

Banco Sumitomo Mitsui Brasileiro S.A.

Financial statements as of June 30, 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 half ended June 30, 2019, whose net income for the half amounted to R\$ 17,448 thousand (R\$ 29,095 as of June 30, 2018), total assets R\$ 8,142,181 thousand (R\$ 7,804,465 thousand as of June 30, 2018), and the loans portfolio R\$ 1,417,345 thousand (R\$ 1,722,080 thousand as of June 30, 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, August 27, 2019.



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Independent auditors' report on the financial statements

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

Opinion

We have audited the financial statements of Banco Sumitomo Mitsui Brasileiro S.A. ("Bank"), which comprise the statement of financial position as of June 30, 2019 and the related statements of income, changes in shareholders' equity and cash flows for the half 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 June 30, 2019, the performance of its operations and its cash flows for the half then year 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 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 materially misstated. If, based on the work 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 accounting practices adopted in Brazil applicable 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, 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, August 27, 2019.

KPMG Auditores Independentes
CRC 2SP014428/O-6

Original report in Portuguese signed by
Carlos Massao Takauthi
Accountant CRC 1SP206103/O-4

Banco Sumitomo Mitsui Brasileiro S.A.

Statements of financial position

June 30, 2019 and 2018

(In thousands of Reais)

Assets	Note	2019	2018
Current		5,445,059	6,048,145
Cash and banks		39,188	46,391
Interbank investments	5	3,182,572	2,416,586
Money market		2,604,406	2,110,165
Interfinancial deposits		489,965	101,296
Foreign currency		88,201	205,125
Securities and derivative financial instruments		124,992	852,028
Own portfolio	6.a	72,622	330,818
Subject to Guarantees	6.d	52,356	515,465
Derivative Financial Instruments	6.b	14	5,745
Interbank accounts		167,443	687,192
Central Bank of Brazil deposits		1,730	1,678
Collections in transit		4	5
Domestic correspondents		457	251
Interbank onlending	7	165,287	688,476
Provision for losses on Interbank onlending	7	(35)	(3,218)
Loans	8	629,117	897,884
Private sector		629,845	899,141
Allowance for loans losses		(728)	(1,257)
Other accounts receivable		1,300,508	1,146,825
Foreign exchange portfolio	9	1,279,281	1,122,643
Accounts receivable		1,949	2,412
Trading and Brokerage of Securities		3,128	9,067
Other	10	17,255	13,210
Allowance for other receivable losses		(1,105)	(507)
Other assets	11	1,239	1,239
Prepaid expenses		1,200	1,207
Other		39	32
Long-term		2,688,638	1,745,971
Interbank investments	5	498,397	536,038
Interfinancial deposits		498,397	536,038
Securities and derivative financial instruments		1,803,967	549,368
Own portfolio	6.a	1,331,931	548,243
Subject to guarantees	6.d	433,107	-
Derivative Financial Instruments	6.b	38,929	1,125
Interbank Accounts	7	24,885	94,432
Interbank onlending		24,895	94,452
Provision for losses on Interbank onlending		(10)	(20)
Loans	8	318,025	509,907
Private sector		318,463	511,919
Allowance for loan losses		(438)	(2,012)
Other accounts receivable		43,300	55,860
Other	10	43,300	55,860
Other assets	11	64	366
Prepaid expenses		64	366
Permanent assets		8,487	10,348
Investment		123	123
Other investments in Brazil		123	123
Property for use	12.a	2,252	3,266
Property for use		9,772	9,567
Accumulated depreciation		(7,520)	(6,301)
Intangible assets	12.b	6,112	6,960
Intangible Assets		16,696	16,089
Accumulated amortization		(10,584)	(9,129)
Total assets		8,142,184	7,804,465

Liabilities	Note	2019	2018
Current		4,129,569	4,382,114
Deposits	13	1,926,771	2,404,190
Demand deposits		77,995	77,826
Time deposits		1,848,776	2,323,403
Foreign-currency deposits		-	2,961
Money market funding	14	-	21,701
Third-party portfolio		-	21,701
Interbank accounts		666	638
Receipts and payments in transit		666	638
Interbranch accounts		53,491	30,748
Third-party funds in transit		53,491	30,748
Borrowings	15.a	1,096,039	597,546
Foreign currency borrowings		1,096,039	597,546
Foreign onlendings	15.b	76,436	425,998
Onlending borrowings from abroad		76,436	425,998
Derivative financial instruments	6.b	39	15,925
Derivative financial instruments		39	15,925
Other liabilities		976,127	885,368
Collection of taxes		2,586	2,675
Foreign exchange portfolio	9	852,399	764,374
Due to shareholders	18.b	1,529	1,332
Tax and social security	16.a	46,548	48,625
Due in connection with securities dealing		2,780	1,591
Subordinated debt	16.c	-	5,527
Sundry	16.b	70,285	61,244
Noncurrent liabilities		2,239,879	2,447,186
Domestic onlending	15.c	5,341	6,507
Domestic onlending - BNDES/FINAME		5,341	6,507
Foreign onlendings	15.b	2,081,164	1,564,790
Onlending borrowings from abroad		2,081,164	1,564,790
Derivative financial instruments	6.b	152,208	102,365
Derivative financial instruments		152,208	102,365
Other liabilities		1,166	773,524
Subordinated debt	16.c	-	771,160
Other	16.b	1,166	2,364
Deferred income		2,410	4,860
Deferred income		2,410	4,860
Shareholder's Equity		1,770,326	970,305
Capital	18	1,559,699	793,819
Domestic		2	2
Foreign		1,559,697	793,817
Profit reserves		187,590	173,810
Cash Flow Hedge		4,147	-
Mark-to-market of securities	6.a	(152)	(130)
Adjustment Actuarial Liabilities	24	(6,440)	(5,585)
Exchange variance adjustments to overseas investments		8,034	8,391
Retained earnings (Accumulated losses)		17,448	-
Total liabilities		8,142,184	7,804,465

¹See the accompanying notes to the financial statements.

Banco Sumitomo Mitsui Brasileiro S.A.

