

Banco Sumitomo Mitsui Brasileiro S.A.

Financial statements as of December 31, 2019

*(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)*

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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, 2019, whose net income in the year amounted to R\$ 38,584 (R\$ 42,875 as of December 31, 2018), total assets R\$ 7,246,914 (R\$ 6,804,963 as of December 31, 2018) and the loans portfolio R\$ 1,537,427 (R\$ 1,047,719) thousand as of December 31, 2018).

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 30, 2020.

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, 2019 and the related statements of income, changes in shareholders' equity and cash flows for the half-year and year then ended, as well as the related explanatory notes including significant accounting policies and other explanatory information.

In our opinion, the financial statements referred to above, present fairly, in all material respect, the financial position of the Banco Sumitomo Mitsui Brasileiro S.A. as of December 31, 2019, the performance of its operations and its cash flows for the half-year and year then ended, in accordance with accounting practices adopted in Brazil applicable to institutions authorized 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 relevant ethical requirements included in the Accounting Professional Code of Ethics and in the professional standards issued by the Brazilian Federal Accounting Council, 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's Management is responsible for the other information. The other information comprises the Management's Report.

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

In connection with our audit of the 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, 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 the accounting practices adopted in Brazil that apply to institutions authorized to operate by the Brazilian Central Bank 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 Bank's charged with governance are responsible for overseeing the 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 and International Standards on auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in 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 and International Standards on auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the 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 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 30, 2020.

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, 2019 and 2018

(In thousands of reais)

Asset	Note	2019	2018	Liabilities	Note	2019	2018
Current		<u>4,586,343</u>	<u>4,638,413</u>	Current		<u>4,861,390</u>	<u>3,618,118</u>
Cash and banks	4	45,607	49,279	Deposits	13	2,223,803	2,177,316
Interbank investments	5	<u>2,121,027</u>	<u>2,855,901</u>	Demand deposits		76,100	97,032
Money market		1,490,190	1,790,436	Interbank deposits		2,090	19,088
Interfinancial deposits		364,839	301,887	Time deposits		2,145,613	2,060,273
Foreign currency		265,998	763,578	Foreign-currency deposits		-	923
Securities and Derivative financial instruments		<u>383,284</u>	<u>593,078</u>	Interbranch accounts		<u>22,848</u>	<u>44,476</u>
Own portfolio	6.a	271,562	458,821	Third-party funds in transit		22,848	44,476
Subject to guarantees	6.d	60,224	125,956	Borrowings	15.a	<u>1,093,657</u>	<u>388,354</u>
Derivative Financial Instruments	6.b	51,498	8,301	Foreign currency borrowings		1,093,657	388,354
Interbank accounts		<u>201,730</u>	<u>41,325</u>	Foreign onlendings	15.b	<u>727,729</u>	<u>449,889</u>
Central Bank of Brazil deposits		1,750	1,788	Onlending borrowings from abroad		727,729	449,889
Collections in transit		-	58	Derivative financial instruments	6.b	<u>177,046</u>	<u>17,449</u>
Interbank onlending	7	200,028	39,483	Derivative financial instruments		177,046	17,449
Provision for losses on Interbank onlending	7	(48)	(4)	Other liabilities		<u>616,307</u>	<u>540,634</u>
Loans	8	<u>843,625</u>	<u>615,869</u>	Collection of taxes		346	308
Private sector		844,704	616,578	Foreign exchange portfolio	9	460,524	398,862
Allowance for doubtful accounts		(1,079)	(709)	Due to shareholders	18.b	3,659	3,126
Other receivables		<u>989,861</u>	<u>481,668</u>	Tax and social security	16.a	54,961	53,278
Foreign exchange portfolio	9	955,349	471,958	Due in connection with securities dealing		11,033	6,362
Income receivable		1,540	2,547	Subordinated debt	16.c	-	5,908
Trading and Brokerage of Securities		11,302	1,653	Other	16.b	85,784	72,790
Other	10	23,300	5,544	Noncurrent liabilities		<u>596,388</u>	<u>2,200,170</u>
Allowance for loan losses on other receivable		(1,630)	(34)	Domestic onlendings	15.c	<u>-</u>	<u>5,924</u>
Other assets	11	<u>1,209</u>	<u>1,293</u>	Domestic onlending - BNDES/FINAME		-	5,924
Prepaid expenses		1,172	1,258	Foreign onlendings	15.b	<u>593,145</u>	<u>1,308,349</u>
Inventory material		37	35	Onlending borrowings from abroad		593,145	1,308,349
		<u>2,653,132</u>	<u>2,157,222</u>	Derivative financial instruments	6.b	<u>834</u>	<u>109,552</u>
Non-current assets				Derivative financial instruments		834	109,552
Interbank investments	5	<u>337,887</u>	<u>348,815</u>				
Interfinancial deposits		337,887	348,815				

Banco Sumitomo Mitsui Brasileiro S.A.

Statements of financial position

Years ended December 31, 2019 and 2018

(In thousands of reais)

				Other liabilities		2,409	776,345
Securities and derivative financial instruments		2,083,714	1,209,221	Subordinated debt	16.c	-	774,960
Own portfolio	6.a	1,637,620	731,158	Other	16.b	2,409	1,385
Subject to guarantees	6.d	438,879	465,042				
Derivative Financial Instruments	6.b	7,215	13,021	Deferred income		3,540	3,715
				Deferred income		3,540	3,715
Interbank Accounts	7	-	191,743				
Interbank onlending		-	191,773	Shareholders' equity		1,785,596	982,960
Provision for losses on Interbank on-lending		-	(30)	Share capital	18	1,559,699	793,819
				Domestic		2	2
Loans	8	187,670	351,862	Foreign		1,559,697	793,817
Private sector		187,999	352,603	Profit reserves		226,177	187,590
Allowance for doubtful accounts		(329)	(741)	Cash Flow Hedge		2,030	-
				Fair value securities	6.a	(13)	(628)
Other receivables		43,861	55,321	Adjustment actuarial liabilities	24	(12,132)	(6,440)
Other	10	43,861	55,321	Exchange variance adjustments to overseas investments		9,835	8,619
Other assets	11	-	259				
Prepaid expenses		-	259				
Permanent assets		7,439	9,328				
Investment		123	123				
Other investments in Brazil		123	123				
Property for use	12.a	1,829	2,685				
Other property for use		9,540	9,595				
Accumulated depreciation		(7,711)	(6,910)				
Intangible	12.b	5,487	6,520				
Intangible Assets		16,842	16,373				
Accumulated amortization		(11,355)	(9,853)				
Total assets		<u>7,246,914</u>	<u>6,804,963</u>	Total liabilities		<u>7,246,914</u>	<u>6,804,963</u>

See the accompanying notes to the financial statements.

Banco Sumitomo Mitsui Brasileiro S.A.

