actual financial settlement of these assets and liabilities could be different from the estimates.

The accounting pronouncements which have already been approved by the Central Bank of Brazil are:

- CMN Resolution 3566/08 - Asset Impairment (CPC 01)
- CMN Resolution 3604/08 - Statement of Cash Flow (CPC 03)
- CMN Resolution 3750/09 - Disclosure of Related-Party Transactions (CPC 05)
- CMN Resolution 3823/09 - Provisions, contingent liabilities and contingent assets (CPC 25)
- CMN Resolution 3973/11 - Subsequent Events (CPC 24)
- CMN Resolution 3989/11 - Share-based payments (CPC 10)
- CMN Resolution 4007/11 - Accounting Policies, Changes in Estimation and Correction of Errors (CPC 23)
- Resolution 4144/12 - Basic conceptual pronouncement (R1)

- Resolution 4424/15 - Employee benefits (CPC 33)
- CMN Resolution 4524/16 - Effects of the changes in financial statement exchange and translation rates (CPC 02)
- CMN Resolution 4,534/16 - Intangible Assets (CPC 04)
- CMN Resolution 4535/16 - Property, plant and equipment (CPC 27)

The Executive Board authorized the issuance of the financial statements as of December 31, 2018 on March 18, 2019.

3 Description of significant accounting policies

The Bank adopts the following significant accounting practices in the preparation of its financial statements:

a. Functional and presentation currency

The Bank's functional currency is the Brazilian Real.

The operations conducted by the overseas branch (Cayman) are denominated in the functional currency the US dollar. However, for the purpose of presentation and consolidation the Bank, the amount converted to Brazilian Reais at the sale exchange rate informed by the Brazilian Central Bank.

The effect of exchange variance resulting from the translation of foreign currency transactions and financial statements of overseas investees are recorded in separate accounts in shareholders' equity in accordance with CMN Resolution 4524/16.

b. Statement of income

Revenues and expenses are recognized on the accrual basis, on a daily *pro rata* basis for financial income and expenses.

Financial income and expenses are calculated under the exponential method, except those related to factored invoices or foreign transactions, which are calculated under the straight-line method.

Fixed-rate transactions are stated at redemption value and income and expenses for the future period are stated as a reduction in related assets and liabilities. Floating-rate or foreign currency-denominated transactions are inflation adjusted through the reporting date.

c. Cash and cash equivalents

Cash and cash equivalents consist of local-currency funds, foreign-currency funds and money market investments, with a liquidity at the maturity date of 90 days or less and which pose a negligible risk of impairment, which the Bank uses to manage its short-term commitments.

d. Interbank funds applied

Interbank funds applied are stated at cost, plus income earned up to the balance sheet date up to the reporting date.

e. Marketable securities and derivative financial instruments

Securities

Under BACEN Circular 3068, of November 8, 2001, securities are classified according to Management's intent, into the following categories:

- **Trading securities** - Securities acquired for active and frequent trading, adjusted to market value and charged to the statement of income for the year.
- **Available-for-sale securities** - Securities that are neither classified as marketable or held to maturity, adjusted to market value and charged to the relevant item in the shareholders' equity, net of tax.
- **Held-to-maturity securities** - Securities acquired for which the Management has the intention and financial ability to hold as part of its portfolio until maturity date. These securities are measured at acquisition cost, plus income earned. Interest income is recognized in profit or loss for the year.

Derivative financial instruments

The Bank conducts derivative financial instrument transactions to hedge its operations against variations in market prices and to mitigate currency and interest rate risks posed to its assets and liabilities and cash flows agreed on by contract for proper terms, rates and amounts.

Derivative financial instruments are used as a risk-transfer tool to cover the positions of banking book and trading book portfolios. In addition, highly liquid derivatives traded on the stock exchange are used, within the strict limits and under periodical reviews, with the purpose of managing trading portfolio exposures.

In order to manage the ensuing risks, internal limits to global and portfolio exposures were set. These limits are monitored daily. Considering the possibility of exceeding the limits as a result of unexpected situations, Management established internal policies which entail the immediate definition of conditions for realignment. These risks are monitored by an area independent from operational areas and reported daily to senior management.

Under BACEN Circular 3082, issued January 30, 2002 and BACEN Circular Letter 3026, issued July 5, 2002 derivative financial instruments are composed of swap and Non Deliverable Forward ("NDF") transactions and futures, accounted for according to the following criteria:

- Transactions involving futures:

The daily adjustments are recorded in assets and liabilities and appropriated daily as revenue or expenses.

- Swap and Non Deliverable Forwards:

Difference receivable or payable recorded in assets or liabilities, respectively, and recognized as income or expense on a *pro rata die* basis through the reporting date.

Derivative transactions conducted at the request of clients or on one's own, which meet or do not meet the hedging criteria applied to global exposure to risks and which are not considered as related transactions according to the assumptions disclosed by circular 3150/2002 issued by BACEN (Central Bank of Brazil), are stated at market value, and valuations and devaluations are recognized as follows:

- Derivative financial instruments not classified as hedge should be recorded in the revenue or expense account in the income statement for the half/period.
- Financial instruments considered as hedging instruments:
 - Against market risks - are used to offset the risks arising from exposure to the variation in the market value of the hedged item. Their valuations or devaluations are accounted for as an offsetting entry to revenue or expense accounts in the profit or loss for the half/year.
 - For cash flows - have the purpose of offsetting the changes in estimated future cash flows. Their valuations or devaluations are accounted for as an offsetting entry to a separate item in shareholders' equity.
 - On initial designation of the derivative as hedging instrument, the Bank formally documents the relationship between the hedging instruments and the items subject to hedge, including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship, considering traditional calculation methods. The Bank makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, of whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the market value of the respective hedged items during the period for which the hedged risk is attributable, and whether the actual results of each hedge are within a range of 80% to 125%.

f. Loans and allowance for doubtful accounts

Loans are classified according to the Management's assessment of risk, in accordance with the Bank's policy taking into account economic conditions, past experience and the specific risks of each operation, its debtors and guarantors, according to the parameters established by the CMN Resolution 2682/99, procedure which requires a periodic analysis of the portfolio and its classification into nine levels, from "AA" (minimum risk) to "H" (loss).

The Bank has established policies and procedures for granting credit, approved by the Credit Committee and incorporated into the Bank's internal control systems. These policies and procedures determine the need for evaluation of customer data to define the "Obligor Grade" - "grading" of the client, considering qualitative and quantitative aspects.

Regardless of their level of risk, income from loans more than 60 days overdue is only recorded as revenue when actually received.

Loans classified as level “H” ” (100% of allowance) remain in this classification for six months, whereupon they are written off against the existing provision and controlled for five years in memorandum accounts, no longer appearing in the balance sheet.

Renegotiated loans are held at the level they were classified in or higher. Renegotiations of loans which had already been written off against the provision and were held in memorandum accounts are classified as level H and any gains deriving from the renegotiation shall only be recognized as revenue when effectively received. When there is significant amortization of the transaction, or when new significant factors justify a change in the level of risk, there may be the reclassification of the transaction to the lower-risk category.

The Bank records provision for guarantees provided and guarantee operations which used these policies as a criteria, whilst observing at least, the assumptions established in CMN Resolution 2682/99, taking into account the economic situation, past experience and specific risks posed by each operation and the debtors, as mentioned above.

g. Other current and noncurrent assets

Other current and long-term assets are stated at cost plus, when applicable, income and monetary variations earned, less allowance for losses at realization value adjustments.

h. Property, plant and equipment

Property and equipment are stated at acquisition cost, less accumulated depreciation, calculated through the year balance sheet date. Depreciation is calculated under the straight-line method at annual rates which reflect the estimated useful lives of the assets. The main annual depreciation rates are 20% for vehicles and data processing equipment, and 10% for other assets.

i. Deferred charges

Deferred charges are stated at the cost of acquisition or formation, less accumulated amortization calculated up to the reporting date, amortized over the lease term.

j. Intangible assets

Intangible assets consist of expenses incurred with the acquisition and development of the systems, which are amortized on a straight line basis at an annual rate of 20% and of leasehold improvements that are stated at the cost of acquisition or formation, less accumulated amortization calculated up to the reporting date, amortized over the lease term.

k. Impairment of non-monetary assets

An impairment loss is recognized if the carrying value of an asset or its cash generating unit exceeds its recoverable value. A cash generating unit is the smallest identifiable group of assets that generate cash flows with substantial independence from other assets and groups. Impairment losses are recognized in the statement of income for the period in which they were observed. Non-financial assets, except tax credits, are reviewed at least annually to check for any signs of impairment.

l. Monetary restatement of rights and liabilities

Receivables and payables legally or contractually subject to exchange rate or index variations are adjusted for inflation through the balance sheet date. Offsetting entries for these monetary restatements are recognized directly in the profit or loss for the half/year.

m. Deposits and money market funding

Deposits and money market repurchase commitments are stated at the enforceable amounts and consist of charges incurred up to the reporting date, recognized on a *pro rata die* basis.

n. Contingent assets and liabilities and legal obligations

The recognition, measurement and disclosure of contingent assets and liabilities and of legal obligations (tax and social security) are performed in accordance with criteria set by the National Monetary Council (CMN) Resolution 3823/09, which approved CPC 25 issued by the Accounting Pronouncements Committee (CPC). The criteria applied by the Management for the measurement and disclosure of contingent assets and liabilities are:

- **Contingent assets** - Are only recognized in the financial statements when evidence exists that the decision will be favorable.
- **Contingent liabilities** - Are recognized in the financial statements when a present obligation exists as a result of a past event, and according to the legal advisors' and the Management's opinion it is probable that an outflow of economic benefits will be required to settle the obligation and whenever the amounts involved can be reliably estimated. Provisions for labor contingencies are recognized according to lower court decisions at labor courts.
- **Legal obligations - tax and social security** - consist of legal claims, whereby the legality and constitutionality of some taxes and contributions have been challenged. The amounts disputed are fully recorded in the financial statements and corrected in accordance with the legislation in force.