Statement income

Half year ended June 30, 2019 and 2018

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

		<u>2019</u>	<u>2018</u>
	Note		
Financial operations revenue		<u>138,205</u>	<u>492,336</u>
Loans	20.a	30,697	100,077
Securities income	20.b	153,483	128,304
Derivative financial instruments income	20.c	(39,693)	164,423
Foreign exchange funding income	20.d	(6,282)	99,532
Financial operations expenses		<u>(63,713)</u>	<u>(409,332)</u>
Deposits and money market	20.e	(60,175)	(74,272)
Borrowings and onlending	20.f	(2,751)	(343,790)
Allowance for loan losses	8.e	(787)	8,730
Gross income on financial operations		<u>74,492</u>	<u>83,004</u>
Other operating income (expenses)		<u>(40,720)</u>	<u>(31,589)</u>
Service fee income	20.g	15,674	18,003
Personnel expenses	20.h	(32,182)	(33,053)
Other administrative expenses	20.i	(22,275)	(15,445)
Tax expenses	20.j	(9,799)	(5,373)
Other operating revenue	20.k	10,566	6,504
Other operating expenses	20.l	(2,704)	(2,225)
Operating income		<u>33,772</u>	<u>51,415</u>
Nonoperating income	20.m	<u>181</u>	<u>108</u>
Income before taxation		33,953	51,523
Income tax and social contribution	19	<u>(15,333)</u>	<u>(21,225)</u>
Income Tax		(8,224)	(8,115)
Social Contribution		(4,818)	(6,333)
Deferred Assets		(2,291)	(6,777)
Profit-sharing		<u>(1,172)</u>	<u>(1,203)</u>
Net income in the half		<u>17,448</u>	<u>29,095</u>
Number of shares		<u>1,559,699</u>	<u>793,819</u>
Net income per lot of a thousand shares - R\$		<u>11.19</u>	<u>36.65</u>

See the accompanying notes to the financial statements.

Banco Sumitomo Mitsui Brasileiro S.A.

Statements of changes in Shareholder' equity

Half year ended June 30, 2019 and 2018

(In thousands of Reais)

	Note	Profit reserve			Other Comprehensive Income				Accumulated profit (losses)	Total
		Capital realized	Legal	Statutory	Own	Hedge Gains and Losses	Adjustment Actuarial Liabilities	Exchange variance adjustments to overseas investments		
Balances as of December 31, 2017		758,819	9,187	135,528	(70)	-	(5,322)	752	-	898,894
Capital Increase		35,000								35,000
Fair value adjustment of securities and derivatives					(60)	-				(60)
*Adjustment actuarial liabilities							(263)			(263)
Exchange variance adjustments to overseas investments Resolution 4524								7,639		7,639
Profit for the year				-	-	-	-	-	29,095	29,095
Legal reserve	18.c		1,455	-					(1,455)	-
Statutory reserve	18.d			27,640					(27,640)	-
Balances as of June 30, 2018		793,819	10,642	163,168	(130)	-	(5,585)	8,391	-	970,305
Balances as of December 31, 2018		793,819	11,331	176,259	(628)	-	(6,440)	8,391	-	982,732
Capital Increase		765,880								765,880
Fair value adjustment of securities and derivatives					476	4,147				4,623
Exchange variance adjustments to overseas investments Resolution 4524								(357)		(357)
Profit for the year									17,448	17,448
Balances as of June 30, 2019		1,559,699	11,331	176,259	(152)	4,147	(6,440)	8,034	17,448	1,770,326

See the accompanying notes to the financial statements.

Banco Sumitomo Mitsui Brasileiro S.A.

Statement of cash flows

Half year ended June 30, 2019 and 2018

(In thousands of Reais)

	2019	2018
Adjusted Net Income	75,981	56,005
Income in the half	17,448	29,095
Adjustments to reconcile income (loss) to cash provided by operating activities	58,533	26,910
Adjustment to fair value of securities and derivative financial instruments (Assets/Liabilities)	33,866	(9,232)
Result in Financial Assets measured at Fair Value through OCI	5,520	7,444
Adjustment to Allowance for Doubtful Accounts	787	(8,730)
Provision Adjustment (reversal) to para Interbank Operations	11	1,426
Provision Adjustment (reversal) to financial guarantees submitted	(471)	(1,003)
Depreciation and Amortization	1,338	785
Adjustment to Provision for Tax Risks	186	213
Adjustment to Provision for Contingent Liabilities	972	1,503
Deferred Taxes	626	6,431
Provision for income and social contribution taxes	13,042	15,019
Monetary Restatement / Reversal of Court Deposits	(327)	(293)
Provisions for / Reversals of Personnel Bonuses	(1,969)	(453)
Exchange variance on cash and cash equivalents	3,033	7,300
Other	1,919	6,500
Changes in Assets and Obligations	(1,542,028)	(208,348)
(Increase) Decrease in Interbank Investments	(340,795)	(232,461)
(Increase) decrease in securities and derivative financial instruments (Assets/Liabilities)	(107,564)	(39,922)
(Increase) Decrease in Interbranch Accounts (Asset/Liabilities)	50,404	(171,493)
(Increase) Decrease in loans	20,816	251,530
	(358,843)	(96,122)
(Increase) Decrease in Securities and Forex Trading Operations (Assets/Liabilities)	(3,484)	(4,810)
(Increase) Decrease in other receivables and other assets	(20,329)	(21,225)
Income and Social Contribution Taxes paid	(782,233)	106,155
(Decrease) Increase in Other Liabilities		
Net cash provided by or (used in) operating activities	(1,466,047)	(152,343)
(Acquisition) Sale of Intangible Assets	(323)	(5,086)
(Acquisition) Sale of Property for use	(177)	(134)
Net cash provided by (used in) investment activities	(500)	(5,220)
Payment of Capital	765,880	35,000
Payment of Interest on Equity Reserve	-	(35,000)
Increase (decrease) in Deposits	(250,547)	245,629
Increase (Decrease) in Money Market Repurchase Commitments	-	(196,391)
Increase (Decrease) in Onlending Borrowings	1,079,716	475,387
Net cash provided by (used in) financing activities	1,595,049	524,625
Increase in cash and cash equivalents	128,502	367,062
Cash at Beginning of Period	49,279	31,275
Cash equivalents at Beginning of Period	2,554,014	1,963,344
Total cash and cash equivalents at beginning of period	2,603,293	1,994,619
Equivalents at End of Period	39,188	46,391
Cash Equivalents at End of Period	2,689,574	2,307,990
Exchange variance effect on cash and cash equivalents	3,033	7,300
Total cash and cash equivalents at end of period	2,731,795	2,361,681
Changes in Cash and Cash Equivalents in the period	128,502	367,062

See the accompanying notes to the financial statements.

Notes to the financial statements

(In thousands of Reais)

1 Operations

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

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

2 Presentation and preparation of the financial statements

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

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

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

- **CMN Resolution 3566/08** – Asset Impairment (CPC 01)
- **CMN Resolution 3604/08** – Statement of Cash Flow (CPC 03)
- **CMN Resolution 3750/09** - Disclosure of Related-Party Transactions (CPC 05)
- **CMN Resolution 3823/09** - Provisions, contingent liabilities and contingent assets (CPC 25)
- **CMN Resolution 3973/11** - Subsequent Events (CPC 24)
- **CMN Resolution 3989/11** - Share-based payments (CPC 10)
- **CMN Resolution 4007/11** – Accounting Policies, Changes in Estimation and Correction of Errors (CPC 23)
- **Resolution 4144/12** - Basic conceptual pronouncement (R1)
- **Resolution 4424/15** – Employee benefits (CPC 33)

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

The Executive Board authorized the issuance of the financial statements as of June 30, 2019 on August 21, 2019.