Income statements

Financial years ended December 31, 2019 and 2018 and the half-year ended December 31, 2019

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

	Note	2019		2018
		Half-year	Year	Year
Financial operations revenue		<u>342,162</u>	<u>480,367</u>	<u>688,216</u>
Loans	20.a	49,504	80,201	154,223
Securities income	20.b	157,812	311,295	243,432
Derivative financial instruments income	20.c	90,398	50,705	156,264
Foreign exchange funding income	20.d	44,448	38,166	134,297
Financial operations expenses		<u>(261,667)</u>	<u>(325,383)</u>	<u>(539,204)</u>
Deposits, money market and interbank funds	20.e	(52,030)	(112,205)	(138,535)
Borrowings and onlendings	20.f	(208,873)	(211,624)	(411,691)
Allowance for loan losses	8.e	(764)	(1,554)	11,022
Gross income on financial operations		<u>80,495</u>	<u>154,984</u>	<u>149,012</u>
Other operating income (expenses)		<u>(43,699)</u>	<u>(84,419)</u>	<u>(69,298)</u>
Service fee income	20.g	19,200	34,874	32,497
Personnel expenses	20.h	(32,308)	(63,733)	(68,160)
Other administrative expenses	20.i	(20,295)	(42,569)	(33,394)
Tax expenses	20.j	(5,796)	(15,595)	(10,474)
Other operating income	20.k	1,935	11,743	16,757
Other operating expenses	20.l	(6,435)	(9,139)	(6,524)
Operating income		<u>36,796</u>	<u>70,565</u>	<u>79,714</u>
Non operating income	20.m	<u>60</u>	<u>241</u>	<u>138</u>
Income before taxation		<u>36,856</u>	<u>70,806</u>	<u>79,852</u>
Income tax and social contribution	19	<u>(14,094)</u>	<u>(29,427)</u>	<u>(34,435)</u>
Income Tax		(7,839)	(16,063)	(13,941)
Social Contribution		(4,751)	(9,569)	(11,198)
Deferred Assets		(1,504)	(3,795)	(9,296)
Profit-sharing		<u>(1,623)</u>	<u>(2,795)</u>	<u>(2,542)</u>
Net income for the half-year/year		<u>21,139</u>	<u>38,584</u>	<u>42,875</u>
Number of shares		<u>758,820</u>	<u>1,559,699</u>	<u>793,820</u>
Net income per lot of a thousand shares - R\$		<u>27.86</u>	<u>24.74</u>	<u>54.01</u>

See the accompanying notes to the financial statements.

Banco Sumitomo Mitsui Brasileiro S.A.

Statements of changes in shareholders' equity

Financial years ended December 31, 2019 and 2018 and the half-year ended December 31, 2019

(In thousands of reais)

	Note	Profit reserve			Other Comprehensive Income				Profit / (Losses) Accumulated	Total
		Realized Capital	Legal	Statutory	Own	Hedge Gains and Losses	Adjustment Actuarial Liabilities	Exchange variance adjustments to overseas investments		
Balances at December 31, 2017		758,819	9,187	135,528	(70)	-	(5,322)	752	-	898,894
Capital Increase		35,000	-	-	-	-	-	-	-	35,000
Fair value 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)	-
Balances at December 31, 2018		793,819	11,331	176,259	(628)	-	(6,440)	8,619	-	982,960
Capital Increase		765,880	-	-	-	-	-	-	-	765,880
Fair value of securities and derivatives		-	-	-	615	2,030	-	-	-	2,645
Adjustment actuarial liabilities		-	-	-	-	-	(5,692)	-	-	(5,692)
Exchange variance adjustments to overseas investments		-	-	-	-	-	-	1,216	-	1,216
Net income for the year									38,587	38,587
Legal reserve	18.c	-	1,929	-	-	-	-	-	(1,929)	-
Statutory reserve	18.d	-	-	36,658	-	-	-	-	(36,658)	-
Balances at December 31, 2019		1,559,699	13,260	212,917	(13)	2,030	(12,132)	9,835	-	1,785,596
Balances at June 30, 2019		1,559,699	11,331	176,259	(152)	4,147	(6,440)	8,391	17,448	1,770,683
Capital Increase		-	-	-	-	-	-	-	-	-
Reversal of Reserves		-	-	-	-	-	-	-	-	-
Fair value of securities and derivatives		-	-	-	139	(2,117)	-	-	-	(1,978)
Adjustment actuarial liabilities		-	-	-	-	-	(5,692)	-	-	(5,692)
Exchange variance adjustments to overseas investments		-	-	-	-	-	-	1,444	-	1,444
Resolution 4524		-	-	-	-	-	-	-	-	-
Net income in the half-year		-	-	-	-	-	-	-	21,139	21,139
Legal reserve	18.c	-	1,929	-	-	-	-	-	(1,929)	-
Statutory reserve	18.d	-	-	36,658	-	-	-	-	(36,658)	-
Interest on shareholders' equity		-	-	-	-	-	-	-	-	-
Balances at December 31, 2019		1,559,699	13,260	212,917	(13)	2,030	(12,132)	9,835	-	1,785,596

See the accompanying notes to the financial statements.

Banco Sumitomo Mitsui Brasileiro S.A.

Statement of cash flows

Financial years ended December 31, 2019 and 2018 and half-year ended December 31, 2019

(In thousands of reais)

	Bank		
	2019	2019	2018
	Half-year	Year	Year
Adjusted Net Income	36,024	112,321	75,888
Net income for the half-year and year	21,139	38,587	42,875
Adjustments to reconcile income (loss) to cash provided by operating activities	14,885	73,734	33,013
Adjustment to fair value of securities and derivative financial instruments (Assets/Liabilities)	(5,748)	28,118	(2,597)
Result in Financial Assets measured at Fair Value through OCI	(3,444)	2,660	7,636
Adjustment to Allowance for Doubtful Accounts	764	1,554	(11,022)
Provision Adjustment (reversal) to para Interbank Operations	2	13	(1,778)
Provision Adjustment (reversal) to financial guarantees submitted	1,331	860	(98)
Depreciation and Amortization	1,308	2,646	2,362
Adjustment to Provision for Tax Risks	334	520	403
Adjustment to Provision for Contingent Liabilities	4,174	5,146	4,180
Deferred Taxes	1,651	2,277	8,471
Provision for income and social contribution taxes	12,590	25,632	25,710
Monetary Restatement / Reversal of Judicial Deposits	(245)	(572)	507
Provisions for / Reversals of Personnel Bonuses	2,226	257	1,243
Other	(58)	4,623	(2,004)
Changes in Assets and Obligations	(283,709)	(1,826,053)	720,806
(Increase) Decrease in Interbank Investments	424,036	86,274	(237,902)
(Increase) Decrease in Securities and derivative financial instruments (Assets/Liabilities)	(509,648)	(617,212)	(423,974)
(Increase) Decrease in Interbranch Accounts (Asset/Liabilities)	(40,707)	9,697	393,357
(Increase) Decrease in Loans	(84,866)	(64,050)	693,402
(Increase) Decrease in Securities and Forex Trading Operations (Assets/Liabilities)	(67,864)	(426,707)	201,236
(Increase) Decrease in Other receivables and other assets	338	(3,146)	(403)
Income and Social Contribution Taxes paid	(6,133)	(26,462)	(18,464)
(Decrease) Increase in Other Liabilities	1,135	(784,447)	113,554
Net cash provided by or used in operating activities	(247,685)	(1,713,732)	796,694
 (Acquisition) Sale of Intangible Assets	(412)	(735)	(5,370)
(Acquisition) Sale of Property for use	232	55	(162)
Net cash provided by or used in investment activities	(180)	(680)	(5,532)
 Payment of Capital	-	765,880	35,000
Payment of Interest on Equity Reserve	-	-	(35,000)
Increase (decrease) in Deposits	297,033	46,486	18,757
Increase (Decrease) in Money Market Funding	-	-	(218,092)
Increase (Decrease) in Onlending Borrowings	(840,392)	239,324	16,848
Net cash provided by or used in financing activities	(543,359)	1,051,690	(182,487)
Increase / Decrease in cash and cash equivalents	(791,224)	(662,722)	608,674
 Cash at Beginning of Period	39,188	49,279	31,275
Cash equivalents at Beginning of Period	2,692,607	2,554,014	1,963,344
Total cash and cash equivalents at beginning of period	2,731,795	2,603,293	1,994,619
 Equivalents at End of Period	45,607	45,607	49,279
Cash Equivalents at End of Period	1,894,964	1,894,964	2,554,014
Total cash and cash equivalents at end of period	1,940,571	1,940,571	2,603,293
Changes in Cash and Cash Equivalents in the period	(791,224)	(662,722)	608,674

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 nº 1524/88.