Contingent liabilities are disclosed in notes to the financial statements, unless the likelihood of any disbursement to settle them is remote.

Court deposits are held in an asset account, and corrected based on their bank statements, without deducting them from provisions for contingent liabilities and legal obligations, in compliance with the BACEN rules.

o. Income and social contribution taxes

The provision for income and social contribution taxes is calculated according to the rate of 15% plus a surtax of 10% on taxable income in excess of R\$ 240 for the year, adjusted by additions and deductions established by law. The social contribution determined on income adjusted in accordance with the legislation in force is calculated at a rate of 20% in accordance with Normative Instruction 1591.

Tax credits are recognized according to the provisions included in Resolution 3059 of December 31, 2002 and Resolution 3355 of March 31, 2006, issued by the National Monetary Council. Under those resolutions, in order to recognize and keep in the accounting tax credits arising from income and social contribution tax losses and from temporary differences, the entity must fulfill all of the following conditions:

Report a history of taxable income or revenues for income and social contribution tax purposes in at least three of the last five fiscal periods, including the current year;

Future taxable income is expected to be generated for income and social contribution tax purposes, as the case may be, in subsequent periods, according to technical studies which allow the realization of tax credit over a maximum period of ten years.

Tax credits on income and social contribution tax losses were recognized at the rates of 25% for income tax and 15% for social contribution (where the rate was 20% for months before December pursuant to RFB Normative Instruction 1591/2015) and are presented as “Other receivables - other”, as shown in Note 19b.

Tax benefits arising from the right to offset other temporary differences are recognized only when they are actually used, as described in Note 19c.

p. Employee benefit plan

The post-employment benefit plan comprises the commitment made by the Bank to supplement the benefits of pension plan system.

Defined Benefit Plan

With respect to this type of plan, the obligation of the Sponsor is to provide the benefits agreed on to the employees, undertaking the potential actuarial risk that the benefits may cost more than the original amount forecast.

CVM Resolution 695 of December 13, 2012, approved the CPC Technical Pronouncement 33 (R1) which addresses the matter of employee benefits, in accordance with the amendments to the International Accounting Standard IAS 19. CPC Technical Pronouncement CPC 33 (R1) established essential changes in the accounting and disclosure of employee benefits such as the removal of the corridor mechanism in the recording of the plan's liabilities, and changes in the recognition criterion of the plans' assets (appreciations and devaluations). The adoption of the aforementioned Pronouncement applies to years started as from January 1, 2015, and the effects are recorded retrospectively in the accounting, as changes in accounting practices. The adoption of this new accounting practice will essentially result in the full recognition in a liability account of actuarial losses (actuarial deficit), in contra-entry to equity account, net of tax effects.

The present value of the defined-benefit obligation is the present value without adopting any of the plan's assets, the future expected payments necessary to settle the obligation resulting from the employee's service in current and past periods.

On June 25, 2015 the Central Bank issued CMN Resolution 4424 stating that financial institutions should comply with CPC Technical Pronouncement 33 (R1) from January 01, 2016.

The Bank has adopted the assumptions and effects of CPC 33 (R1) since 2013.

4 Cash and cash equivalents

Cash and cash equivalents presented in the statement of cash flows are broken down as follows:

	2018	2017
Cash and banks	49,279	31,275
Interbank funds applied	<u>2,554,014</u>	<u>1,963,344</u>
Total cash and cash equivalents	<u><u>2,603,293</u></u>	<u><u>1,994,619</u></u>

5 Interbank funds applied

Money market, as of December 31, 2018 and 2017, is composed as follows:

	2018			
	Up to 3 months	3 to 12 months	Over 12 months	Total
Money market	1,790,436	-	-	1,790,436
Own funds	1,790,436	-	-	1,790,436
National Treasury Bills	1,240,304	-	-	1,240,304
National Treasury Notes - Series B	550,132	-	-	550,132
Interfinancial deposits	-	302,533	348,169	650,702
Not Related	-	302,533	348,169	650,702
Foreign currency investments	763,578	-	-	763,578
Total	<u><u>2,554,014</u></u>	<u><u>302,533</u></u>	<u><u>348,169</u></u>	<u><u>3,204,716</u></u>

	2017			
	Up to 3 months	3 to 12 months	Over 12 months	Total
Money market	1,715,224	-	-	1,715,224
Own funds	1,715,224	-	-	1,715,224
National Treasury Bills	1,565,206	-	-	1,565,206
National Treasury Notes - Series B	150,018	-	-	150,018
Interfinancial deposits	-	50,570	361,907	412,477
Not Related	-	50,570	361,907	412,477
Foreign-currency investments	248,120	-	-	248,120
Total	<u><u>1,963,344</u></u>	<u><u>50,570</u></u>	<u><u>361,907</u></u>	<u><u>2,375,821</u></u>

6 Marketable securities and derivative financial instruments

a. Securities

The Bank does not adopt as a strategy to act to acquire securities in order to actively and frequently negotiate them. Thus, as of December 31, 2018 and 2017 the securities portfolio is classified under the available-for-sale securities category, as shown below:

2018						
	Market Value				(*) Adjustment to market value	Restated cost
	Up to 90 days	91 to 360 days	Over 360 days	Total		
Available-for-sale securities						
Own portfolio:						
Financial Treasury Bills	103,616	-	730,486	834,102	4	834,098
National Treasury Notes - Series F	-	-	55	55	-	55
Commercial Promissory Notes	-	355,205	-	355,205	(1,040)	356,245
Equity fund quotas - FIP	-	-	617	617	(24)	641
	<u>103,616</u>	<u>355,205</u>	<u>731,158</u>	<u>1,189,979</u>	<u>(1,060)</u>	<u>1,191,039</u>
Subject to guarantees						
Financial Treasury Bills	125,956	-	465,042	590,998	12	590,986
	<u>125,956</u>	<u>-</u>	<u>465,042</u>	<u>590,998</u>	<u>12</u>	<u>590,986</u>
Total	<u>229,572</u>	<u>355,205</u>	<u>1,196,200</u>	<u>1,780,977</u>	<u>(1,048)</u>	<u>1,782,025</u>

2017						
Market Value						
	Up to 90 days	91 to 360 days	Over 360 days	Total	(*) Adjustment to market value	Market value (carrying amount)
Available-for-sale securities						
Own portfolio:						
Financial Treasury Bills	25,956	146,669	345,528	518,153	(75)	518,229
Equity fund quotas - FIP	-	-	720	720	83	636
	<u>25,956</u>	<u>146,669</u>	<u>346,248</u>	<u>518,873</u>	<u>8</u>	<u>518,865</u>
Subject to repurchase commitments						
Financial Treasury Bills	-	-	218,304	218,304	14	218,290
	<u>-</u>	<u>-</u>	<u>218,304</u>	<u>218,304</u>	<u>14</u>	<u>218,290</u>
Subject to guarantees						
Financial Treasury Bills	385,468	197,283	52,599	635,350	(150)	635,500
	<u>385,468</u>	<u>197,283</u>	<u>52,599</u>	<u>635,350</u>	<u>(150)</u>	<u>635,500</u>
Total	<u>411,424</u>	<u>343,952</u>	<u>617,151</u>	<u>1,372,527</u>	<u>(128)</u>	<u>1,372,655</u>

(*) Securities classified as available for sale have their adjustment to market value recorded in equity account, net of tax.

The market value of marketable securities is calculated in the following manner:

- **Securities indexed to SELIC (Central Bank overnight rate) and DI (Interbank Deposit) rates** - The market value is calculated by applying the SELIC rate accrued over the period to the issue price per unit, considering the market premium or discount. The premium or discount is obtained daily according to the expectations of ANBIMA - Associação Brasileira das Entidades dos Mercados Financeiro e de Capitais for each maturity on the day before the calculation.
- **Securities indexed to fixed rates** - The market value is obtained by applying a discount rate to the future flow of payments on the security. The rate is calculated according to the fixed-rate curve of B3 S.A. - Brasil, Bolsa, Balcão and the counterparty's risk is factored in for private securities.
- **Investment fund quotas** - The investment fund is valued according to the last value of the quota disclosed as of the fund's reporting date by the manager.