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 pro rata die basis for financial income and expenses.

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

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

c. Cash and cash equivalents

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

d. Interbank 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 3068, of November 8, 2001, securities are classified according to Management's intent, into the following categories:

- **Trading securities** - Securities acquired for active and frequent trading, adjusted to fair value and charged to the statement of income for the half.
- **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 profit or loss for the half.

Derivative financial instruments

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

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

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

Under BACEN Circular 3082, of January 30, 2002 and BACEN Circular Letter 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 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 half.
- 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.
 - **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 the Management's assessment of risk, in accordance with the Bank's policy taking into account economic conditions, past experience and the specific risks of each operation, its debtors and guarantors, according to the parameters established by the CMN Resolution 2682/99, procedure which requires a periodic analysis of the portfolio and its classification into nine levels, from "AA" (minimum risk) to "H" (loss).

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

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

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

Renegotiated loans are held at the level they were classified in or higher. Renegotiations of loans which had already been written off against the provision and were held in memorandum accounts are classified as level H and any gains deriving from the renegotiation shall only be recognized as revenue when effectively received. When there is significant amortization of the

transaction, or when new significant factors justify a change in the level of risk, there may be the reclassification of the transaction to the lower-risk category.

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

g. Other current and noncurrent assets

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 half reporting date. Depreciation is calculated under the straight-line method at annual rates which reflect the estimated useful lives of the assets. The main annual depreciation rates are 20% for vehicles and data processing equipment, and 10% for other assets.

i. Deferred charges

Deferred assets are stated at the cost of acquisition or formation, less accumulated amortization calculated up to the half-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 half-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 profit or loss for the half.

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 3823/09, which approved CPC 25 issued by the

Accounting Pronouncements Committee (CPC). The criteria applied by the Management for the measurement and disclosure of contingent assets and liabilities are:

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

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

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

o. Income tax and social contribution

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

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

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

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

Tax credits on income and social contribution tax losses were recognized at the rates of 25% for income tax and 15% for social contribution and are presented as "Other receivables - other", as shown in Note 19b.

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

p. Employee benefit plan

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

Defined Benefit Plan

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

CVM Resolution 695 of December 13, 2012, approved the CPC Technical Pronouncement 33 (R1) which addresses the matter of employee benefits, in accordance with the amendments to the International Accounting Standard IAS 19. CPC Technical Pronouncement CPC 33 (R1) established essential changes in the accounting and disclosure of employee benefits such as the removal of the corridor mechanism in the recording of the plan's liabilities, and changes in the recognition criterion of the plans' assets (appreciations and devaluations). The adoption of the aforementioned Pronouncement applies to years started as from January 1, 2015, and the effects are recorded retrospectively in the accounting, as changes in accounting practices.

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

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

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

4 Cash and cash equivalents

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

	2019	2018
Cash and banks	39,188	46,391
Interbank investments	<u>2,692,607</u>	<u>2,315,290</u>
Total cash and cash equivalents	<u>2,731,795</u>	<u>2,361,681</u>

5 Interbank investments

Money market, as of June 30, 2019 and 2018, is composed as follows:

	2019			
	Up to 3 months	3 to 12 months	Over 12 months	Total
Money market	2,604,406	-	-	2,604,406
Own funds	2,604,406	-	-	2,604,406
National Treasury Bills	803,276	-	-	803,276
National Treasury Notes - Series B	1,751,123	-	-	1,751,123
Financial Treasury Bills	50,007	-	-	50,007
(*) Interfinancial deposits	207,621	282,344	498,397	988,362
Not Related	207,621	282,344	498,397	988,362
Foreign currency	88,201	-	-	88,201
Total	2,900,228	282,344	498,397	3,680,969
	2018			
	Up to 3 months	3 to 12 months	Over 12 months	Total
Money market	2,110,165	-	-	2,110,165
Own funds	2,088,465	-	-	2,088,465
National Treasury Bills	988,381	-	-	988,381
National Treasury Notes - Series B	1,100,084	-	-	1,100,084
Financed position	21,700	-	-	21,700
National Treasury Bills	21,700	-	-	21,700
(*) Interfinancial deposits	-	101,296	536,038	637,334
Not Related	-	101,296	536,038	637,334
Foreign currency	205,125	-	-	205,125
Total	2,315,290	101,296	536,038	2,952,624

(*) The figures presented include the fair value adjustment for hedge accounting operations in the amount of R\$ 1,171 (R\$ 646 as of June 30, 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 June 30, 2019 and 2018 the securities portfolio is classified under the available-for-sale securities category, as shown below:

2019						
	Fair Value				(*) Adjustment fair value	Cost
	Up to 3 months	3 to 12 months	Over 12 months	Total		
Available-for-sale securities						
Own portfolio:						
Financial Treasury Bills	-	71,991	1,331,876	1,403,867	(196)	1,404,063
National Treasury Notes - Series F	-	-	55	55	-	55
Equity fund quotas - FIP	-	631	-	631	(10)	641
	-	72,622	1,331,931	1,404,553	(206)	1,404,759
Subject to guarantees						
Financial Treasury Bills	-	52,356	433,107	485,463	(47)	485,510
	-	52,356	433,107	485,463	(47)	485,510
Total	-	124,978	1,765,038	1,890,016	(253)	1,890,269
2018						
	Fair Value				(*) Adjustment to fair value	Fair value (carrying)
	Up to 3 months	3 to 12 months	Over 12 months	Total		
Available-for-sale securities						
Own portfolio:						
Financial Treasury Bills	230,367	100,451	547,624	878,442	(182)	878,624
Equity fund quotas - FIP	-	-	619	619	(22)	641
	230,367	100,451	548,243	879,061	(204)	879,265
Subject to guarantees						
Financial Treasury Bills	515,465	-	-	515,465	(33)	515,499
	515,465	-	-	515,465	(33)	515,499
Total	745,832	100,451	548,243	1,394,526	(237)	1,394,764

(*) Securities classified as available for sale have their adjustment to fair value recorded in 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 securities 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 which are held in custody at B3 S.A. – Brasil, Bolsa, Balcão in the stock and over-the-counter markets. In March 2016 the Bank began operating in the futures market via B3 S.A. – Brasil, Bolsa, Balcão.