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 nº 3566/08 – Impairment of Assets (CPC 01)
- CMN Resolution nº 3604/08 – Statement of Cash Flows (CPC 03)
- CMN Resolution nº 3750/09 – Related Party Disclosures (CPC 05)
- CMN Resolution nº 3823/09 – Provisions, contingent liabilities and contingent assets (CPC 25)
- CMN Resolution nº 3973/11 – Subsequent Events (CPC 24);
- CMN Resolution nº 3989/11 – Share-based Payment (CPC 10)
- CMN Resolution nº 4007/11 – Accounting Policies, Changes in Estimates and Correction of Errors (CPC 23);
- Resolution nº 4144/12 – Basic conceptual pronouncement (R1)
- CMN Resolution nº 4424/15 – Employee Benefits (CPC 33)
- CMN Resolution nº 4524/16 – Effects of the changes in financial statement exchange and translation rates (CPC 02)

- CMN Resolution nº 4534/16 – Intangible Assets (CPC 04)
- CMN Resolution nº 4535/16 – Property, plant and equipment (CPC 27)

The Executive Board authorized the issuance of the financial statements as of December 31, 2019 on March 25, 2020.

3 Description of significant accounting policies

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

a. Functional currency and reporting 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. Investments investments

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

e. Securities and Derivative financial instruments

Securities

Under BACEN Circular nº. 3068, as 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 fair 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 fair 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 income 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 nº 3082, of January 30, 2002 and BACEN Circular Letter nº 3026, of 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 nº 3150/2002 issued by BACEN (Central Bank of Brazil), are stated at fair 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 year.
- Financial instruments considered as hedging instruments:
 - Against market risks – are used to offset the risks arising from exposure to the variation in the fair 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 fair 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 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 transaction, its debtors and guarantors, according to the parameters established by the CMN Resolution nº 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 nº. 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

Are stated at cost plus, when applicable, income and monetary variations earned, less allowance for losses at realization value adjustments.

h. Property for use

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

Are stated at the cost of acquisition or formation, less accumulated amortization calculated up to the year-end 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 leasehold improvements are stated at the cost of acquisition or formation, less accumulated amortization calculated up to the year-end 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

Rights and liabilities 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 income for the year.

m. Deposits and money market repurchase commitments

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 nº 3823/09, which approved CPC nº 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.

Judicial deposits are held in an asset account and adjusted for inflation based on their bank statements. They are not deducted from provisions for contingent liabilities and legal obligations, in compliance with BACEN's 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 15%. Rate which will be 20% from March 01, 2020, a change made by Constitutional Amendment nº 103 dated November 12, 2019.

Tax credits are recognized according to the provisions included in Resolution nº 3059 of December 31, 2002 and Resolution nº 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 years, 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 20% (*) for social contribution 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.

(*) Although the rate in force for CSLL is 15%, which is legally only expected to be changed to 20% on 03/01/2020, we adopted the best accounting practices and use the rate of 20%, as the estimated realization of our tax credit will occur after this date.

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 nº 695 of December 13, 2012 approved CPC Technical Pronouncement nº 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 for and disclosure of employee benefits such as the removal of the corridor mechanism for recognizing the plan's liabilities, and changes in the criterion for recognizing 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 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 December 25, 2015 the Central Bank issued CMN Resolution nº 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:

	2019	2018
Cash and banks	45,607	49,279
Interbank investments	<u>1,894,964</u>	<u>2,554,014</u>
Total cash and cash equivalents	<u><u>1,940,571</u></u>	<u><u>2,603,293</u></u>

5 Interbank investments

Money market investments, as of December 31, 2019 and 2018, is composed as follows:

2019				
	Up to 3 months	3 to 12 months	Over 12 months	Total
Money market	1,490,190	-	-	1,490,190
Own funds	1,490,190	-	-	1,490,190
National Treasury Bills	1,001,115	-	-	1,001,115
National Treasury Notes - Series B	9,000	-	-	9,000
Financial Treasury Bills	480,075	-	-	480,075
(*) Interfinancial deposits	138,776	226,063	337,887	702,726
Not Related	138,776	226,063	337,887	702,726
Foreign currency	265,998	-	-	265,998
Total	1,894,964	226,063	337,887	2,458,914

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
Financed position	-	-	-	-
National Treasury Bills	-	-	-	-
(*) Interfinancial deposits	-	301,887	348,815	650,702
Not Related	-	301,887	348,815	650,702
Foreign currency	763,578	-	-	205,125
Total	2,554,014	301,887	348,815	3,204,716

(*) The values presented include the fair value adjustment for hedge accounting operations in the amount of R\$ 795 (R\$ 1,273 as of December 31, 2018), as per note 6.c.

6 Securities and Derivative financial instruments

a. Securities

It is not the Bank's strategy to acquire securities for the purpose of actively and frequently trading them. Thus, as of December 31, 2019 and 2018 the securities portfolio is classified under the available-for-sale securities category, as shown below:

2019						
	Fair Value			Total	(*) Adjustment fair value	Cost
	Up to 3 months	3 to 12 months	Over 12 months			
Available-for-sale securities						
Own portfolio:						
Financial Treasury Bills	204,281	66,652	1,637,565	1,908,498	(8)	1,908,506
National Treasury Notes - Series F	-	-	55	55	2	53
Private equity fund shares – FIP	629	-	-	629	(12)	641
	204,910	66,652	1,637,620	1,909,182	(18)	1,909,200
Subject to guarantees						
Financial Treasury Bills	53,827	6,397	438,879	499,103	(5)	499,108
	53,827	6,397	438,879	499,103	(5)	499,108
Total	258,737	73,049	2,076,499	2,408,285	(23)	2,408,308

2018						
	Fair Value			Total	(*) Adjustment fair value	Cost
	Up to 3 months	3 to 12 months	Over 12 months			
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
Comercial Promissory Notes	-	355,205	-	355,205	(1,040)	356,245
Private equity fund shares – FIP	-	-	617	617	(24)	641
	103,616	355,205	731,158	1,189,979	(1,060)	1,191,039
Subject to guarantees						
Financial Treasury Bills	125,956	-	465,042	590,998	12	590,986
	125,956	-	465,042	590,998	12	590,986
Total	229,572	355,205	1,196,200	1,780,977	(1,048)	1,782,025

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

The fair value of securities is calculated in the following manner:

- **Securities indexed to SELIC (Central Bank overnight rate) and DI (Interbank Deposit) rates** - The fair 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 - Brazilian Financial and Capital Markets Association for each maturity on the day before the calculation.
- **Securities indexed to fixed rates** - The fair 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 bonds are book-entry and registered with the Special System for Settlement and Custody - 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 and futures which are held in custody at B3 S.A. – Brasil, Bolsa, Balcão in the stock and over-the-counter markets.