Government securities are book-entry and registered with the Special System for Sistema Especial de Liquidação e Custódia - SELIC.

The fund shares are registered at B3 S.A. - Brasil, Bolsa, Balcão.

b. Derivative financial instruments

Derivative financial instruments consist of swap and Non Deliverable Forwards - NDF which are held in custody at B3 S.A. - Brasil, Bolsa, Balcão in the stock and over-the-counter markets. In March 2016 the Bank began operating in the futures market via B3 S.A. - Brasil, Bolsa, Balcão.

See below the derivative financial instruments explained above recorded in equity and offsetting accounts as of December 31, 2018 and 2017:

	2018			2017
	Amount receivable	Amount payable	Nominal Value	Nominal Value
SWAP transactions	9,964	(108,501)	1,200,753	1,072,191
CDI x US Dollar	1,692	(167)	205,005	372,760
CDI vs. LIBOR	-	(38,803)	157,815	157,815
CDI vs. fixed rate	-	(620)	5,016	8,865
US Dollar vs. CDI	-	(62,955)	333,602	494,782
Fixed vs. US Dollar	5,629	(5,885)	179,505	20,469
LIBOR vs. US Dollar	-	(71)	189,360	-
Fixed vs. CDI	2,643	-	130,450	7,500
NDF transactions	7,956	(17,117)	1,688,850	86,555
US Dollar vs. US Dollar	242	(75)	72,446	-
Fixed vs. US Dollar	7,079	(15,841)	1,568,808	85,080
Fixed vs. Yen	276	(206)	16,288	1,394
Fixed vs. Euro	359	(995)	31,308	81
Total	17,920	(125,618)	2,889,603	1,158,746

(i) Aging list

	2018			
	Nominal Value			
	Up to 90 days	91 to 360 days	More than 360 days	Total
SWAP transactions	13,687	24,782	1,162,284	1,200,753
CDI x US Dollar	-	10,000	195,005	205,005
CDI vs. LIBOR	-	-	157,815	157,815
CDI vs. fixed rate	840	1,836	2,340	5,016
US Dollar vs. CDI	2,847	6,946	323,809	333,602
Fixed vs. US Dollar	-	-	179,505	179,505
LIBOR vs. US Dollar	-	-	189,360	189,360
Fixed vs. CDI	10,000	6,000	114,450	130,450
NDF transactions	1,137,181	518,946	32,723	1,688,850
US Dollar vs. US Dollar	72,446	-	-	72,446
Fixed vs. US Dollar	1,039,052	497,033	32,723	1,568,808
Fixed vs. Yen	16,288	-	-	16,288
Fixed vs. Euro	9,395	21,913	-	31,308
Total	1,150,868	543,728	1,195,007	2,889,603

(ii) *Aging list by trading location*

	2018		2017	
	Stock market	Over the counter	Face value	Nominal Value
Swaps	346,118	854,635	1,200,753	1,072,191
NDF	-	1,688,850	1,688,850	86,554
Total	346,118	2,543,485	2,889,603	1,158,745

(iii) *Comparison between cost and market value*

The daily adjustments of transactions conducted in the futures market and the income from swap and NDF contracts are recorded as revenue or expenses, when incurred, and denote their restated market value.

	2018			2017
	Cost value	Not realized	Market Value	Market Value
Asset (receivable)	17,920	2,256	20,176	45,558
SWAP transactions	9,964	4,665	14,629	45,513
NDF transactions	7,956	(2,409)	5,547	45
Liability (payable)	(125,618)	(237)	(125,855)	(165,579)
SWAP transactions	(108,500)	(1,264)	(109,764)	(165,317)
NDF transactions	(17,118)	1,027	(16,091)	(262)
Total	(107,698)	2,019	(105,679)	(120,021)

2018					
<u>Reference (carrying) value</u>					
	Place of trading	Up to 90 days	91 to 360 days	Above 360 days	Total
FUTURES- Reference value	B3 S.A - Brasil, Bolsa, Balcão	1,316,667	741,219	1,441,693	3,499,580
Purchase		<u>804,790</u>	<u>418,768</u>	<u>1,192,530</u>	<u>2,416,088</u>
Currency Coupon		804,790	195,214	1,175,710	2,175,714
Foreign Currency		-	-	-	-
Interest Rate		-	223,554	16,820	240,374
Sale		<u>511,877</u>	<u>322,451</u>	<u>249,163</u>	<u>1,083,491</u>
Currency Coupon		-	310,288	18,500	328,788
Foreign Currency		306,234	-	-	306,234
Interest Rate		205,643	12,163	230,663	448,469

2017					
	Place of trading	Reference (carrying) value			
		Up to 90 days	91 to 360 days	Above 360 days	Total
FUTURES- Reference value	B3 S.A - Brasil, Bolsa, Balcão	716,233	267,480	1,375,474	2,359,187
Purchase		<u>402,597</u>	<u>205,752</u>	<u>1,214,992</u>	<u>1,823,341</u>
Currency Coupon		68,991	184,263	1,108,791	1,362,045
Foreign Currency		333,606	-	-	333,606
Interest Rate		-	21,489	106,201	127,690
Sale		<u>313,636</u>	<u>61,728</u>	<u>160,482</u>	<u>535,846</u>
Currency Coupon		1,157	61,728	31,155	94,040
Foreign Currency		286,142	-	-	286,142
Interest Rate		26,337	-	129,327	155,664

The market value of derivative financial instruments is determined by discounting the future values at present value according to the interest rate curves obtained by employing the market method, which is mostly based on data disclosed by B3 S.A - Brasil, Bolsa, Balcão.

The adjustment at market value determined in derivative financial instruments for the year ended December 31, 2018 totaled R\$ 18,217 (R\$ 4,800 as of December 31, 2017), and was recognized in income accounts.

Profit or loss from derivative financial instruments for the years ended December 31, 2018 and 2017 are directly influenced by market interest rates prevailing at the time of the transaction, and by the Dollar rate variation. They are presented below:

	Profit or loss					
	2018			2017		
	Revenue	Expense	Net	Revenue	Expense	Net
Derivative financial instruments						
Swap	59,657	(18,803)	40,854	27,518	(62,050)	(34,532)
“NDF	46,388	(79,429)	(33,041)	24,701	(4,498)	20,204
Futures	2,285,88	(2,137,434)	148,451	1,116,862	(1,197,509)	(80,647)
	<u>2,391,930</u>	<u>(2,235,666)</u>	<u>156,264</u>	<u>1,169,081</u>	<u>(1,264,057)</u>	<u>(94,975)</u>

c. Hedge accounting

As of December 31, 2018 and 2017, the Bank only had transactions with derivative financial instruments to mitigate the effect of exchange rate fluctuations on foreign currency funding and loan transactions in Brazilian real. Such operations were designated as market risk accounting hedge and were performed on the over-the-counter market.

(i) **Market value of derivative financial instruments by maturity range and index**

The market value assessment regarding the funding in foreign currency was performed using Swap and Futures operations, designated as hedging instruments, in compliance the BACEN Circular 3082/02.

Maturity - Market Value - 2018					
Description	Index	Up to 12 months	1 to 3 years	3 to 5 years	Total
Swap	Point: FIXED	4,202	3,118	891	8,211
Total		4,202	3,118	891	8,211
				2018	2017
Hedged items					
Amount restated by terms agreed				7,658	177,358
Market value				8,187	177,844
Value of the adjustment				(529)	(486)
Hedge instruments					
Market value				8,211	177,849

Maturity - Market Value - 2018					
Description	Index	Up to 12 months	1 to 3 years	3 to 5 years	Total
Futures	Currency Coupon	293,526	896,219	198,422	1,388,167
Futures	Interest Rate	2,909	29,860	-	32,769
Total		296,435	926,079	198,422	1,420,936
				2018	2017
Hedged items					
Amount restated by terms agreed				1,460,438	1,136,559
Market value				1,443,096	1,122,102
Value of the adjustment				17,342	14,457
Hedge instruments					
Market value				1,420,936	1,122,284

d. **Value and type of margins given in guarantee**

The amount of margin deposited as collateral for derivative financial instrument transactions at B3 - Brasil, Bolsa Balcão as of December 31, 2018 and 2017 can be broken down as follows:

Market value		
	2018	2017
Available-for-sale securities		
Financial Treasury Bills	442,575	448,744
Total	442,575	448,744

The other amounts deposited as guarantee as of December 31, 2018 and 2017, have the following composition:

	<u>Market value</u>	
	2018	2017
Available-for-sale securities		
Financial Treasury Bills	<u>148,423</u>	<u>186,606</u>
Total	<u><u>148,423</u></u>	<u><u>186,606</u></u>

The market values of securities and derivative financial instruments are calculated according to market price quotations or quotations from market agents and pricing models developed by the management, which use rate interpolation mathematical models for intermediate terms.