See below the derivative financial instruments explained above recorded in equity and offsetting accounts as of June 30, 2019 and 2018:

	2019			2018
	Amount receivable	Amount payable	Nominal Value	Nominal Value
SWAP transactions	14,551	(114,467)	1,396,540	588,993
CDI x Dollar	3,398	-	205,005	-
CDI vs. LIBOR	-	(34,268)	157,815	157,815
CDI vs. fixed rate	-	(597)	3,388	6,850
Dollar vs. CDI	-	(72,866)	327,887	339,518
Fixed rate vs. Dollar	6,467	(5,959)	277,735	77,310
LIBOR vs. Dollar	-	(777)	189,360	-
Fixed rate vs. CDI	4,686	-	235,350	7,500
NDF transactions	19,549	(29,443)	2,875,731	500,690
Dollar vs. Dollar	-	(151)	7,836	-
Dollar vs. Fixed rate	5,618	(28,035)	2,031,381	-
Euro vs. Fixed rate	-	(43)	6,557	-
Fixed rate vs. Dollar	13,169	(1,214)	780,797	411,264
Fixed rate vs. Yen	701	-	38,119	86,103
Fixed rate vs. Euro	61	-	11,041	3,323
Total	34,100	(143,910)	4,272,271	1,089,683

1. Aging list

2019				
	Nominal Value			Total
	Up to 3 months	3 to 12 months	Over 12 months	
SWAP transactions	13,610	360,496	1,022,434	1,396,540
CDI x Dollar	10,000	-	195,005	205,005
CDI vs. LIBOR	-	-	157,815	157,815
CDI vs. Fixed rate	753	830	1,805	3,388
Dollar vs. CDI	2,857	146,341	178,689	327,887
Fixed rate vs. Dollar	-	200,425	77,310	277,735
LIBOR vs. Dollar	-	-	189,360	189,360
Fixed rate vs. CDI	-	12,900	222,450	235,350
NDF transactions	1,582,342	1,279,032	14,357	2,875,731
Dollar Vs. Fixed rate	1,164,663	852,361	14,357	2,031,381
Euro Vs. Fixed rate	-	6,557	-	6,557
Dollar vs. Dollar	7,836	-	-	7,836
Fixed rate vs. Dollar	385,694	395,103	-	780,797
Fixed rate vs. Yen	13,108	25,011	-	38,119
Fixed rate vs. Euro	11,041	-	-	11,041
Total	1,595,952	1,639,528	1,036,791	4,272,271

2. Aging list by trading location

	2019			2018
	Stock market	Over the counter	Nominal amount	Nominal amount
Swaps	338,775	1,057,765	1,396,540	588,993
NDF	-	2,875,731	2,875,731	500,690
Total	338,775	3,933,496	4,272,271	1,089,683

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)	34,100	4,843	38,943	7,845
SWAP transactions	14,551	4,908	19,459	2,688
NDF transactions	19,549	(65)	19,484	5,157
Liability (payable)	(143,910)	(8,337)	(152,247)	(119,265)
SWAP transactions	(114,467)	(853)	(115,320)	(106,341)
NDF transactions	(29,443)	(7,484)	(36,927)	(12,924)
Total	(109,810)	(3,494)	(113,304)	(111,420)

		2019			
		Reference (carrying) value			
	Place of trading B3 S.A – Brasil, Bolsa, Balcão	Up to 3 months	3 to 12 months	Over 12 months	Total
FUTURES- Reference value		4,211,694	2,613,073	1,340,371	8,165,138
Purchase		2,274,607	1,806,745	1,075,110	5,156,461
Currency Coupon		-	641,779	1,058,404	1,700,183
Foreign Currency		1,688,084	-	-	1,688,084
Interest Rate		586,523	1,164,966	16,706	1,768,194
Sale		1,937,087	806,328	265,261	3,008,677
Currency Coupon		1,921,696	620,020	20,357	2,562,073
Foreign Currency		15,391	-	-	15,391
Interest Rate		-	186,308	244,904	431,213
		2018			
		Reference (carrying) value			
	Place of trading B3 S.A – Brasil, Bolsa, Balcão	Up to 3 months	3 to 12 months	Over 12 months	Total
FUTURES- Reference value		586,332	532,966	1,527,823	2,647,121
Purchase		404,542	368,120	1,221,284	1,993,946
Currency Coupon		80,732	224,264	1,140,125	1,445,121
Foreign Currency		306,906	-	-	306,906
Interest Rate		16,904	143,856	81,159	241,919
Sale		181,790	164,846	306,539	653,175
Currency Coupon		70,499	86,628	91,531	248,658
Foreign Currency		62,657	-	-	62,657
Interest Rate		48,634	78,218	215,008	341,860

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 half ended June 30, 2019 totaled R\$ 11,320 ((R\$ 9,258) as of June 30, 2018), and was recognized in income accounts.

Income from derivative financial instruments for the half year ended June 30, 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	14,507	(12,409)	2,098	37,471	(7,405)	30,066
"NDF	72,239	(55,037)	17,202	12,563	(26,632)	(14,069)
Futures	<u>1,261,489</u>	<u>(1,320,482)</u>	<u>(58,993)</u>	<u>1,020,923</u>	<u>(872,497)</u>	<u>148,426</u>
	<u>1,348,235</u>	<u>(1,387,928)</u>	<u>(39,693)</u>	<u>1,070,957</u>	<u>(906,534)</u>	<u>164,423</u>

c. Hedge accounting

As of June 30, 2019 and 2018, the Bank only had transactions with derivative financial instruments to mitigate the effect of exchange rate fluctuations on foreign currency funding and loan transactions in Brazilian real. 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 Shareholder's equity, less tax effects. The respective hedged items are fair value at the reporting date.

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

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
Swap	Point: Fixed rate	(3,041)	(2,641)	(308)	(5,990)
Total		<u>(3,041)</u>	<u>(2,641)</u>	<u>(308)</u>	<u>(5,990)</u>

Hedged items	2019	2018
Assets		
Loans		
Amount restated by terms agreed	5,493	9,823
Value of the adjustment	471	535
Fair value	5,964	10,358
Total fair value subject to hedge	5,964	10,358
Market hedge instruments		
Liabilities		
Swap	(5,990)	(10,386)
Total fair value Hedge instrument	(5,990)	(10,386)

Maturity – Fair value – 2019

Description	Index	Up to 12 months	1 to 3 years	3 to 5 years	Total
Futures	Currency Coupon	853,503	674,910	-	1,528,413
Futures	Interest Rate	(2,999)	(31,177)	-	(34,176)
Total		856,502	643,733	-	1,494,327

Hedged items	2019	2018
Assets		
Interfinancial deposits		
Amount restated by terms agreed	30,024	30,024
Value of the adjustment	1,171	(646)
Fair value	31,195	30,670
Liabilities		
Pass-through transactions		
Amount restated by terms agreed	(1,528,203)	(1,494,474)
Value of the adjustment	(8,133)	34,839
Fair value	(1,536,336)	(1,459,645)
Total fair value subject to hedge	(1,505,141)	(1,428,975)
Market hedge instruments		
Assets		
Futures	1,528,413	1,434,383
Liabilities		
Futures	(34,176)	(30,666)
Total fair value Hedge instrument	1,494,237	1,403,717

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	58	217,258	17,885	235,201
Total		58	217,258	17,885	235,201

	2019
Hedged items	
Liabilities	
Pass-through transactions	-
Amount restated by terms agreed	(238,525)
Hedge instruments	
Assets	
Futures	235,201
Cash Flow Hedge Reserve	4,147