See below the derivative financial instruments explained above recorded in equity and offsetting accounts as of December 31, 2019 and 2018:

	2019			2018
	Amount receivable	Amount payable	Nominal Value	Nominal Value
SWAP transactions	11,136	(121,179)	1,436,841	1,200,753
CDI x USD	695	(6,481)	210,005	205,005
CDI vs. LIBOR	-	(44,972)	157,815	157,815
CDI vs. fixed rate	-	(569)	2,341	5,016
US Dollar vs. CDI	319	(58,574)	322,165	333,602
Fixed rate vs. CDI	8,412	-	355,650	130,450
Fixed rate vs. US Dollar	1,710	(10,336)	199,505	179,505
LIBOR vs. US Dollar	-	(247)	189,360	189,360
NDF transactions	41,106	(48,546)	3,629,549	1,688,850
US Dollar vs. US Dollar	-	-	-	72,446
USD VS. fixed rate	17,144	(45,268)	2,522,587	-
EURO vs. fixed rate	-	-	-	-
Fixed rate vs. US Dollar	20,584	(3,278)	1,042,686	1,568,808
Fixed rate vs. Yen	3,351	-	62,771	16,288
Fixed rate vs. Euro	27	-	1,505	31,308
Total	52,242	(169,725)	5,068,137	2,889,603

1- Aging list

2019				
	Nominal Value			
	Up to 3 months	3 to 12 months	Over 12 months	Total
SWAP transactions	141,644	1,102,678	192,519	1,436,841
CDI vs. fixed rate	276	746	1,319	2,341
Fixed rate vs. CDI	16,400	148,050	191,200	355,650
CDI vs. LIBOR	-	157,815	-	157,815
Fixed rate vs. US Dollar	122,196	77,309	-	199,505
CDI x USD	-	210,005	-	210,005
US Dollar vs. CDI	2,772	319,393	-	322,165
LIBOR vs. US Dollar	-	189,360	-	189,360
NDF transactions	1,549,668	1,969,327	110,554	3,629,549
Fixed rate vs. US Dollar	508,314	442,614	91,759	1,042,686
USD VS. fixed rate	1,037,008	1,466,783	18,795	2,522,587
Fixed rate VS. EURO	-	1,505	-	1,505
Fixed rate vs. Yen	4,346	58,425	-	62,771
	1,691,312	3,072,005	303,073	5,066,390

2- Aging list by trading location

	2019			2018
	Stock market	Over the counter	Nominal amount	Nominal amount
Swaps	332,006	1,104,835	1,436,841	1,200,753
NDF	-	3,629,549	3,629,549	1,688,850
Total	332,006	4,734,384	5,066,390	2,889,603

3- Comparison between cost and fair 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 fair value.

	2019			2018
	Cost value	Adjustment to fair value	Fair Value	Fair Value
Asset (receivable)	52,242	6,471	58,713	20,176
SWAP transactions	11,136	8,730	19,866	14,629
NDF transactions	41,106	(2,259)	38,847	5,547
Liability (payable)	(169,725)	(8,155)	(177,880)	(125,855)
SWAP transactions	(121,179)	(1,032)	(122,211)	(109,764)
NDF transactions	(48,546)	(7,123)	(55,669)	(16,091)
Total	(117,483)	(1,684)	(119,167)	(105,679)

2019					
	Place of trading	<u>Reference (carrying) value</u>			Total
		Up to 3 months	3 to 12 months	Over 12 months	
<i>FUTURES- Reference value</i>	B3 S.A – Brasil, Bolsa, Balcão	2,039,489	2,326,176	1,021,523	5,387,188
Purchase		<u>1,379,579</u>	<u>1,205,029</u>	<u>735,282</u>	<u>3,319,890</u>
Currency Coupon		113,829	428,882	659,309	1,202,020
Foreign Currency		292,633	-	-	292,633
Interest Rate		973,117	776,147	75,973	1,825,237
Sale		<u>659,910</u>	<u>1,121,147</u>	<u>286,241</u>	<u>2,067,298</u>
Currency Coupon		562,166	997,490	11,754	1,571,410
Foreign Currency		97,744	-	-	97,744
Interest Rate		-	123,657	274,487	398,144
2018					
	Place of trading	<u>Reference (carrying) value</u>			Total
		Up to 90 days	91 to 360 days	Over 360 Days	
<i>FUTURES- Reference value</i>	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

The fair 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 fair value determined in derivative financial instruments for the year ended December 31, 2019 totaled R\$ (4,420) (R\$ 18,217 as of December 31, 2018), and was recognized in income accounts.

Income from derivative financial instruments for the years ended December 31, 2019 and 2018 are directly influenced by market interest rates prevailing at the time of the transaction, and by the Dollar rate variation. They are presented below:

	Income					
	2019			2018		
	Revenue	Expense	Net	Revenue	Expense	Net
Derivative financial instruments						
Swap	25,225	(25,159)	66	59,657	(18,803)	40,854
“NDF”	193,538	(152,060)	41,478	46,388	(79,429)	(33,041)
	2,449,81					
Futures	7	(2,440,656)	9,161	2,285,885	(2,137,434)	148,451
	2,668,58					
	0	(2,617,875)	50,705	2,391,930	(2,235,666)	156,264

c. Hedge accounting

As of December 31, 2019 and 2018, the Bank had transactions with derivative financial instruments to mitigate the effect of exchange rate fluctuations on foreign currency funding and loan transactions in Brazilian real. These operations were allocated as accounting hedges and segregated into:

- **Market risk hedges** – are used to offset the risks arising from exposure to the variation in the fair value of the hedged item. Their valuations or devaluations are accounted for as an offsetting entry to revenue or expense accounts in the income for the period.
- **Cash flow hedges** – 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 equity, less tax effects. The respective hedged items are fair value at the reporting date.

Foreign currency futures contracts, called hedging instruments, were valued at fair value, in accordance with BACEN Circular Letter nº 3082/02. In the financial year ended December 31, 2019 the bank did not have Hedge swaps.

c.1 Fair value of derivative financial instruments by maturity range and index - Market risk hedge

Maturity – Fair Value – 2019					
Description	Index	Up to 12 months	1 to 3 years	3 to 5 years	Total
Futures	Currency Coupon	293,340	431,317	-	724,657
Futures	Interest Rate	(32,319)	-	-	(32,319)
Total		261,021	431,317	-	692,338
				2019	2018
Hedged items					
Assets					
Interbank investments					
Amount restated by terms agreed				31,593	31,543
Value of the adjustment				(795)	(1,273)
Fair value				32,388	32,817
Liabilities					
Onlendings transactions					
Amount restated by terms agreed				(728,825)	(1,428,894)
Value of the adjustment				4,076	18,615
Fair value				(732,901)	(1,410,279)
Total fair value subject to hedge				(700,513)	(1,377,463)

Market hedge instruments

Asset

Futures	724,658	1,388,167
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Liabilities

Futures	(32,319)	(32,769)
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Total fair value Hedge instrument	692,339	1,355,398
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c.2 Fair value of derivative financial instruments by maturity range and index - Cash flow hedge

Maturity – Fair Value – 2019					
Description	Index	Up to 12 months	1 to 3 years	3 to 5 years	Total
Futures	Currency Coupon	-	260,233	-	260,233
Total		-	260,233	-	260,233

2019

Hedged items

Liabilities

Onlendings transactions	
Amount restated by terms agreed	(254,513)

Hedge instruments

Asset

Futures	260,233
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Cash Flow Hedge Reserve	2,030
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The amount of R\$ 2,030 in the Cash Flow Hedge Reserve will be recognized in income over the hedge term.