7 Interbank transactions

They refer to repass borrowing operations from abroad, to the Financial Institution in the country and abroad (branch in Cayman), and have been demonstrated including the respective provisions: the amounts provisioned for are based on CMN Resolution 2682/99 and amount to R\$ 34 (R\$ 1,812 in 2017):

	2018	2017
Outstanding:		
Up to 30 days	39,050	642
31 to 60 days	375	810
61 to 90 days	54	6,007
91 to 180 days	-	-
181 to 360 days	-	553,940
More than 360 days	<u>191,743</u>	<u>64,478</u>
Total	<u><u>231,222</u></u>	<u><u>625,877</u></u>

8 Loans

As of December 31, 2018 and 2017, information on the loan portfolio is summarized as follows:

a. By operation

<i>Description</i>	2018	2017
Overdraft	25,340	33,952
Resolution 3844 (formerly Resolution 63)	117,070	99,723
BNDES on-lending - FINAME - FINEM and EXIM- Other	5,928	26,674
Compror	20,304	23,104
Working capital	592,966	652,928
Private financing	-	2
Financing in foreign currency	94,281	268,640
Export Credit Notes - NCE	113,292	557,034
Total loans	<u><u>969,181</u></u>	<u><u>1,662,057</u></u>
Advance on foreign exchange contracts (Note 9)	77,003	262,844
Income receivable from advances (Note 9)	1,535	2,786
Total loan portfolio	<u><u>1,047,719</u></u>	<u><u>1,927,687</u></u>

b. By maturity

	2018	2017
Outstanding:		
Up to 30 days	114,594	174,202
31 to 60 days	164,465	186,858
61 to 90 days	84,936	175,720
91 to 180 days	221,264	444,191
181 to 360 days	108,446	452,735
More than 360 days	354,014	493,981
	<u>1,047,719</u>	<u>1,927,687</u>
Total	<u>1,047,719</u>	<u>1,927,687</u>

Loans of the 20 largest debtors as of December 31, 2018 account for 93.18% of the loan portfolio (95.40% as of December 31, 2017) in the amount of R\$ 976,232 (R\$ 1,839,102 in 2017).

c. By risk rating

Risk rating	% minimum of provision	2018			2017		
		Total operations	% of portfolio	Provision creation	Total operations	% of portfolio	Provision creation
AA	-	1,044,704	100	1,463	1,711,895	89	3,299
A	0.5	3,015	-	21	3,219	-	24
C	3.0	-	-	-	212,573	11	9,183
Total		<u>1,047,719</u>	<u>100</u>	<u>1,484</u>	<u>1,927,687</u>	<u>100</u>	<u>12,506</u>

d. By business sector

	2018	2017
Private sector:		
Industry	979,981	1,597,744
Trade	39,328	308,442
Other services	28,410	21,499
Individuals	-	2
	<u>1,047,719</u>	<u>1,927,687</u>
Total	<u>1,047,719</u>	<u>1,927,687</u>

e. Change in the allowance for doubtful accounts

	2018	2017
Opening balance	12,506	27,149
Reversal of the allowance for doubtful accounts	(12,113)	(32,994)
Creation of allowance for doubtful accounts	1,091	18,351
	<u>1,484</u>	<u>12,506</u>
Closing balance	<u>1,484</u>	<u>12,506</u>

9 Foreign exchange portfolio (other receivables and other liabilities)

Foreign exchange operations are recorded in balance sheet accounts, as follows:

	2018	2017
Assets:		
Unsettled purchased exchange	405,546	385,127
Receivables on exchange sale	66,610	34,091
Advances received in local currency	(1,733)	(1,738)
Income receivable from advances granted (note 8a)	1,535	2,786
	<u>471,958</u>	<u>420,266</u>
Total	<u>471,958</u>	<u>420,266</u>
Liabilities:		
Unsettled sold exchange	65,618	34,121
Obligations on exchange purchase	410,247	376,637
Advance on foreign exchange contracts (Note 8a)	(77,003)	(262,844)
Accounts payable in foreign currency	-	-
	<u>398,862</u>	<u>147,914</u>
Total	<u>398,862</u>	<u>147,914</u>

10 Other receivables - Other

Other receivables - other consist of the following amounts:

	2018	2017
Tax credit - Income and social contribution tax negative basis (see note 19b)	26,056	37,549
Collateral deposit receivables (see note 17)	16,210	16,714
Prepaid income tax and social contributions	13,016	11,878
Other receivables	5,260	4,439
Other	323	285
	<u>60,865</u>	<u>70,865</u>
Total	<u>60,865</u>	<u>70,865</u>
Current assets	5,544	9,575
Noncurrent assets	55,321	61,290
	<u>60,865</u>	<u>70,865</u>

11 Assets received in settlement of debt

Other receivables - other consist of the following amounts:

	2018	2017
Inventory material	35	41
Prepaid expenses	1,517	1,310
	<u>1,552</u>	<u>1,351</u>
Total	<u>1,552</u>	<u>1,351</u>

12 Permanent assets

As of December 31, 2018 and 2017 property, plant and equipment are represented as follows:

a. Fixed assets in use

Description	Annual depreciation rate %	2018		2017	
		Cost	Accumulated depreciation	Net	Net
Data processing system	20	5,758	(4,133)	1,625	2,399
Furniture and equipment	10	1,614	(1,120)	494	583
Communications system	10	299	(127)	172	195
Security system	10	300	(289)	11	14
Transportation system	20	1,624	(1,241)	383	315
Total		<u>9,595</u>	<u>(6,910)</u>	<u>2,685</u>	<u>3,506</u>

b. Intangible assets

Description	Annual depreciation rate %	2018		2017	
		Cost	Accumulated amortization	Net	Net
Software	20	11,315	(6,394)	4,921	301
Usage rights	20	664	(620)	44	57
Improvements	20	4,394	(2,839)	1,555	1,927
Total		<u>16,373</u>	<u>(9,853)</u>	<u>6,520</u>	<u>2,285</u>

13 Deposits

Breakdown by maturity as of December 31, 2018 and 2017:

Description	2018				2017			
	Call deposits	Interbank deposits	Time deposits (*)	Foreign- currency deposits	Call deposits	Interbank deposits	Time deposits (*)	Foreign- currency deposits
No maturity	97,032	-	-	923	78,239	-	-	3
Up to 30 days	-	4,988	67,731	-	-	-	62,423	-
31 to 60 days	-	6,044	43,620	-	-	-	65,374	-
61 to 90 days	-	8,056	42,421	-	-	-	27,241	-
91 to 180 days	-	-	204,032	-	-	-	181,384	-
181 to 360 days	-	-	520,526	-	-	-	642,864	-
More than 360 days	-	-	1,181,943	-	-	-	1,101,034	-
Total	<u>97,032</u>	<u>19,088</u>	<u>2,060,273</u>	<u>923</u>	<u>78,239</u>	<u>-</u>	<u>2,080,320</u>	<u>3</u>

(*) The time deposit portfolio was classified under current liabilities because deposits are entirely registered with B3 S.A.
- Brasil, Bolsa, Balcão with early redemption clause.

14 Money market funding

	2018		2017	
	Portfolio third parties	Total	Portfolio third parties	Total
Securities				
National Treasury Bills	-	-	218,092	218,092
	-	-	218,092	218,092

15 Borrowings and pass-throughs

Foreign funding is basically performed through the use of credit lines granted by the shareholder Sumitomo Mitsui Banking Corporation, as follows:

a. Obligations on overseas loans

As of December 31, 2018 the balance of USD 100,285 (USD 131,126 in 2017) basically consists of import and export financing agreements which mature up to February 15, 2019 and are subject to interest rates of up to 3% p.a., plus exchange variance for these transactions. The balance as of December 31, 2018 is R\$ 388,354 (R\$ 433,666 in 2017).

b. Foreign on-lendings

Foreign on-lendings as of December 31, 2018, correspond to USD 446,800 (USD 504,973 in 2017). These obligations, translated at the official period-end buying rate, are governed by the CMN Resolution 3844/00 and are subject to interest rates that range from 1.32% to 3.55% p.a., plus exchange variance, maturing through December 29, 2021. The balance as of December 31, 2018 is R\$ 1,758,238 (R\$ 1,678,277 in 2017).

c. Local on-lendings

Domestic on-lendings basically consist of financing granted by the National Bank for Economic and Social Development - BNDES under the Government Agency Fund for Machinery and Equipment Financing (FINAME) and Credit Agency for Brazil Exports (EXIM) program, maturing up to January 15, 2024, and interest rates of up to 1.80% p.a., in the amount of R\$ 5,924 (R\$ 26,594 in 2017).