The amount of R\$ 4,147 in the Cash Flow Hedge Reserve will be recognized in profit and loss 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 June 30, 2019 and 2018 can be broken down as follows:

	<u>Fair value</u>	
	2019	2018
Available-for-sale securities		
Financial Treasury Bills	<u>332,473</u>	<u>371,585</u>
Total	<u>332,473</u>	<u>371,585</u>

The other amounts deposited as guarantee as of June 30, 2019 and 2018, have the following composition:

	<u>Fair value</u>	
	2019	2018
Available-for-sale securities		
Financial Treasury Bills	<u>152,990</u>	<u>143,880</u>
Total	<u>152,990</u>	<u>143,880</u>

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 onlending operations from abroad, to the Financial Institution in the country and abroad (branch in Cayman), and have been demonstrated including the respective provisions, the amounts provisioned for are based on CMN Resolution 2682/99 and amount to R\$ 45 (R\$ 3,238 in 2018):

	2019	2018
Outstanding:		
Up to 30 days	87	20,080
31 to 60 days	373	288,795
61 to 90 days	58	57,907
91 to 180 days	-	279,929
181 to 360 days	164,734	38,547
More than 360 days	<u>24,885</u>	<u>94,432</u>
Total	<u>190,137</u>	<u>779,690</u>

8 Loans

As of June 30, 2019 and 2018, information on the loan portfolio is summarized as follows:

a. By operation

<i>Description</i>	2019	2018
Overdraft	14,695	20,569
Resolution 3844 (formerly Resolution 63)	115,796	116,459
BNDES on-lending - FINAME - FINEM and EXIM- Other	5,344	6,511
Compror	22,230	23,594
Working capital	438,549	570,437
Financing in foreign currency	62,274	279,530
Export Credit Notes - NCE	289,420	393,870
(*) Total loans	<u>948,308</u>	<u>1,411,060</u>
Advance on foreign exchange contracts (Note 9)	466,008	305,822
Income receivable from advances (Note 9)	3,501	5,198
Total loans	<u>1,417,817</u>	<u>1,722,080</u>

(*) The figures presented include the fair value adjustment for hedge accounting operations in the amount of R\$ 472 (R\$ 535 as of June 30, 2018), as per note 6.c.

b. By maturity

	2019	2018
Outstanding:		
Up to 30 days	106,643	81,205
31 to 60 days	279,152	403,016
61 to 90 days	65,101	233,372
91 to 180 days	220,921	307,500
181 to 360 days	427,537	185,068
More than 360 days	<u>318,463</u>	<u>511,919</u>
Total	<u>1,417,817</u>	<u>1,722,080</u>

Loans of the 20 largest debtors as of June 30, 2019 account for 93.64% of the loans (93.18% as of June 30, 2018) in the amount of R\$ 1,327,199 (R\$ 1,609,676 in 2018).

c. By risk rating

Risk rating	% minimum of provision	2019			2018		
		Total operations	% of portfolio	Provision creation	Total operations	% of Portfolio	Provision creation
AA	-	1,415,203	99	2,253	1,712,994	99	3,713
A	0.5	2,614	1	18	3,015	1	63
C	3.0	-	-	-	-	-	-
G	70.00	-	-	-	-	-	-
Total		<u>1,417,817</u>	<u>100</u>	<u>2,271</u>	<u>1,722,080</u>	<u>100</u>	<u>3,776</u>

d. By business sector

	2019	2018
Private sector:		
Industry	1,165,768	1,354,405
Trade	211,482	335,887
Other services	40,567	31,788
Total	<u>1,417,817</u>	<u>1,722,080</u>

e. Change in the allowance for doubtful accounts

	2019	2018
Opening balance	1,484	12,506
Reversal of the allowance for loan losses	(285)	(9,817)
Constitution of allowance for loan losses	1,072	1,087
Closing balance	<u>2,271</u>	<u>3,776</u>

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	1,190,049	850,765
Receivables on exchange sale	95,608	280,652
Advances received in local currency	(9,877)	(13,972)
Income receivable from advances granted (note 8a)	3,501	5,198
Total	<u>1,279,281</u>	<u>1,122,643</u>
Liabilities:		
Unsettled sold exchange	94,814	286,097
Obligations on exchange purchase	1,223,592	784,099
Advance on foreign exchange contracts (Note 8a)	(466,008)	(305,822)
Accounts payable in foreign currency	1	-
Total	<u>852,399</u>	<u>764,374</u>

10 Other receivables - Other

Other receivables – other consist of the following amounts:

	2019	2018
Tax credit – Income and social contribution tax negative basis (see note 19b)	20,461	31,352
Collateral deposit receivables (see note 17)	16,532	17,007
Prepaid income tax and social contributions	8,430	7,386
Other receivables	10,548	8,377
Other	4,584	4,948
Total	60,555	69,070
Current assets	17,255	13,210
Long-term	43,300	55,860
Total	60,555	69,070

11 Other assets

Consist of the following amounts:

	2019	2018
Inventory material	39	32
Prepaid expenses	1,264	1,573
Total	1,303	1,605

12 Permanent assets

As of June 30, 2019 and 2018 property for use are represented as follows:

a. Property for use

	2019			2018	
Description	Annual depreciation rate %	Cost	Accumulated depreciation	Net amount	Net amount
Data processing system	20	5,898	(4,574)	1,324	2,036
Furniture and equipment	10	1,651	(1,173)	478	543
Communications system	10	299	(139)	160	183
Security system	10	300	(290)	10	12
Transportation system	20	1,624	(1,344)	280	492
Total		9,772	(7,520)	2,252	3,266

b. Intangible assets

Description	2019			2018	
	Annual depreciation rate %	Cost	Accumulated amortization	Net amount	Net amount
Software	20	11,639	(6,959)	4,680	5,020
Usage rights	20	664	(632)	32	250
Improvements	20	4,393	(2,993)	1,400	1,690
Total		16,696	(10,584)	6,112	6,960

13 Deposits

Breakdown by maturity as of June 30, 2019 and 2018:

Description	2019			2018		
	Demand deposits	Time deposits (*)	Foreign-currency deposits	Demand deposits	Time deposits (*)	Foreign-currency deposits
No maturity	77,995	-	-	77,826	-	2,961
Up to 30 days	-	65,571	-	-	67,148	-
31 to 60 days	-	66,124	-	-	75,280	-
61 to 90 days	-	106,598	-	-	99,164	-
91 to 180 days	-	280,051	-	-	437,265	-
181 to 360 days	-	488,134	-	-	469,944	-
More than 360 days	-	842,298	-	-	1,174,602	-
Total	77,995	1,848,776	-	77,826	2,323,403	2,961

(*) 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

Securities	2019		2018	
	Portfolio third parties	Total	Portfolio third parties	Total
National Treasury Bills	-	-	21,701	21,701
Total	-	-	21,701	21,701

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:

(i) Foreign currency borrowings

As of June 30, 2019 the balance of USD 286,096 (USD 157,200 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 June 30, 2019 is R\$ 1,096,039 (R\$ 597,546 in 2018).