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, 2019 and 2018 can be broken down as follows:

	Fair value	
	2019	2018
Available-for-sale securities		
Financial Treasury Bills	341,816	442,575
Total	341,816	442,575

The other amounts deposited as guarantee as of December 31, 2019 and 2018, have the following composition:

	Fair value	
	2019	2018
Available-for-sale securities		
Financial Treasury Bills	157,287	148,423
Total	157,287	148,423

The fair 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 accounts

They refer to interbank onlendings 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 nº 2682/99 and amount to R\$ 48 (R\$ 34 as of December 31, 2018):

	2019	2018
Outstanding:		
Up to 30 days	12,179	39,050
31 to 60 days	40,534	375
61 to 90 days	60,642	54
91 to 180 days	60,439	-
181 to 360 days	26,186	-
More than 360 days	-	191,743
	<hr/>	<hr/>
Total	199,980	231,222

8 Loans

As of December 31, 2019 and 2018, information on the loan portfolio is summarized as follows:

e. By operation

<i>Description</i>	2019	2018
Overdraft	3,739	25,340
Resolution nº 3844 (formerly Resolution nº 63)	121,641	117,070
BNDES onlending - FINAME - FINEM and EXIM- Other	-	5,928
Compror	23,957	20,304
Working capital	556,497	592,966
Financing in foreign currency	32,545	-
Export Credit Notes - NCE	294,324	94,281
	<hr/>	<hr/>
Total loans	1,032,703	969,181
Advance on foreign exchange contracts (Note 9)	499,948	77,003
Income receivable from advances (Note 9)	4,776	1,535
	<hr/>	<hr/>
Total loans	1,537,427	1,047,719

As of December 31, 2019 the Bank did not have any renegotiated or recovered loans.

f. By maturity

	2019	2018
Outstanding:		
Up to 30 days	75,840	114,594
31 to 60 days	273,844	164,465

61 to 90 days	140,118	84,936
91 to 180 days	506,288	221,264
181 to 360 days	353,338	108,446
More than 360 days	187,999	354,014
Total	1,537,427	1,047,719

Loans of the 20 largest debtors as of December 31, 2019 account for 95.94% of the loans (93.18% as of December 31, 2018) in the amount of R\$ 1,475,015 (R\$ 976,232 in 2018).

g. By risk rating

Risk rating	% minimum of allowance	2019			2018		
		Total operations	% of portfolio	Allowance constitution	Total operations	% of Portfolio	Allowance constitution
AA	-	1,337,689	87	1,953	1,044,704	100	1,463
A	0.5	199,739	13	1,085	3,015	-	21
Total		1,537,428	100	3,038	1,047,719	100	1,484

h. By business sector

	2019	2018
Private sector:		
Industry	1,237,472	979,981
Trade	150,015	39,328
Other services	149,940	28,410
Total	1,537,427	1,047,719

i. Change in the allowance for doubtful accounts

	2019	2018
Opening balance	1,484	12,506
Reversal of the allowance for doubtful accounts	(549)	(12,113)
Constitution of allowance for doubtful accounts	2,103	1,091
Closing balance	3,038	1,484

9 Foreign exchange portfolio (other receivables and other liabilities)

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

	2019	2018
Assets:		
Unsettled purchased exchange	873,126	405,546
Receivables on exchange sale	83,416	66,610
Advances received in local currency	(5,969)	(1,733)
Income receivable from advances granted (note 8a)	4,776	1,535
Total	955,349	471,958

Liabilities:

Unsettled sold exchange	81,217	65,618
Obligations on exchange purchase	879,255	410,247
Advance on foreign exchange contracts (Note 8a)	(499,948)	(77,003)
Accounts payable in foreign currency	-	-
Total	<u>460,524</u>	<u>398,862</u>

10 Other receivables - Other

Consist of the following amounts:

	2019	2018
Tax credit – Income and social contribution tax negative basis (see note 19b)	15,155	26,056
Collateral deposit receivables (see note 17)	16,778	16,210
Prepaid income tax and social contributions	14,780	13,016
Other receivables	16,087	5,260
Other	<u>4,361</u>	<u>323</u>
Total	<u>67,161</u>	<u>60,865</u>
Current assets	<u>23,300</u>	<u>5,544</u>
Noncurrent assets	<u>43,861</u>	<u>55,321</u>
Total	<u>67,161</u>	<u>60,865</u>

11 Other assets

Consist of the following amounts:

	2019	2018
Inventory material	37	35
Prepaid expenses	<u>1,172</u>	<u>1,517</u>
Total	<u>1,209</u>	<u>1,552</u>

12 Permanent assets

As of December 31, 2019 and 2018 are represented as follows:

a. Property for use

		2019		2018
Description	Annual depreciation rate %	Cost	Accumulated depreciation	Net amount
Data processing system	20	5,899	(4,973)	926
Furniture and equipment	10	1,660	(1,125)	535
Communications system	10	299	(151)	148
Security system	10	300	(292)	8
Transportation system	20	1,382	(1,170)	212
Total		<u>9,540</u>	<u>(7,711)</u>	<u>1,829</u>
				<u>2,685</u>

b. Intangible assets

Description	2019				2018
	Annual depreciation rate %	Cost	Accumulated amortization	Net amount	Net amount
Software	20	11,372	(7,547)	3,825	4,921
Usage rights	20	1,076	(662)	414	44
Improvements	20	4,394	(3,146)	1,248	1,555
Total		16,842	(11,355)	5,487	6,520

13 Deposits

Breakdown by maturity as of December 31, 2019 and 2018:

Description	2019			2018		
	Demand deposits	Interbank deposits	Time deposits (*)	Demand deposits	Interbank deposits	Foreign-currency deposits
No maturity	76,100	-	-	97,032	-	923
Up to 30 days	-	-	85,648	-	4,988	67,731
31 to 60 days	-	-	30,658	-	6,044	43,620
61 to 90 days	-	1,376	61,468	-	8,056	42,421
91 to 180 days	-	-	154,724	-	-	204,032
181 to 360 days	-	714	955,219	-	-	520,526
More than 360 days	-	-	857,896	-	-	1,181,943
Total	76,100	2,090	2,145,613	97,032	19,088	923

(*) 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 repurchase commitments

There was no money market repurchase commitments as of December 31, 2019 and 2018.

15 Borrowings and onlendings

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

j. Foreign currency borrowings

As of December 31, 2019 the balance of USD 271,416 (USD 100,285 in 2018) basically consists of import and export financing agreements which mature up to April 30, 2020 and are subject to interest rates of up to 3.055% p.a., plus exchange variance for these transactions. The balance as of December 31, 2019 is R\$ 1,093,657 (R\$ 388,354 in 2018).

k. Foreign onlendings

Foreign onlendings as of December 31, 2019, correspond to USD 326,740 (USD 446,800 in 2018). These obligations, translated at the official period-end buying rate, are governed by CMN Resolution nº 3,844/00 and are subject to interest rates that range from 2.06% to 3.38% p.a., plus

changes in foreign exchange rates, and mature by July 5, 2022. The balance as of December 31, 2019 is R\$ 1,320,874 (R\$ 1,758,238 in 2018).

I. Domestic onlendings

Domestic onlendings 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 the Credit Agency for Brazil's Exports (EXIM) program, in the course of 2019 the outstanding balance was settled, not presenting a position as of December 31, 2019.

	2019		
	Up to 12 months	Over 12 months	Total
Foreign currency borrowings	1,093,657	-	1,093,657
(*) Foreign onlendings	727,729	593,145	1,320,874
Domestic onlendings	-	-	-
Total	1,821,386	593,145	2,141,531

	2018		
	Up to 12 months	Over 12 months	Total
Foreign currency borrowings	388,354	-	388,354
Foreign onlendings	449,889	1,308,349	1,758,238
Local onlendings	-	5,924	5,924
Total	838,243	1,314,273	2,152,516

(*) The values presented include the fair value adjustment for hedge accounting operations in the amount of R\$ 2,030 (R\$ (18,615) in 2018), as per note 6.c.