	2018		
	Up to 360 days	More than 360 days	Total
Obligations on overseas loans	388,354	-	388,354
Foreign on-lendings	449,889	1,308,349	1,758,238
Local on-lendings	-	5,924	5,924
		1,314,273	2,152,516
Total	838,243		

	2017		
	Up to 360 days	More than 360 days	Total
Obligations on overseas loans	433,666	-	433,666
Foreign on-lendings	570,236	1,108,041	1,678,277
Local on-lendings	19,504	7,090	26,594
Total	1,023,406	1,115,131	2,138,537

16 Other liabilities

a. Tax and social security

Description	2018	2017
Provision for income tax and social contribution (note 19a)	25,138	18,371
Provision for tax risks (note 17)	9,352	9,058
Services tax - ISS	166	277
Withholding income tax - IRRF on fixed-income transactions	319	2,840
Tax for Social Security Financing - COFINS	679	1,307
Contribution to Social Integration Program (PIS)	110	212
Income tax on interest on equity capital	-	5,009
Deferred income and social contribution taxes (Note 19c)	11,383	13,026
Government Severance Indemnity Fund for Employees - FGTS	274	246
Taxes and contributions on outsourced services	20	4
PIS offsetting (note 17)	3,100	3,034
PIS constitutional amendment (note 17)	711	668
Payroll taxes and contributions	1,558	1,406
Contribution to the Credit Guarantee Fund - FGC	416	566
Other	52	154
Total	53,278	56,178
Current liabilities	53,278	43,418
Noncurrent liabilities	-	12,760

b. Various

Description	2018			2017		
	Current	Noncurrent liabilities	Total	Current	Noncurrent liabilities	Total
Provision for labor and civil risks (note 17)	38,363	-	38,363	-	34,182	34,182
Provision for personnel expenses	17,256	1,385	18,641	13,632	-	13,632
Provision for general expenses	2,601	-	2,601	1,611	-	1,611
Actuarial liabilities	10,013	-	10,013	8,914	-	8,914
Guarantees provided	3,911	-	3,911	4,009	-	4,009
Various	646	-	646	160	-	160
Total	72,790	1,385	74,175	28,326	34,182	62,508

c. Subordinated debt instruments eligible for capital

The Bank has two loans with Sumitomo Mitsui Banking Corporation NY:

- In the amount of USD 40 million for a period of 15 years, authorized by BACEN on November 10, 2006, which was extended in 2017 to a total period of 18 years, where this extension was authorized by BACEN on December 19, 2017, this loan continues to be considered subordinated debt, comprising level II of the Bank's reference equity;
- In the amount of USD 160 million in October 2013, for a 10-year period, which was authorized by the Central Bank of Brazil (BACEN) on December 5, 2013, and the Bank was also authorized to incorporate its notional equity level II.

Both loans were authorized based on the terms of Resolution 4192 of March 1, 2013, amended by Resolution 4278 of October 31, 2013.

The restated balance as of December 31, 2018 for the two loans is R\$ 780,868 (R\$ 665,281 as of December 31, 2017).

17 Provision for tax, civil and labor risks

The Bank is involved in tax, civil and labor proceedings. The provision amounts and related court deposits are as follows:

Description	Provision		Judicial deposits	
	2018	2017	2018	2017
Provision for tax risks:				
ISS - RJ (a)	-	-	4,380	4,132
ISS - SP (b)	96	71	2,080	2,578
Legal obligations:				
Demutualization Cetip (h)	108	101	-	-
PIS offsetting (c)	3,100	3,034	-	-
PIS constitutional amendment (d)	711	668	-	-
Social Contribution on Net Income - CSLL (e)	9,148	8,885	9,148	8,885
Total	13,163	12,759	15,608	15,595
Provision for risks:				
Civil (f)	32,444	29,611	-	69
Labor (g)	5,919	4,571	602	1,050
Total	38,363	34,182	602	1,118
Total provisions and court deposits	51,526	46,941	16,210	16,714

- (a) The Bank is involved in tax proceedings related to Service Tax (ISS), in Rio de Janeiro, levied on commissions received from borrowings and onlending borrowings, and also revenues recorded in the "Apportionment of internal income" account. Management, based on the opinion of its legal advisors, assesses that the chances of success in these proceedings are possible, and therefore no provision was recorded. However, the deposit made to proceed with the litigation in court, which totals R\$ 4,380 as of December 31, 2018, was maintained. (R\$ 4,132 in 2017).

- (b) The provision consists of a part of the amount involved in the judicial proceedings filed in connection with the service tax charged by the city of São Paulo. The lawsuit basically refers to the tax levied on foreign exchange transactions in the period from 2001 to 2003 and guarantees provided in 2004, for which the Bank understands that the financial disbursement is probable. As for the non-accrued portion in the amount of R\$ 2,146, Management understands, based on the opinion of its legal advisors, that the chances of success are possible and remote, and therefore, did not recognize any provision. The judicial deposit, less the amounts recovered in the period, required to proceed with the litigation in court totals R\$ 2,080 (R\$ 2,578 in 2017).
- (c) The provision consists of the offsetting of PIS credits claimed in courts due to the disallowance by the Brazilian Federal Revenue Department of the credits offset and not approved. The provisions embrace the periods between September 2002 and October 2005. The restated amount as of December 31, 2018 is R\$ 3,100 (R\$ 3,034 in 2017).
- (d) This denotes a lawsuit challenging the constitutionality of PIS prior to Constitutional Amendment EC 17/97. The provision was reversed in the course of the proceeding due to the shelving of the administrative proceeding and future practical success in the legal proceeding. In 2017 only provisions remained for the attorney's fees in connection with the lawsuit relating to the legal proceeding, which will be restated and paid on the occasion of the trial by the Supreme Federal Court, amounting to a restated R\$ 711 as of December 31, 2018 (R\$ 668 in 2017).
- (e) The Bank questions the increase in the rates from 18% to 30% for the year of 1996 and the determination of the social contribution calculation base. A provision was accrued for the underpaid difference due to the matters under litigation. According to the opinion of the legal advisors the chances of loss related to this litigation are possible. Management decided to make a provision, which amounts to a restated R\$ 9,148 as of December 31, 2018 (R\$ 8,885 in 2017).
- (f) The provision has been accrued basically for lawsuits related to the elimination of inflation effects on time deposits when the likelihood of disbursements is probable. Management, based on the opinion of its legal counsel, understands that the applicable legal actions have been taken are appropriate to each situation. The restated amount as of December 31, 2018 is R\$ 32,444 (R\$ 29,611 in 2017).
- (g) The provision refers to lawsuits filed by former employees and service providers claiming labor rights they understand are due. Lawsuits are individually controlled and the provision is recognized based on the decision established beforehand by the Executive Board or lower labor court decisions. Management, based on the opinion of its legal advisors, understands that the amounts currently accrued are adequate. The restated amount as of December 31, 2018 is R\$ 5,919 (R\$ 4,571 in 2017).
- (h) The bank recorded the amount of the proceeding in progress rated as a probable defeat regarding the demutualization of Cetip shares, in the amount of R\$ 108 as of December 31, 2018 (R\$ 101 in 2017).

Changes in provisions and legal obligations

	2018			
	Tax	Labor	Civil	Total
Balance as of December 31, 2017	12,759	4,571	29,611	46,941
Making of provision	-	1,805	-	1,805
Monetary restatement	404	33	2,833	3,270
Write-offs due to payment	-	(490)	-	(490)
Balance as of December 31, 2018	13,163	5,919	32,444	51,526

	2017			
	Tax	Labor	Civil	Total
Balance as of December 31, 2016	12,164	3,297	27,347	42,808
Making of provision	423	21	-	444
Monetary restatement	172	1,492	2,264	3,928
Operating reversals	-	(239)	-	(239)
Balance as of December 31, 2017	12,759	4,571	29,611	46,941

18 Shareholders' equity

a. Capital

The Extraordinary General Meeting held March 28, 2018 resolved to increase the Bank's share capital from R\$ 758,819 to R\$ 793,819, via the issuance of 34,998,498 new registered common shares, with a unit value each of R\$ 1.00 (one real).

The share capital as of December 31, 2018 consists of common shares, with a par value of R\$ 1.00 each, distributed as follows:

	Quantity of shares (thousand)
Sumitomo Mitsui Banking Corporation (Japan)	793,817
Shareholders domiciled in Brazil	<u>2</u>
Total	<u>793,819</u>

b. Dividends

Corporate legislation and the bylaws state a minimum of 25% of net income for the year shall be distributed to the shareholders in the form of dividends and/or interest on shareholders' equity.

On December 31, 2018 it was decided not to specify the dividend/interest in equity, where the profit for the year was allocated to the statutory reserve for future allocation.

c. Legal reserve

The legal reserve was recorded as established by Corporate Law, and may be used for offsetting losses or increasing the Company's capital.

d. Statutory reserve

The statutory reserve corresponds to the transfer of the balance of retained earnings, subsequent to the mandatory distributions. The remaining balance of R\$ 176,259 (R\$ 135,528 in 2017) will be transferred to the following year, or will be allocated as proposed by the Executive Board, and approved at the general meeting.