(ii) Foreign onlendings

Foreign onlendings as of June 30, 2019, correspond to USD 560,981 (USD 514,603 in 2018). These obligations, translated at the official period-end buying rate, are governed by the CMN Resolution 3844/00 and are subject to interest rates that range from 1.32% to 3.38% p.a., plus exchange variance, maturing through July 5, 2022. The balance as of June 30, 2019 is R\$ 2,157,600 (R\$ 1,990,788 in 2018).

(iii) Domestic onlendings

Domestic onlendings basically consist of financing granted by the National Bank for Economic and Social Development - BNDES under the Government Agency Fund for Machinery and Equipment Financing (FINAME) and Credit Agency for Brazil Exports (EXIM) program, maturing up to January 15, 2024, and interest rates of up to 1.80% p.a., in the amount of R\$ 5,341 (R\$ 6,507 in 2018).

	2019		
	Up to 12 months	Over 12 months	Total
Foreign currency borrowings	1,096,039	-	1,096,039
(*) Foreign onlendings	76,436	2,081,164	2,157,600
Domestic onlendings	-	5,341	5,341
Total	1,172,475	2,086,505	3,258,980
	2018		
	Up to 12 months	Over 12 months	Total
Foreign currency borrowings	597,546	-	597,546
(*) Foreign onlendings	425,998	1,564,790	1,990,788
Domestic onlendings	-	6,507	6,507
Total	1,023,544	1,571,297	2,594,841

(*) The figures presented include the mark-to-market adjustment for hedge accounting operations in the amount of R\$ 8,132 (R\$ (34,830) as of June 30, 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 19a)	13,042	14,448
Provision for tax risks (note 17)	9,485	9,216
PIS offsetting (note 17)	3,131	3,068
PIS constitutional amendment (note 17)	733	689
Services tax - ISS	309	257
Withholding income tax - IRRF on fixed-income transactions	207	584
Tax for Social Security Financing - COFINS	876	371
Contribution to Social Integration Program (PIS)	142	60
Deferred income and social contribution taxes (Note 19c)	16,564	17,258
Government Severance Indemnity Fund for Employees - FGTS	187	273
Taxes and contributions on outsourced services	23	10
Payroll taxes and contributions	1,206	1,830
Contribution to the Credit Guarantee Fund - FGC	374	490
Other	269	71
Total	46,548	48,625
Current liabilities	46,548	48,625

b. Sundry

Description	2019			2018		
	Current	Noncurrent liabilities	Total	Current	Noncurrent liabilities	Total
Provision for labor and civil risks (note 17)	39,334	-	39,334	35,685	-	35,685
Provision for personnel expenses	16,099	-	16,099	9,677	2,364	12,041
Provision for general expenses	934	-	934	1,519	-	1,519
Actuarial liabilities	11,480	-	11,480	10,738	-	10,738
Guarantees submitted (note 23)	2,273	1,166	3,439	3,006	-	3,006
Sundry	165	-	165	619	-	619
Total	70,285	1,166	71,451	61,244	2,364	63,608

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 equity;
- in the amount USD 160 million, also part of tier II capital of the Bank's regulatory equity.

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

The restated balance as of 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 court deposits are as follows:

Description	Provision		Court deposits	
	2019	2018	2019	2018
Provision for tax risks:				
ISS - RJ (a)	-	-	4,510	4,260
ISS - SP (b)	98	94	2,141	2,660
Legal obligations:				
Demutualization Cetip (h)	111	104	-	-
PIS offsetting (c)	3,131	3,068	-	-
PIS constitutional amendment (d)	733	689	-	-
Social Contribution on Net Income - CSLL (e)	9,276	9,017	9,276	9,017
Total	13,349	12,972	15,927	15,937
Provision for risks:				
Civil (f)	34,185	30,892	-	-
Labor (g)	5,149	4,794	605	1,070
Total	39,334	35,686	605	1,070
Total provisions and court deposits	52,683	48,658	16,532	17,007

- (a) The Bank is involved in tax proceedings related to Service Tax (ISS), in Rio de Janeiro, levied on commissions received from borrowings and on lending borrowings, and also revenues recorded in the "Apportionment of internal income" account. Management, based on the opinion of its legal advisors, assesses that the chances of success in these proceedings are possible, and therefore no provision was recorded. However, the deposit made to proceed with the litigation in court, which totals R\$ 4,510 as of June 30, 2019, was maintained (R\$ 4,260 as of June 30, 2018).
- (b) The provision consists of a part of the amount involved in the judicial proceedings filed in connection with the service tax charged by the city of São Paulo. The lawsuit basically refers to the tax levied on foreign exchange transactions in the period from 2001 to 2003 and guarantees provided in 2004, for which the Bank understands that the financial disbursement is probable. As for the non-accrued portion in the amount of R\$ 2,230, Management understands, based on the opinion of its legal advisors, that the chances of success are possible and remote, and therefore, did not recognize any provision. The judicial deposit, less the amounts recovered in the period, required to proceed with the litigation in court totals R\$ 2,141 (R\$ 2,660 as of June 30, 2018).
- (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 June 30, 2019 is R\$ 3,131 (R\$ 3,068 as of June 30, 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 2017 only provisions remained for the attorney's fees in connection with the lawsuit relating to the legal proceeding, which will be restated and paid on the occasion of the trial by the Supreme Federal Court, amounting to a restated R\$ 733 as of June 30, 2019 (R\$ 689 as of June 30, 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. A provision was accrued for the underpaid difference due to the matters under litigation. According to the opinion of the legal advisors the chances of loss related to this litigation are remote (possible at June 30, 2018) due to the final and unappealable decision delivered by the Supreme Federal Court (STF) of general repercussion. The judicial deposit for this case was the same amount of R\$ 9,276 (R\$ 9,017 at June 30, 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 June 30, 2019 is R\$ 34,185 (R\$ 30,982 as of June 30, 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 June 30, 2019 is R\$ 5,149 (R\$ 4,794 as of June 30, 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\$ 111 as of June 30, 2019 (R\$ 104 as of June 30, 2018).