16 Other liabilities

a. Tax and social security

Description	2019	2018
Provision for income tax and social contribution (note 19)	25,632	25,139
Provision for tax risks (note 17)	9,395	9,148
PIS offsetting (note 17)	3,153	3,100
PIS constitutional amendment (note 17)	753	711
Services tax - ISS	430	166
Withholding income tax - IRRF on fixed-rate transactions	430	319
Contribution for Social Security Funding - COFINS	813	679
Contribution to Social Integration Program (PIS)	132	110
Deferred income and social contribution taxes (Note 19c)	11,441	11,383
Government Severance Indemnity Fund for Employees - FGTS	295	274
Taxes and contributions - outsourced services	20	20
Taxes and contributions on salaries	1,658	1,558
Contribution to the Credit Guarantee Fund - FGC	419	416
Other	390	255
Total	54,961	53,278
Current liabilities	54,961	53,278

b. Other

Description	2019			2018		
	Current	Noncurrent liabilities	Total	Current	Noncurrent liabilities	Total
Provision for labor and civil risks (note 17)	43,341	-	43,341	38,363	-	38,363
Provision for personnel expenses	16,936	-	16,936	17,256	1,385	18,641
Provision for general expenses	1,324	-	1,324	2,601	-	2,601
Actuarial liabilities	21,643	-	21,643	10,013	-	10,013
Guarantees submitted (note 23)	2,362	2,409	4,771	3,911	-	3,911
Other	178	-	178	646	-	646
Total	85,784	2,409	88,193	72,790	1,385	74,175

c. Subordinated debt instruments eligible for capital

On April 5, 2019 the Bank settled its loans with Sumitomo Mitsui Banking Corporation NY:

- in the amount USD 40 million, this loan was considered as subordinated debt and part of tier II capital of the Bank's regulatory shareholders' equity;
- In the amount USD 160 million, which was also part of tier II capital of the Bank's regulatory shareholders' equity.

Both loans had already been authorized based on the terms of Resolution nº 4192 of March 1, 2013, amended by Resolution nº 4278 of October 31, 2013.

The restated balance as of April 5, 2019 for the two loans is R\$ 780,868.

17 Provision for tax, civil and labor risks

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

Description	Provision		Judicial deposits	
	2019	2018	2019	2018
Provision for tax risks:				
ISS - RJ (a)	-	-	4,593	4,380
ISS - SP (b)	-	-	2,181	2,080
IRPJ/CSLL Cetip (b1)	100	96	-	-
Legal obligations:				
Demutualization Cetip (h)	114	108	-	-
PIS offsetting (c)	3,153	3,100	-	-
PIS constitutional amendment (d)	753	711	-	-
Social Contribution on Net Income - CSLL (e)	9,395	9,148	9,395	9,148
Total	13,515	13,163	16,170	15,608
Provision for risks:				
Civil (f)	35,355	32,444	-	-
Labor (g)	7,986	5,919	608	602

	<u>Provision</u>		<u>Judicial deposits</u>	
Total	43,341	38,363	608	602
Total provisions and judicial deposits	56,856	51,526	16,778	16,210

- 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, 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\$ 4,593 as of December 31, 2019, was maintained (R\$ 4,380 as of December 31, 2018).
- b. The judicial deposits are for proceedings filed in connection with the Service Tax (ISS) charged by the city of São Paulo, basically refers to foreign exchange transactions in the period 2001 to 2003 and guarantees provided in 2004. Management understands, based on the opinion of its legal advisors, that the chances of success are possible and, therefore, did not recognize any provision. The judicial deposits to proceed with the litigation in court totals R\$ 2,181 (R\$ 2,080 in 2018). The bank secured a final and unappealable decision, and is awaiting authorization to recover the deposits amounting to R\$ 2,130.
- b1. This consists of an IRPJ and CSLL assessment notice and single fine for 2008, which is not paid due to expenses obtained on the demutualization process of CETIP equity instruments. The provision as of December 31, 2019 is R\$ 100 (R\$ 96 in 2018). The portion of the case rated as a remote defeat and therefore not provisioned for is R\$ 164.
- 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, 2019 is R\$ 3,153 (R\$ 3,100 as of December 31, 2018).
- 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 2019 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\$ 753 as of December 31, 2019 (R\$ 711 as of December 31, 2018).
- 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. For the purpose of staying the tax credit the judicial deposit was made for the disputed amount, as of December 31, 2019 is R\$ 9,395 (R\$ 9,148 in 2018). According to the opinion of the legal advisors the chances of loss related to this litigation are possible. By management decision a provision was therefore made for the difference underpaid as a result of the matters under scrutiny, which as of December 31, 2019 amounts to a restated R\$ 9,395 (R\$ 9,148 in 2018).

- 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, 2019 is R\$ 35,355 (R\$ 32,444 as of December 31, 2018).
- 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, 2019 is R\$ 7,986 (R\$ 5,919 as of December 31, 2018).
- 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\$ 114 as of December 31, 2019 (R\$ 108 as of December 31, 2018).

Changes in provisions and legal obligations

	2019			
	Tax	Labor	Civil	Total
Balance as of December 31, 2018	13,163	5,919	32,444	51,526
Constitution of provision	105	4,547	-	4,652
Monetary restatement	247	341	2,911	3,499
Operating reversals	-	(2,654)	-	(2,654)
Write-offs due to payment	-	(167)	-	(167)
Balance as of December 31, 2019	13,515	7,986	35,355	56,856

	2018			
	Tax	Labor	Civil	Total
Balance as of December 31, 2017	12,759	4,571	29,611	46,941
Constitution 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

18 Shareholders' Equity

m. Share capital

The Extraordinary General Meeting held April 5, 2019 resolved to increase the Bank's share capital from R\$ 793,819 to R\$ 1,559,699, via the issuance of 765,880,800 new registered common shares, with a unit value each of R\$ 1.00 (one real).

The share capital as of December 31, 2019 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)	1,559,697
Shareholders domiciled in Brazil	<u>2</u>
Total	<u>1,559,699</u>

n. 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, 2019 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.

o. 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.

p. 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\$ 212,917 (R\$ 176,259 in 2018) 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

As of December 31, 2019 and 2018, expenses with income and social contribution taxes were calculated as follows:

	<u>2019</u>		<u>2018</u>	
	Income Tax	Social contribution	Income Tax	Social contribution
Income before taxes on income less profit sharing	68,013	68,013	77,310	77,310
Provision for contingent liabilities	(1,372)	(1,372)	(1,062)	(1,062)
Allowance for doubtful accounts	2,072	2,072	72	72
Temporary provisions	(564)	(564)	(4,114)	(4,114)
Fair value adjustment of derivative financial instruments	4,420	4,420	300	300
Adjustment to fair value of hedge accounting operations	23,698	23,698	(2,896)	(2,896)
Non-deductible expenses	7,122	3,934	7,705	5,162
BM&F transactions	(8,496)	(8,496)	5,910	5,910
Other additions/(deductions)	(572)	(572)	(699)	(699)
Offsetting of tax loss carry forwards	(28,297)	(27,338)	(24,758)	(23,995)
Taxable income	66,024	63,795	57,768	55,989
Income tax - 15% (note 3n)	9,904	-	8,665	-
Income tax surcharge - 10% (note 3n)	6,578	-	5,753	-
Rouanet Law Contribution	-	-	(100)	-
Empresa Cidadã law	(32)	-	(30)	-

Workers' Meal Program (PAT)	(387)	-	(347)	-
Social contribution - 15% (20% in 2018) (note 3n)	-	9,569	-	11,198
Total	16,063	9,569	13,941	11,198

q. Tax credits

Tax credits were recorded as of December 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".