19 Income and social contribution taxes

a. As of December 31, 2018 and 2017, expenses were calculated as follows

	2018		2017	
	Income Tax	Social contribution	Income Tax	Social contribution
Income before taxes on income less profit sharing and JCP	77,310	77,310	40,381	40,381
Provision for contingent liabilities	(1,062)	(1,062)	5,034	5,034
Allowance for possible loan losses	72	72	(20,723)	(20,723)
Temporary provisions	(4,114)	(4,114)	10,613	10,613
Market value adjustment of derivative financial instruments	300	300	4,801	4,801
Adjustment to market value of hedge accounting operations	(2,896)	(2,896)	9,582	9,582
Nondeductible expenses	7,705	5,162	6,325	4,238
BM&F operations	5,910	5,910	(9,839)	(9,839)
Uncollectible losses	-	-	14,278	14,278
Other additions/(deductions)	(699)	(699)	-	-
Offsetting of tax loss carry forwards	(24,758)	(23,995)	(18,135)	(17,509)
Taxable income	57,768	55,989	42,316	40,855
Income tax - 15% (note 3n)	8,665		6,347	-
Income tax surcharge - 10% (note 3n)	5,753		4,208	-
Rouanet Law Contribution	(100)		(75)	-
Empresa cidadã law	(30)		(26)	-
Workers' Meal Program (PAT)	(347)		(254)	-
Social contribution - 20% (note 3n)	-	11,198	-	8,171
Total	13,941	11,198	10,200	8,171

b. Tax credits

Tax credits were recorded as of June 30, 2012 in the amount of R\$ 76,113 based on total tax loss and negative basis of social contribution. Based on the technical study carried out, Management understands that these tax credits are subject to offsetting in a period of up to 10 years. The amounts are recorded under "Other receivables - other".

(i) Breakdown of tax credit as of 12/31/2018

Breakdown of tax credit	12/31/2018	12/31/2017
Tax loss	16,465	22,654
Negative basis of social contribution	9,591	14,895
	-	-
Total	26,056	37,549

(ii) Project realization of tax credits as of 12/31/2018

Fiscal year	Deferred income tax	Deferred social contribution	Total
2019	6,998	3,493	10,491
2020	8,686	4,506	13,192
2021	781	1,592	2,373
<u>Subtotal</u>	<u>16,465</u>	<u>9,591</u>	<u>26,056</u>

(iii) Change in tax credit

The realization of tax credits is being performed in accordance with the estimated amounts in the corresponding study and its assumptions.

	Balance as of 12/31/2017	(Realizations) Provisions	Balance at 12/31/2018
Tax loss	22,654	(6,189)	16,465
Negative base CSLL	<u>14,895</u>	<u>(5,304)</u>	<u>9,591</u>
Total	<u>37,549</u>	<u>(11,493)</u>	<u>26,056</u>

Change in net income from deferred tax assets:

	12/31/2018
Realization of tax loss	6,189
Realization of negative base - CSLL	5,304
Other Tax Credits	<u>(2,196)</u>
Total	<u>9,297</u>

(iv) Present value of tax credit

Year	Deferred income tax	Deferred social contribution	Total
2019	6,566	3,278	9,844
2020	7,536	3,909	11,445
2021	618	1,261	1,879
Total	<u>14,720</u>	<u>8,448</u>	<u>23,168</u>

c. Other receivables

The Bank also has deferred tax assets and liabilities in the amounts of R\$ 5,145 and R\$ 11,383, respectively, which are solely related to the market value adjustments of transactions with available-for-sale securities, as established by the BACEN Circular 3068, at the market value of derivative financial instruments in accordance with Circular 3082. The rules for recognizing the effects of the actuarial liability under the benefit retirement plans and post-employment benefit plans consisting of the medical assistance plan which the Bank sponsors (pursuant to CVM resolution 600 and 695/2015) have also been taken into account.

There are also tax credits not recognized as assets on provisions for contingencies in the amount of R\$ 22,832 (R\$ 23,181 in 2017), due to uncertainties with respect to their realization in a time frame shorter than 10 years.

20 Statement of income

a. Loans

	2018		2017
	2nd Half	Year	
Loan income	42,667	110,627	146,146
Income from financing and onlendings	11,479	43,596	14,072
Total	<u>54,146</u>	<u>154,223</u>	<u>160,218</u>

b. Securities income

	2018		2017
	2nd Half	Year	
Interbank Funding	69,792	145,710	259,602
Securities income	45,335	97,722	105,593
Total	<u>115,127</u>	<u>243,432</u>	<u>365,195</u>

c. Income on financial derivatives

	2018		2017
	2nd Half	Year	
Revenue from swap, NDF and futures operations	1,320,974	2,391,931	1,169,081
Expenses on swap, NDF and futures operations	(1,329,133)	(2,235,667)	(1,264,05)
Total	<u>(8,159)</u>	<u>156,264</u>	<u>(94,975)</u>

d. Foreign exchange funding expenses

	2018	2017
	2nd Half	Year
Income from foreign exchange operations	39,212	141,826
Expenses on foreign exchange operations	(4,447)	(7,529)
	<u>34,765</u>	<u>134,297</u>
Total	<u>34,765</u>	<u>8,201</u>

e. Deposits, money market and interbank funds

	2018	2017
	2nd Half	Year
Time deposit expenses	(62,399)	(131,794)
Interbank deposit expenses	(184)	(202)
Expenses incurred on securities held under repurchase agreements	(392)	(3,684)
Expenses on contributions to the loan guarantee fund	(1,286)	(2,855)
	<u>(64,261)</u>	<u>(138,535)</u>
Total	<u>(64,261)</u>	<u>(218,246)</u>

f. Borrowings and pass-throughs

	2018	2017
	2nd Half	Year
Expenses on BNDES pass-throughs	(57)	(611)
Expenses on foreign borrowings and pass-throughs	(51,800)	(383,242)
Expenses on subordinated debt	(16,045)	(27,838)
	<u>(67,902)</u>	<u>(411,691)</u>
Total	<u>(67,902)</u>	<u>(89,803)</u>

g. Service fee income

	2018	2017
	2nd Half	Year
Income from fees and services	427	1,490
Income from business intermediation (see note 21a)	1,268	6,245
Income from guarantees granted	12,800	24,762
	<u>14,495</u>	<u>32,497</u>
Total	<u>14,495</u>	<u>30,942</u>

h. Personnel expenses

	<u>2018</u>	<u>2017</u>
	2nd Half	Year
Proceeds	(18,020)	(37,483)
Payroll charges	(6,656)	(13,975)
Benefits	(8,490)	(12,376)
Management fees	(1,859)	(4,095)
Our training	(82)	(231)
	<u>(35,107)</u>	<u>(68,160)</u>
Total	<u>(35,107)</u>	<u>(56,921)</u>

i. Other administrative expenses

	<u>2018</u>	<u>2017</u>
	2nd Half	Year
Rental expenses	(2,614)	(5,145)
Data processing expenses	(5,214)	(9,871)
Expenses on outsourced technical services	(2,766)	(4,910)
Communication expenses	(2,046)	(4,159)
Financial system service expenses	(1,077)	(1,869)
Asset maintenance and upkeep expenses	(237)	(451)
Security and surveillance services	(271)	(541)
Transportation expenses	(76)	(180)
Material expenses	(94)	(189)
Water, energy and gas expenses	(133)	(243)
Expenses on outsourced services	(411)	(752)
Advertising and marketing expenses	(71)	(253)
Insurance costs	(144)	(274)
Promotion and public relations	(321)	(433)
Charitable contributions	(108)	(117)
Amortization and depreciation	(1,334)	(2,362)
Other administrative expenses	(1,033)	(1,645)
	<u>(17,950)</u>	<u>(33,394)</u>
Total	<u>(17,950)</u>	<u>(32,763)</u>

j. Tax expenses

	<u>2018</u>	<u>2017</u>
	2nd Half	Year
COFINS	(3,674)	(7,287)
ISS	(745)	(1,691)
PIS	(597)	(1,184)
Other	(85)	(312)
	<u>(5,101)</u>	<u>(10,474)</u>
Total	<u>(5,101)</u>	<u>(11,187)</u>

k. Other operating income

	2018		2017
	2nd Half	Year	
Exchange variance - foreign-currency borrowings	-	-	932
Exchange variance - foreign onlending	3,019	3,019	3,825
Exchange variance on foreign onlending - interbank	-	-	5,072
Reversal of operating provisions - contingent liabilities	-	930	3,201
Reversal of provisions guarantees provided	-	1,003	-
Reversal of operating provisions - other	66	3,276	295
Investment fund management fees	-	645	2,284
Restatement of court deposits	337	699	1,234
Recovery of charges and expenses	251	509	2,541
Other	11	106	3,747
	<u>6,570</u>	<u>6,570</u>	<u>-</u>
Indemnification fines			
	<u>6,570</u>	<u>6,570</u>	<u>-</u>
Total	<u>10,254</u>	<u>16,757</u>	<u>23,131</u>

l. Other operating expenses

	2018		2017
	2nd Half	Year	
Exchange variance loss interbank onlending	-	-	(5,171)
Exchange variance loss on ME financing	(16)	(16)	(150)
Expenses on labor claims	(1,340)	(1,340)	-
Provisions for Guarantees submitted	(905)	(905)	(6,025)
Expenses on operating provisions - contingent liabilities	(57)	(137)	(1,658)
Expenses on operational provisions - other	-	(476)	-
Monetary restatement of provisions (tax, civil and labor)	(1,959)	(3,595)	(2,714)
Other	(23)	(55)	(101)
	<u>(4,300)</u>	<u>(6,524)</u>	<u>(15,819)</u>
Total	<u>(4,300)</u>	<u>(6,524)</u>	<u>(15,819)</u>

m. Nonoperating income

	2018		2017
	2nd Half	Year	
Other nonoperating income	29	138	52
Other nonoperating expenses	-	-	(200)
Total	<u>29</u>	<u>138</u>	<u>(148)</u>