Changes in provisions and legal obligations

2019				
	Tax	Labor	Civil	Total
Balance at December 31, 2018	<u>13,163</u>	<u>5,919</u>	<u>32,444</u>	<u>51,526</u>
Constitution of provision	58	683	-	741
Monetary restatement	128	8	1,741	1,877
Operating reversals	-	(1,461)	-	(1,461)
Balance at June 30, 2019	<u>13,349</u>	<u>5,149</u>	<u>34,185</u>	<u>52,683</u>
2018				
	Tax	Labor	Civil	Total
Balance at December 31, 2017	<u>12,759</u>	<u>4,571</u>	<u>29,611</u>	<u>46,941</u>
Making of provision	132	21	-	153
Monetary restatement	81	202	1,282	1,564
Balance at June 30, 2018	<u>12,972</u>	<u>4,794</u>	<u>30,892</u>	<u>48,658</u>

18 Shareholder's Equity

a. Capital

The Extraordinary General Meeting held April 5, 2019 resolved to increase the Bank's 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 June 30, 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>

b. Dividends

Corporate legislation and the bylaws state a minimum of 25% of net income for the year shall be distributed to the shareholders in the form of dividends and/or interest on shareholders' equity. The amount will be determined at the end of the financial year in December 2019.

c. Legal reserve

The legal reserve is recorded as established by Corporate Law, and may be used for offsetting losses or increasing the Company's capital. The amount will be determined at the end of the financial year in December 2019.

d. Statutory reserve

The statutory reserve corresponds to the transfer of the balance of retained earnings, subsequent to the mandatory distributions. The amount will be determined at the end of the financial year in December 2019.

19 Income tax and social contribution

a. As of June 30, 2019 and 2018, expenses were calculated as follows

	2019		2018	
	Income Tax	Social contribution	Income Tax	Social contribution
Income before taxes on income less profit sharing and JCP	32,781	32,781	50,320	50,320
Provision for contingent liabilities	(3,588)	(3,588)	2,322	2,322
Allowance for doubtful accounts	1,073	1,073	72	72
Temporary provisions	(1,748)	(1,748)	(11,023)	(11,023)
Fair value adjustment of derivative financial instruments	11,319	11,319	9,258	9,258
Adjustment to fair value of hedge accounting operations	26,908	26,908	(18,490)	(18,490)
Non-deductible expenses	4,811	3,639	5,772	4,568
BM&F operations	(24,168)	(24,168)	8,208	8,208
Other additions/(deductions)	(327)	(327)	-	-
Offsetting of tax loss carry forwards	(14,118)	(13,766)	(13,932)	(13,571)
Taxable income	32,943	32,123	32,507	31,664
Income tax - 15% (note 3n)	4,941	-	4,876	-
Income tax surcharge - 10% (note 3n)	3,282	-	3,239	-
Empresa cidadã law	-	-	-	-
Social contribution - 20% (note 3n)	-	-	-	6,333
Total	8,224	4,818	8,115	6,333

b. Tax credits

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

1. Breakdown of tax credit as of 6/30/2019

Breakdown of tax credit	2019	2018
Tax loss	12,935	19,171
Negative basis of social contribution	7,526	12,181
Total	<u>20,461</u>	<u>31,352</u>

2. Project realization of tax credits as of 6/30/2019

Year	Income tax	Contribution taxes	Total
2019	3,530	3,477	7,007
2020	9,165	4,049	13,214
2021	240	-	240
Subtotal	<u>12,935</u>	<u>7,526</u>	<u>20,461</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 6/30/2019
Tax loss	16,465	(3,530)	12,935
Negative base CSLL	<u>9,591</u>	<u>(2,065)</u>	<u>7,526</u>
Total	<u>26,056</u>	<u>(5,595)</u>	<u>20,461</u>

Change in net income from deferred tax assets

	6/30/2019
Realization of tax loss - IR	3,530
Realization of negative base - CSLL	2,065
Other Tax Credits	<u>(3,304)</u>
Total	<u>2,291</u>

4. Present value of tax credit

Year	Income tax	Contribution taxes	Total
2019	3,493	3,441	6,934
2020	8,967	3,962	12,929
2021	233	-	233
Total	<u>12,693</u>	<u>7,403</u>	<u>20,096</u>

c. Other tax credits

The Bank also has deferred tax assets and liabilities in the amounts of R\$ 10,548 and R\$ 16,564 (R\$ 8,262 and R\$ 17,258 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 3068, at the fair value of derivative financial instruments in accordance with Circular 3082. The rules for recognizing the effects of the actuarial liability under the benefit retirement plans and post-employment benefit plans consisting of the medical assistance plan which the Bank sponsors (pursuant to CVM resolution 600 and 695/2015) have also been taken into account.

There are also tax credits not recognized as assets substantially on provisions for contingencies in the amount of R\$ 21,325 (R\$ 22,123 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
Loans income	31,927	67,960
Income from financing and onlendings	<u>(1,230)</u>	<u>32,117</u>
Total	<u>30,697</u>	<u>100,077</u>

b. Securities income

	2019	2018
Interbank investments income	86,134	75,917
Securities income	<u>67,349</u>	<u>52,387</u>
Total	<u>153,483</u>	<u>128,304</u>

c. Derivative financial instruments income

	2019	2018
Revenue from swap, NDF and futures operations	1,348,235	1,070,957
Expenses on swap, NDF and futures operations	<u>(1,387,928)</u>	<u>(906,534)</u>
Total	<u>(39,693)</u>	<u>164,423</u>

d. Foreign exchange funding income

	2019	2018
Income from foreign exchange operations	25,341	102,614
Expenses on foreign exchange operations	<u>(31,623)</u>	<u>(3,082)</u>
Total	<u>(6,282)</u>	<u>99,532</u>

e. Deposits and money market

	2019	2018
Time deposit expenses	(58,281)	(69,395)
Interbank deposit expenses	(229)	(17)
Expenses incurred on securities held under repurchase agreements	(416)	(3,292)
Expenses on contributions to the loan guarantee fund	<u>(1,249)</u>	<u>(1,568)</u>
Total	<u>(60,175)</u>	<u>(74,272)</u>

f. Borrowings and onlending

	2019	2018
Expenses on BNDES onlending	(59,202)	(555)
Expenses on foreign borrowings and onlending	64,922	(350,525)
Expenses on subordinated debt	(8,470)	(11,793)
Adjustment Hedge onlending and Loans	<u>-</u>	<u>19,083</u>
Rediscount Expenses	<u>(1)</u>	<u>-</u>
Total	<u>(2,751)</u>	<u>(343,790)</u>

g. Service fee income

	2019	2018
Income from fees and services	1,143	1,064
Income from business intermediation (see note 21a)	4,208	4,977
Income from guarantees granted	<u>10,323</u>	<u>11,962</u>
Total	<u>15,674</u>	<u>18,003</u>

h. Personnel expenses

	2019	2018
Proceeds	(19,362)	(19,462)
Payroll charges	(6,549)	(7,320)
Benefits	(4,428)	(3,886)
Management fees	(1,740)	(2,236)
Training	<u>(103)</u>	<u>(149)</u>
Total	<u>(32,182)</u>	<u>(33,053)</u>