1. Breakdown of tax credit as of 12/31/2019

Breakdown of tax credit	2019	2018
Tax loss	9,390	16,465
Negative basis of social contribution	5,765	9,591
Total	<u>15,155</u>	<u>26,056</u>

2. Projected realization of tax credits as of 12/31/2019

Fiscal year	Income tax	Contribution taxes	Total
2020	5,125	2,790	7,914
2021	4,266	2,975	7,241
Subtotal	<u>9,390</u>	<u>5,765</u>	<u>15,155</u>

3. 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 at 12/31/2018	(Realizations) Constitution	Balance at 12/31/2019
Tax loss	16,465	(7,075)	9,390
Negative base CSLL	9,591	(3,826)	5,765
Total	<u>26,056</u>	<u>(10,901)</u>	<u>15,155</u>

Change in net income from deferred tax assets:

	12/31/2019	12/31/2018
Realization of tax loss - IR	7,074	6,189
Realization of negative base - CSLL	3,827	5,304
Other Tax Credits	(7,106)	(2,196)
Total	<u>3,795</u>	<u>9,297</u>

4. *Present value of tax credit*

Year	Income tax	Contribution taxes	Total
2020	4,902	2,669	7,571
2021	3,850	2,685	6,535
Total	<u>8,752</u>	<u>5,354</u>	<u>14,106</u>

a. **Other tax credits**

The Bank also has deferred tax assets and liabilities in the amounts of R\$ 15,862 and R\$ 11,441 (R\$ 5,145 and R\$ 11,383 in 2018), respectively, which are solely related to the fair value adjustments of transactions with available-for-sale securities, as established by the BACEN Circular n° 3068, at the fair value of derivative financial instruments in accordance with Circular n° 3082. The rules for recognizing the effects of the actuarial liability under the benefit retirement plans and postemployment benefit plans consisting of the medical assistance plan which the Bank sponsors (pursuant to CVM n° 600 and n° 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\$ 26,056 (R\$ 22,832 in 2018), due to uncertainties with respect to their realization in a time frame shorter than 10 years.

20 **Statement of income**

a. **Loans**

	2019		2018
	2 nd Hal-year	Year	
Loan income	35,087	67,014	110,627
Income from financing and onlendings	14,417	13,187	43,596
Total	<u>49,504</u>	<u>80,201</u>	<u>154,223</u>

b. **Securities income**

	2019		2018
	2 nd Hal-year	Year	
Interbank investments income	79,689	165,823	145,710
Securities income	78,123	145,472	97,722
Total	<u>157,812</u>	<u>311,295</u>	<u>243,432</u>

c. **Derivative financial instruments income**

	2019		2018
	2nd Hal-year	Year	
Revenue from swap, futures and NDF operations	1,320,345	2,668,580	2,391,930
Expenses on swap, future and NDF operations	(1,229,947)	(2,617,875)	(2,235,666)
Total	(90,398)	50,705	156,264

d. Foreign exchange funding income

	2019		2018
	2nd Hal-year	Year	
Income from foreign exchange	54,964	80,305	141,826
Expenses on foreign exchange	(10,516)	(42,139)	(7,529)
Total	44,448	38,166	134,297

e. Deposits, money market and interbank funds

	2019		2018
	2nd Hal-year	Year	
Time deposit expenses	(50,365)	(108,646)	(131,794)
Interbank deposit expenses	(226)	(455)	(202)
Expenses incurred on securities held under repurchase agreements	(217)	(632)	(3,684)
Expenses on contributions to the loan guarantee fund	(1,222)	(2,472)	(2,855)
Total	(52,030)	(112,205)	(138,535)

f. Borrowings and onlendings

	2019		2018
	2nd Hal-year	Year	
Expenses on BNDES onlendings	(20)	(71)	(611)
Expenses on foreign borrowings and onlendings	(212,909)	(207,138)	(383,242)
Expenses on subordinated debt	-	(8,470)	(27,838)
Rediscount expenses	-	(1)	-
Adjustment Hedge onlending and borrowings	4,056	4,056	-
Total	(208,873)	(211,624)	(411,691)

g. Service fee income

	2019		2018
	2nd Hal-year	Year	
Income from fees and services	5,454	6,596	1,490
Income from business intermediation (see note 21a)	3,945	8,153	6,245
Income from guarantees granted	9,801	20,125	24,762
Total	19,200	34,874	32,497

h. Personnel expenses

	2019		2018
	2nd Hal-year	Year	
Proceeds	(20,802)	(40,162)	(37,483)
Payroll charges	(7,219)	(13,769)	(13,975)
Benefits	(2,060)	(5,732)	(12,376)
Management fees	(2,081)	(3,821)	(4,095)
Training	(146)	(249)	(231)
Total	(32,308)	(63,733)	(68,160)

i. Other administrative expenses

	2019		2018
	2nd Hal-year	Year	
Rental expenses	(2,675)	(5,243)	(5,145)
Data processing expenses	(5,992)	(14,915)	(9,871)
Expenses on outsourced technical services	(2,690)	(5,071)	(4,910)
Communication expenses	(2,924)	(5,540)	(4,159)
Financial system service expenses	(1,614)	(3,064)	(1,869)
Asset maintenance and upkeep expenses	(257)	(603)	(451)
Security and surveillance services	(283)	(566)	(541)
Transportation expenses	(82)	(198)	(180)
Material expenses	(94)	(172)	(189)
Water, energy and gas expenses	(142)	(279)	(243)
Expenses on outsourced services	(362)	(764)	(752)
Advertising and marketing expenses	(61)	(235)	(253)
Insurance costs	(129)	(257)	(274)
Promotion and public relations	(80)	(160)	(433)
Charitable contributions	(8)	(52)	(117)
Amortization and depreciation	(1,308)	(2,646)	(2,362)
Other administrative expenses	(1,594)	(2,804)	(1,645)
Total	(20,295)	(42,569)	(33,394)

j. Tax expenses

	2019		2018
	2nd Hal-year	Year	
COFINS	(4,089)	(9,254)	(7,287)
ISS	(977)	(1,779)	(1,691)
PIS	(664)	(1,504)	(1,184)
Other	(66)	(3,058)	(312)
Total	(5,796)	(15,595)	(10,474)

k. Other operating income

	2019		2018
	2nd Hal-year	Year	
Exchange variance - foreign onlending	-	-	3,019
Reversal of contingent liabilities	673	2,132	930
Reversal of provisions guarantees provided	-	471	1,003
Reversal of operating provisions	170	6,065	3,276
Indemnification fines	475	1,778	6,570
Restatement of judicial deposits	245	572	699
Recovery of charges and expenses	367	720	509
Other	5	5	106
Investment fund management fees	-	-	645
Total	1,935	11,743	16,757

l. Other operating expenses

	2019		2018
	2nd Hal-year	Year	
Exchange variance loss on ME financing	-	-	(16)
Expenses on labor claims	(3,421)	(4,104)	(1,340)
Provisions for Guarantees submitted	(1,331)	(1,331)	(905)
Expenses on operating provisions - contingent liabilities	(46)	(102)	(137)
Expenses on operational provisions - other	-	-	(476)
Monetary restatement of provisions (tax, civil and labor)	(1,625)	(3,503)	(3,595)
Other	(12)	(99)	(55)
Total	(6,435)	(9,139)	(6,524)

m. Nonoperating income

	2019	2018
	2nd Hal-year	Year
Other nonoperating income	72	309
Other nonoperating expenses	(12)	(68)
Total	60	138

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:

	Assets / (liabilities)		Revenue / (expense)	
	2019	2018	2019	2018
Cash and cash equivalents – foreign currency deposits	13,275	26,643	-	-
Investments in foreign currency abroad	265,998	58,125	23,271	(3,261)
Amounts receivable - sales commission (see note 20.g)	4,118	-	8,153	6,245
Obligations on foreign currency borrowings	(1,093,657)	(388,354)	(40,299)	(93,064)
Foreign onlendings	(1,320,874)	(1,738,728)	(122,489)	(284,334)
Subordinated debt	-	(780,868)	(8,470)	(27,838)
Total	(2,131,140)	(2,823,182)	(139,834)	(402,252)

b. Compensation of key management personnel

Pursuant to Resolution nº 4636/18 and Technical Pronouncement CPC 05 – Related Parties Disclosure, 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 2019, the maximum global monthly compensation of the executive officers was maintained at R\$ 600 (salaries of executives officers).