21 Related-party transactions and balances

a. Transactions with parent companies (direct and indirect)

The balances of related party transactions with Sumitomo Mitsui Banking Corporation are as follows:

	<u>Assets / (liabilities)</u>		<u>Revenue / (expense)</u>	
	2018	2017	2018	2017
Cash and cash equivalents - foreign currency deposits	26,643	19,293	-	-
Investments in foreign currency abroad	58,125	248,120	(3,261)	7,149
Amounts receivable - sales commission (see note 20.g)	-	-	6,245	5,919
Obligations on overseas loans	(388,354)	(433,665)	(93,064)	8,639
Foreign on-lendings	(1,738,728)	(1,646,037)	(284,334)	(44,844)
Subordinated debt	(780,868)	(665,281)	(27,838)	(18,722)
Total	<u>(2,823,182)</u>	<u>(2,477,570)</u>	<u>(402,252)</u>	<u>(41,859)</u>

b. Compensation of key management personnel

Pursuant to CMN Resolution No. 3750/09 and Technical Pronouncement CPC 05 - Disclosure of Related Parties, all management members have been defined as key personnel of the entity.

The global compensation is paid to executive officers in conformity with the by-laws of Banco Sumitomo Mitsui Brasileiro S.A.

In the most recent statutory reform occurred in April 2018, the maximum global monthly compensation of the executive officers was set at R\$ 600 (salaries of executive officers).

Short-term benefits for executive officers

	2018	2017
Proceeds	4,095	4,580
Variable compensation	3,628	1,937
Contributions to INSS (Social Security Contribution) /FGTS (Severance Pay Fund)	<u>1,943</u>	<u>1,418</u>
Total	<u>9,666</u>	<u>7,935</u>

Post-employment benefits

In accordance with the pension fund regulations, executive officers may opt to participate in the supplementary defined-benefit pension plan, fully sponsored by Banco Sumitomo Mitsui Brasileiro S.A., under the same conditions of the other employees of the Bank (note 24).

Banco Sumitomo Mitsui does not award long-term benefits or share-based compensation to its key Management personnel.

c. Further information

Under the existing legislation, financial institutions are forbidden to provide loans, financing or advances to:

- (i) Officers and members of the advisory board, board of directors, audit committee and other similar boards, in addition to their spouses and relatives (to the second-degree)
- (ii) Individuals or companies with interests in their capital of over 10%, and
- (iii) Companies in which the bank itself, or any of its officers or directors or their spouses and relatives (to the second-degree) have an interest in excess of 10%.

Based on the foregoing, the Bank does not and did not grant loans, financing or any other advance to its executive officers or to any member of their families.

Management members did not hold any interest in the capital of the Bank.

22 Operating limits

Capital Adequacy Ratio (Basel)

The Bank falls within the National Monetary Council (CMN) Resolution 2099/94, as amended by the CMN Resolutions 4192/13 and 4913/13, which presents the Equity index in relation to the Weighted Assets, as follows:

	12/31/2018	12/31/2017
Credit Risk	3,822,820	4,537,114
Market Risk	428,132	489,568
Operational Risk	336,905	320,560
Assets weighted by risk (RWA)	4,587,857	5,347,242
Rban portion	12,465	1,828
Reference Equity Tiers I and II (PR)	1,606,171	1,532,329
Required Regulatory Shareholders' Equity (RWA*8.625%)	395,703	561,460
Margin over Required Regulatory Capital	1,210,468	970,869
Capital Adequacy Ratio (IB) - PR/RWA	35.01%	28.66%

- (*) The minimum percentage required for the reference equity in 2018 is 8.625% (2017 - 9.25%).

23 Guarantees provided and liabilities for opened import credit facilities

As of December 31, 2018 and 2017, guarantees provided by the Bank total:

	2018	2017
Domestic	1,413,738	1,577,779
Foreign	<u>8,494</u>	<u>57,873</u>
Total	<u><u>1,422,232</u></u>	<u><u>1,635,652</u></u>

The Bank recorded an allowance for doubtful loans for these guarantees in accordance with CMN Resolution 4512/16 and Circular 3782/16. The figures were based on the assumptions of Resolution 2682 and amount to R\$ 3,911 (R\$ 4,009 in 2017):

	2018		2017	
	Guarantees provided	Provision	Guarantees provided	Provision
Linked to international trade of commodities	8,494	(195)	57,873	(1,242)
Linked to procurements, auctions, provision of services or carrying out of works	24,253	-	33,903	-
Linked to the supply of goods	44,308	(153)	84,646	(1,755)
Endorsement or guarantee in judicial and administrative tax proceedings	662,869	(841)	741,553	(928)
Other Bank Guarantees	57,205	(54)	211,614	(84)
Other financial guarantees provided	<u>625,104</u>	<u>(2,668)</u>	<u>506,063</u>	<u>-</u>
Total	<u><u>1,422,233</u></u>	<u><u>(3,911)</u></u>	<u><u>1,635,652</u></u>	<u><u>(4,009)</u></u>

As of December 31, 2018 the Bank has a balance of R\$ 314 in the account of liabilities for opened import credit facilities (R\$ 3,362 in 2017).

24 Post-employment benefits sponsored by the Bank

The Entity's actuarial liabilities were determined in accordance with the model established in the respective plan and represent the amount of commitments made and to be made.

CVM Resolution No. 695 of December 13, 2015, approved CPC Technical Pronouncement No. 33 (R1) which addresses the matter of employee benefits, in accordance with the International Accounting Standard IAS 19. CPC Technical Pronouncement CPC 33 established essential changes in the accounting and disclosure of employee benefits such as the removal of the corridor mechanism in the recording of the plan's liabilities, and changes in the recognition criterion of the plans' assets (appreciations and devaluations). The adoption of the aforementioned Pronouncement applies to years started as from January 1, 2015, and the effects are recorded retrospectively in the accounting, as changes in accounting practices. Adopting this accounting practice will basically lead to the full recognition as liabilities of actuarial losses (actuarial deficit) not recognized to date as an offsetting entry to an equity account.

a. Retirement Plan

The Bank sponsors Banco Sumitomo Mitsui Brasileiro Sociedade de Previdência Privada (“Entity”), established on April 20, 1992 and primarily engaged in granting lump sum benefits and/or supplemental income to the Bank’s employees and directors by means of a defined benefit plan. Participants (employees) are entitled to a benefit upon termination of the employment relationship, calculated according to regulatory provisions, whose amount will depend on the participant’s salary and length of service at termination date.

As of December 31, 2018, there were no significant changes in the current restatement parameters.

Description	Retirement Plan	
	12/31/2018	12/31/2017
Present value of actuarial obligations	53,536	47,619
Fair value of the plan’s assets	<u>(51,809)</u>	<u>(50,106)</u>
Deficit/(Surplus) for covered plans	<u>1,727</u>	<u>(2,487)</u>
Unrecognized actuarial gains/(losses)		-
Adjustments for permitted deferrals		
Effect deriving from the limit on recognizing onerous assets/liabilities	<u>-</u>	<u>2,487</u>
Net actuarial liability/(asset)	<u>1,727</u>	<u>-</u>

Actuarial assumptions:

Nominal discount rate for the actuarial obligation	8.95% p.a.	10.25% p.a.
Estimated rate of nominal salary increase	7.12% p.a.	7.64% p.a.
Estimated nominal benefit increase	4.00% p.a.	4.50% p.a.
Estimated inflation rate	4.00% p.a.	4.50% p.a.
Biometric table of general mortality	At-2000 smoothed by 10% and separated per gender	At-2000 smoothed by 10% and separated per gender
Biometric table for classification as disabled	“Mercer” table	“Mercer” table
Expected turnover rate	0.30/ (length of service +1)	0.30/ (length of service +1)
Chance of entering retirement	10% on the first date of eligibility to early retirement 3% between the first eligibility to earlier and normal retirement 100% on the date of eligibility to normal retirement.	