i. Other administrative expenses

	2019	2018
Rental expenses	(2,569)	(2,530)
Data processing expenses	(8,925)	(4,657)
Expenses on outsourced technical services	(2,381)	(2,144)
Communication expenses	(2,616)	(2,113)
Financial system service expenses	(1,450)	(791)
Asset maintenance and upkeep expenses	(347)	(215)
Security and surveillance services	(283)	(271)
Transportation expenses	(115)	(105)
Material expenses	(78)	(94)
Water, energy and gas expenses	(137)	(111)
Expenses on outsourced services	(402)	(341)
Advertising and marketing expenses	(174)	(181)
Insurance costs	(128)	(130)
Promotion and public relations	(79)	(113)
Charitable contributions	(43)	(9)
Amortization and depreciation	(1,338)	(1,028)
Other administrative expenses	(1,210)	(612)
Total	<u>(22,275)</u>	<u>(15,445)</u>

j. Tax expenses

	2019	2018
COFINS	(5,166)	(3,613)
ISS	(802)	(946)
PIS	(839)	(587)
Other	(2,992)	(227)
Total	<u>(9,799)</u>	<u>(5,373)</u>

k. Other operating income

	2019	2018
Reversal of operating provisions – contingent liabilities	1,461	930
Reversal of provisions guarantees provided	471	1,003
Reversal of operating provisions	6,651	3,210
Indemnification fines	1,303	645
Restatement of court deposits	327	362
Recovery of charges and expenses	353	257
Other	-	97
Total	<u>10,566</u>	<u>6,504</u>

l. Other operating expenses

	2019	2018
Expenses on operating provisions - contingent liabilities	(56)	(80)
Expenses on labor claims	(683)	(476)
Monetary restatement of provisions (tax, civil and labor)	(1,878)	(1,636)
Other	(87)	(33)
Total	(2,704)	(2,225)

m. Nonoperating income

	2019	2018
Other nonoperating income	236	108
Other nonoperating expenses	(55)	-
Total	181	108

21 Related party transactions and balances

a. Transactions with parent companies (direct and indirect)

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

	<u>Assets / (liabilities)</u>		<u>Revenue / (expense)</u>	
	2019	2018	2019	2018
Cash and cash equivalents – foreign currency deposits	16,290	24,171	-	-
Investments in foreign currency abroad	53,649	205,125	6,222	8,698
Amounts receivable - sales commission (see note 20.g)	2,342	2,684	4,208	4,977
Foreign currency borrowings	(1,096,039)	(597,546)	15,760	(82,205)
Foreign onlendings	(2,137,999)	(1,971,279)	(9,642)	(246,200)
Subordinated debt	-	(776,687)	(8,470)	(11,793)
Total	(3,161,757)	(3,113,532)	8,708	(326,523)

b. Compensation of key management personnel

Pursuant to Resolution No. 4636/18 and Technical Pronouncement CPC 05 – Disclosure of Related Parties, all management members have been defined as key personnel of the entity.

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

In the most recent statutory reform occurred in April 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	1,740	2,236
Variable compensation	1,594	3,152
Contributions to INSS (Social Security Contribution) /FGTS (Severance Pay Fund)	<u>1,013</u>	<u>1,436</u>
Total	<u>4,347</u>	<u>6,824</u>

Post employment benefits

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

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

c. Other informations

Resolution 4693/18 states that financial institutions can carry out loan operations with related parties providing they meet the conditions established in items a) and b) below:

- (a) 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.
- (b) The balances of direct or indirect loan operations with related parties should not exceed 10% (ten percent) of the 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 June 30, 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 2099/94, as amended by the CMN Resolutions 4192/13 and 4913/13, which presents the Equity index in relation to the Weighted Assets, as follows:

	6/30/2019	6/30/2018
Credit Risk	3,882,152	4,291,344
Market Risk	863,175	751,279
Operational Risk	<u>340,183</u>	<u>336,928</u>
Risk weighted assets (RWA)	<u>5,085,510</u>	<u>5,379,551</u>
Rban portion	7,412	14,907
Reference Equity Tiers I and II (PR)	1,738,011	1,708,682
Required Regulatory Shareholders' Equity (RWA*10.50%)	406,841	564,853
Margin over Required Regulatory Capital	1,331,170	1,143,829
Capital Adequacy Ratio (IB) - PR/RWA	34.18%	31.76%

- (*) 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 June 30, 2019 and 2018, guarantees provided by the Bank total:

	2019	2018
Domestic	1,617,820	1,588,608
Foreign	<u>5,277</u>	<u>17,724</u>
Total	<u>1,623,097</u>	<u>1,606,332</u>

The Bank recorded an allowance for loans losses for these guarantees in accordance with CMN Resolution 4512/16 and Circular 3782/16. The figures were based on the assumptions of Resolution 2682 and amount to R\$ 3,439 (R\$ 3,006 in 2018):

	2019		2018	
	Guarantees provided	Provision	Guarantees provided	Provision
Linked to international trade of commodities	5,277	(66)	17,724	(409)
Linked to procurements, auctions, provision of services or carrying out of works	193,090	-	29,686	-
Linked to the supply of goods	41,722	(154)	75,305	(1,172)
Endorsement or guarantee in judicial and administrative tax proceedings	656,892	(764)	708,934	(1,122)
Other Bank Guarantees	173,053	(84)	50,135	(50)
Other financial guarantees provided	<u>553,063</u>	<u>(2,371)</u>	<u>724,548</u>	<u>(253)</u>
Total	<u>1,623,097</u>	<u>(3,439)</u>	<u>1,606,332</u>	<u>(3,006)</u>

As of June 30, 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 equity account.

a. Retirement Plan

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

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

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

Actuarial assumptions:

Nominal discount rate for the actuarial obligation	8.95% p.a.	10.25% p.a.
Estimated rate of nominal salary increase	7.12% p.a.	7.64% p.a.
Estimated nominal benefit increase	4.00% p.a.	4.50% p.a.
Estimated inflation rate	4.00% p.a.	4.50% p.a.
Biometric table of general mortality	At-2000 smoothed by 10% and separated per gender	At-2000 smoothed by 10% and separated per gender
Biometric table for classification as disabled	"Mercer" table	"Mercer" table
Expected turnover rate	0.30/ (length of service +1)	0.30/ (length of service +1)
	10% on the first date of eligibility to early retirement	
	3% between the first eligibility to earlier and normal retirement	
Chance of entering 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	
	12/31/2018	12/31/2017
Discount Rate: decrease of 0.25%	1,801	1,605
Discount Rate: increase of 0.25%	(1,909)	(1,518)
Impact on the average duration of the defined-benefit obligation (in years)		
Discount Rate: decrease of 0.25%	14.4	13.97
Discount Rate: increase of 0.25%	14.7	13.69

b. Healthcare 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 9656/1998. Contributions of the plan were interrupted in December 2017, although there remains a group of employees who are entitled to this coverage, presenting the following actuarial liability:

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

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

Operational risk

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

The Operational Risk Management framework is considered a strategic and competitive factor for Banco Sumitomo Mitsui Brasileiro S.A. and is defined in the Bank's Operational Risk Management Policy established and approved by the Bank's Executive Board at least annually, pursuant to CMN Resolution 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 4,557/17 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 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 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 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.