Short-term benefits for executive officers

	2019	2018
Proceeds	3,821	4,095
Variable compensation	2,019	3,628
Contributions to INSS (Social Security Contribution) /FGTS (Severance Pay Fund)	1,375	1,943
Total	7,215	9,666

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).

The Bank does not award long-term benefits or share-based compensation to its key Management personnel.

c. Other information

Resolution nº 4.693/18 states that financial institutions can carry out loan operations with related parties providing they meet the conditions established in the items, below:

- Except for the cases established in the legislation or specific regulations, related-party loans can only be performed on an arm's-length basis, including in respect of limits, interest rates, grace period, terms, security required and risk rating criteria in order to make the provision for probable losses and write-offs as loss, without additional or special benefits in comparison to loans awarded to clients with similar profiles of the respective institutions.
- The balances of direct or indirect loan operations with related parties should not exceed 10% (ten percent) of the shareholders' equity adjusted by accumulated revenue and expenses less interests held in institutions authorized to operate by the Brazilian Central Bank and overseas financial institutions, subject to the following maximum individual limits:
 1. 1% (one percent) for transactions with individuals; and
 2. 5% (five percent) for transactions with companies.

Directors or officers meeting at least the following conditions in both parties are considered independent:

I - does not have a qualified interest as either controlling shareholder, member of the control group or the group with a qualified interest, nor are they a spouse, companion or relative, blood or otherwise, to the second degree, of them;

II - not related via a shareholders agreement; and

III - is not or has not been in the last three years:

- a) a director or member of statutory boards or contractual boards, including at related companies;
- b) employee, including at related companies;
- c) spouse, companion or relative, blood or otherwise, to the second degree, of the parties mentioned in sections "a" and "b"; and
- d) recipient of compensation except that for their work as an independent director or on account of any equity interests.

As of December 31, 2019 the Bank had not granted 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 nº 2099/94, as amended by the CMN Resolutions nº 4193/13 and nº 4192/13, which presents the Equity index in relation to the Weighted Assets, as follows:

	12/31/2019	12/31/2018
Credit Risk	3,893,765	3,822,820
Market Risk	304,955	428,132
Operational Risk	338,983	336,905
Risk-weighted assets (RWA)	4,537,703	4,587,857
Rban portion	3,754	12,465
Tier I + Tier II capital (total capital)	1,765,220	1,606,171
Required Regulatory Equity (RWA*8%)	406,841	395,703
Margin over Required Regulatory Capital	1,402,204	1,210,468
Basel capital ratio (IB) - PR/RWA	38.90%	35.01%

*The minimum percentage required for the reference equity in 2019 is 8% and 2.5% for the Capital Conservation Surplus (2018 – 8.625% and 1.875%).

23 Guarantees provided and liabilities for opened import credit facilities

As of December 31, 2019 and 2018, guarantees provided by the Bank total:

	2019	2018
Domestic	1,650,593	1,413,738
Foreign	4,746	8,494
Total	1,655,339	1,422,232

The Bank recorded an allowance for doubtful loans for these guarantees in accordance with CMN Resolution nº 4512/16 and Circular nº 3782/16. The figures were based on the assumptions of Resolution nº 2682 and amount to R\$ 4,771 (R\$ 3,911 in 2018):

	2019		2018	
	Guarantees provided	Provision	Guarantees provided	Provision
Linked to international trade of commodities	4,746	(57)	8,494	(195)
Linked to procurements, auctions, provision of services or carrying out of works	13,618	(1)	24,253	-

Linked to the supply of goods	48,855	(154)	44,308	(153)
Endorsement or guarantee in judicial and administrative tax proceedings	581,038	(1,791)	662,869	(841)
Other Bank Guarantees	185,765	(146)	57,205	(54)
Other financial guarantees provided	821,317	(2,622)	625,104	(2,668)
Total	<u>1,655,339</u>	<u>(4,771)</u>	<u>1,422,233</u>	<u>(3,911)</u>

As of December 31, 2019 the Bank has a balance of R\$ 19 in the account of liabilities for opened import credit facilities (R\$ 314 in 2018).

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.

The actuarial calculation is restated annually at December 31.

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 shareholders' 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, 2019, there were no significant changes in the current restatement parameters.

Description	Retirement Plan	
	12/31/2019	12/31/2018
Present value of actuarial obligations	43,420	53,536
Fair value of the plan's assets	<u>(38,020)</u>	<u>(51,809)</u>
Deficit/(Surplus) for covered plans	<u>5,400</u>	<u>1,727</u>
Adjustments for permitted deferrals		
Effect deriving from the limit on recognizing onerous assets/liabilities	<u>-</u>	<u>-</u>
	<u>5,400</u>	<u>1,727</u>

Description	Retirement Plan	
	12/31/2019	12/31/2018
Net actuarial liability/(asset)		
Actuarial assumptions:		
Nominal discount rate for the actuarial obligation	6.78% p.a.	8.95% p.a.
Estimated rate of nominal salary increase	6.71% p.a.	7.12% p.a.
Estimated nominal benefit increase	4.64% p.a.	4.00% p.a.
Estimated inflation rate	3.60% p.a.	4.00% 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.	

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.):

Present value of the Obligations	Sensitivity Analysis	
	12/31/2019	12/31/2018
Discount Rate: decrease of 0.25%	1,089	1,801
Discount Rate: increase of 0.25%	(1,059)	(1,909)

b. Health care plan

The 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 nº 9656/98. 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	
	12/31/2019	12/31/2018
Net actuarial liability/(asset)	16,243	8,286
Total	16,243	8,286
Actuarial assumptions/actuarial hypotheses		
Nominal discount rate for the actuarial obligation	7.11% pa	9.12% pa
Estimated inflation rate	3.60% pa	4.00% 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 8.26% pa to 4.64% pa	Decreasing from 9.20% pa to 5.04% 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 Executive Board at least annually, pursuant to CMN Resolution nº 4557/17. It reports directly to the Bank's Executive Board. It is an important tool for the effective management of the Bank'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 Bank 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 Bank 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 CMN Resolution nº 4557/17 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 Bank 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 CMN Resolution nº 4557/17 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 Bank; assessing capital needs to face the risks the entity is subject to; and planning goals and capital needs, considering the Bank's strategic purposes.

The capital management structure was implemented in accordance with the requirements of CMN Resolution nº 4557/17 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 Bank, 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 6 of CMN Resolution nº 4557/2017.

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.

26 Subsequent events

Global financial markets have been monitoring and reacting to the Covid-19 epidemic (new "coronavirus") since January 2020. Although containment efforts initiated in Asian countries have helped flatten the curve in certain locations, at the end of February and early March global financial markets reacted strongly to the news that the virus was spreading to other Western countries, including in Brazil, a fact which was ultimately confirmed. Global financial markets have reacted extremely negatively, with share prices dropping, the dollar appreciating and U.S. Treasury bond interest diminishing. Bank Management believes there will be no financial impact on the Bank's Financial Statements at December 31, 2019 as a result of this subsequent event, and is monitoring developments related to the coronavirus and is coordinating its operational response based on existing business continuity plans and guidance from Brazilian health organizations, in line with general best practice in responding to the pandemic. We lastly emphasize it still too premature to estimate the impact on the Bank's growth and business.