In the year ended December 31, 2018, the Bank made contributions to the Pension Fund Company described earlier herein in the amount of R\$ 1,325 (R\$ 3,675 in 2017).

b. Sensitivity Analysis

The present value of the actuarial obligation is sensitive to changes in the main hypotheses: discount rate, wage growth and life expectancy. The impacts on the present value of the actual obligation are stated including the basic discount rate adopted for this Actuarial Appraisal (10.00% p.a.):

	Sensitivity Analysis	
Present value of the Obligations	12/31/2018	12/31/2017
Discount Rate: decrease of 0.25%	1,801	1,605
Discount Rate: increase of 0.25%	(1,909)	(1,518)
Impact on the average duration of the defined-benefit obligation (in years)		
Discount Rate: decrease of 0.25%	14.4	13.97
Discount Rate: increase of 0.25%	14.7	13.69

he health care plan offered by Banco Sumitomo Mitsui to its employees was contribution-based until November 2017, generating the obligation to extend the coverage in exchange for payment of the respective premiums to former employees and retired employees of the company, in accordance with Art. 30 and 31 of Law 9656/1998. Contributions of the plan were interrupted in December 2017, although there remains a group of employees who are entitled to this coverage, presenting the following actuarial liability:

Description	Health care plan	
	12/31/2018	12/31/2017
Net actuarial liability/(asset)	8,286	8,914
Total	8,286	8,914
Actuarial assumptions/actuarial hypotheses		
Nominal discount rate for the actuarial obligation	9.12%pa	10.25% pa
Estimated inflation rate	4.00%pa	4.50% pa
Turnover Biometric Rate	0.15/ (Length of Service) +1	0.15/ (Length of Service) +1
Biometric retirement entry table	55 years	55 years
Biometric table of general mortality	AT-2000 segregated by sex and deducted by 10%	AT-2000 segregated by sex and deducted by 10%
HCCTR (Health Care Cost Trend Rate)	Decreasing from 9.20% pa to 5.04% pa	Decreasing from 10.25% pa to 5.55% pa
Restatement of the Participant's Contribution	Inflation (HCCTR)	Inflation (HCCTR)
Restatement of the Plan's Cost	Inflation (HCCTR) + Aging Factor	Inflation (HCCTR) + Aging Factor
Percentage of people opting to remain in the plan	Retirement: 100% severance: 100%	Retirement: 100% severance: 100%
Aging Factor	3.00% (per annum - age)	3.00% (per annum - age)
Family members - Active	90% Married	90% Married
Age difference between holder and spouse	4 years	4 years
Family members - Retired	Real family	Real family

25 Operational, market, credit and capital management risk management framework

Operational risk

Operational risk is defined as the risk of loss arising from deficiencies, failures or inadequacy of internal processes, human conduct or systems or that arising from external causes. This definition includes the legal risk.

The Operational Risk Management framework is considered a strategic and competitive factor for Banco Sumitomo Mitsui Brasileiro S.A. and is defined in the Bank's Operational Risk Management Policy established and approved by the Bank's Management at least annually, pursuant to CMN Resolution 3380/2006. It is reported directly to the Bank's Executive Board. It is an important tool for the effective management of the entity's economic and regulatory capital. The size of the framework is proportional to the risks related to the complexity of the products offered by the institution, nature of transactions and risk exposure guidelines of the Bank and the companies whose accounts are included in the consolidated financial statements.

The Operational Risk Management practice of Banco Sumitomo Mitsui Brasileiro S.A. adopts a management method shared with the Bank's business areas, therefore leading to a clear view of the respective tactical and strategic roles and responsibilities of the business and Operational Risk Management departments, allowing the coordination and cooperation of all Bank's employees to reduce operational losses and duplicate activities.

Under this management method, the Operational Risk Management department is in charge of:

- (i) Establishing the structure, policies and tools for managing operational risks;
- (ii) Conducting periodical tests which are independent from identified control risks;
- (iii) Preparing periodical reports;
- (iv) Coordinating the operational risk management committees set up by the Bank;
- (v) Consolidating and monitoring the losses incurred by the Bank.

Management, aligned with its Corporate Governance Policy, recognizes, participates in and shares responsibility for continuous improvements in this structure, to ensure compliance with the established objectives and goals and security and quality for the Bank's clients, shareholders and related parties.

Banco Sumitomo Mitsui Brasileiro S.A. adopted the Basic Indicator Approach, "BIA", to calculate the capital requirement for Operational Risks.

Information related to the Bank's Operational Risk Management framework, and Management's responsibility for published information, are included in the publicly disclosed report available at www.smbcgroup.com.br.

Market and Liquidity Risk

Market risk is the possibility of losses being incurred due to variations in prices, indexes and rates from mismatches of terms, currencies and indexes for asset and liability portfolios. Banco Sumitomo Mitsui Brasileiro S.A. adopts a highly conservative policy and exposure to market risk factors.

Liquidity Risk is the possibility that the entity is unable to meet its expected and unexpected obligations, whether current or future, including those resulting from guarantees, without affecting its daily transactions and without sustaining significant losses; and the possibility of the entity being unable to trade a position at market price, due to its high size in relation to the volume which is usually traded or due to some market discontinuity.

The Market and Liquidity Risk Management structure is a specific unit of the Bank, independent from the business and audit areas, and reports directly to the Bank's Executive Board. It is responsible for managing market, liquidity and credit risks, and ensuring prudent practices and effective techniques of risk control. The size of the framework is proportional to the risks related to the complexity of the products offered by the institution, nature of transactions and risk exposure guidelines of the Bank and the companies whose accounts are included in the consolidated financial statements.

The Market and Liquidity Risk Management policy is based on the daily control of the Bank's market risk positions, on the control of limits for positions, divided into limits for exposure to interest rate and exposure to exchange rates, as well as Limits/Guidelines for "Stop Loss". In addition, the Risk Management Department also monitors the market risk using the Value at Risk (VAR) methodology and stress tests.

The Market and Liquidity Risk Management framework was implemented in accordance with the requirements of Resolution No. 3464/2007 and Resolution No. 4090/2015 and is approved and reviewed at least annually by the Bank's management. In order to ensure the implementation of the guidelines and policies in force, Banco Sumitomo Mitsui Brasileiro S.A. has a Committee of Assets and Liabilities (ALCO), which usually meets once a month with the participation of Management members, and extraordinarily whenever necessary. The purposes of said Committee are, among others, to decide on the market and liquidity risk management policy, asset and liability management policy, to ensure compliance with the limits/guidelines for market and liquidity risk, to ensure that the entity keeps proper and sufficient liquidity levels and to check procedures in the treatment of new products and their risk management structure.

Information related to the Bank's Market and Liquidity Risk Management framework is included in the publicly-disclosed report available at www.smbcgroup.com.br. The Management of Banco Sumitomo Mitsui Brasileiro S.A is responsible for all disclosed information.

Credit risk

Credit risk is defined as the possibility of the occurrence of losses related to non-compliance by the borrower or counterpart with their respective obligations under the terms agreed on, the devaluation of credit assets, deriving from deterioration in the risk rating of the borrower, a decrease in gains or remunerations, the advantages granted in renegotiation and recovery costs.

Credit risk is strongly related to other types of risk, such as market and liquidity risks. These types of risks derive, many times, from the Credit Risk and may occur concurrently.

The Credit Risk Management structure was implemented in accordance with the requirements of Resolution 3721/2009 and is approved and reviewed at least annually by the Bank's Management. The Credit Risk Management structure is a specific unit of the Bank, independent from the business and audit areas, and reports directly to the Bank's Executive Board. The size of the framework is proportional to the risks related to the complexity of the products offered by the institution, nature of transactions and risk exposure guidelines of the Bank and the companies whose accounts are included in the consolidated financial statements.

The Bank's Credit Risk Management structure is implemented to maintain the policies, procedures and systems for monitoring and controlling credit risk according to prevailing laws, therefore ensuring that the credit risk is identified, measured, monitored, controlled and reported to Management, so as to allow a proper treatment of risk as one of the factors of growth and profitability.

The Credit Risk Management framework has policies and strategies which are clearly defined and duly documented and reviewed, establishing operational limits, risk mitigation mechanisms and procedures to keep exposure to credit risk at levels considered acceptable by the Bank's Management;

Information related to the Bank's Credit Risk Management framework, and Management's responsibility for published information, are included in the publicly disclosed report available at www.smbcgroup.com.br.

Capital management

Capital management is defined as a continuous process of monitoring and controlling the capital held by the entity; assessing capital needs to face the risks the entity is subject to; and planning goals and capital needs, considering the entity's strategic purposes.

The capital management framework was implemented in accordance with the requirements of Resolution 3988 and is approved and reviewed at least annually by the Bank's Management. The capital management framework is under the responsibility of the Risk Management Department, independent from the business and audit areas. The size of the framework is proportional to the risks related to the complexity of the products offered by the institution, nature of transactions and risk exposure guidelines of the Bank and the companies whose accounts are included in the consolidated financial statements. The capital management framework aims to identify and assess all the entity's significant risks according to policies and strategies, in order to keep the level of capital compatible with incurred risks.

In order to adopt a prospective approach and foresee the need for capital, the Bank has set up a New Product and Service Committee, with the permanent participation of the Risk Management Department, where the product and/or service is analyzed before being implemented on the Bank.

The Bank does not follow an Internal Capital Adequacy Assessment Process (ICAAP), pursuant to article six of Resolution No. 3,988 issued on June 30, 2015.

The Risk Management Department tracks portfolio's performance daily and if there are any differences, communicates them immediately to Top Management so that capital adequacy is adequately addressed.

Information related to the Bank's Capital Management framework is included in the publicly-disclosed report available at www.smbcgroup.com.br. The Management of Banco Sumitomo Mitsui Brasileiro S.A is responsible for all disclosed information.